Enterprise Development and Transformation in the FMCG and Agriculture sector
Introduction
Fast moving consumer goods (FMCG) has become an industry that the African continent has turned to as an area of focus for its economic growth. Although it is a market that garners high consumer demand, it is also heavily reliant on a number of factors such as political stability and a steady financial environment in which to operate. High inflation and weakening local currencies can adversely affect the FMCG industry due to consumers having decreased purchasing power and having to subsequently scrutinise their purchases very carefully. Nonetheless, it is an industry with a wealth of potential to drive economic growth and drive transformation in a country’s economy. As such, it is imperative to analyse initiatives currently underway in this regard as well as explore the ways in which this industry can be more of a catalyst for this change.
Regional Context – FMCG in Africa

With the impressive forecasted economic growth on the African continent, it is no wonder that the potential for FMCG growth and opportunities is enormous. Africa’s GDP is set to grow by 4.8% in 2017 and part of this growth can be attributed to private consumption. This means there is a definite future for sustained development of the FMCG sector on the continent. However, the FMCG industry is a complicated arena with its own set of challenges and dependencies.

Financial and political stability are key for the FMCG sector to flourish. Although decreased inflation and falling commodity prices in some African countries have strengthened the purchasing power of consumers, others have experienced weakening currencies and this impacts consumer confidence. The geopolitical environment can also affect the FMCG sector through stringent product protection regulations, government restrictions, and tariff regimes. In South Africa, for example, there has been considerable spotlight on the importation of poultry from abroad.

Very importantly, FMCG is heavily reliant on a combination of the following: an effective distribution network, safe transport routes, reliable power, and sound communication systems. In many areas across Africa, infrastructure is not yet at a level that can fully support massive FMCG projects. In fact, Coca-Cola started its Micro Distribution Centre (MDC) whereby goods are transported with bicycles and pushcarts to compensate for the inability of large trucks to reach certain areas. Other challenges include the rise of counterfeit goods that interfere with the market – prices, brand perceptions etcetera.
These are all important points for consideration but it must be acknowledged that the climate is suitable for the growth of the FMCG sector in Africa. Many FMCG companies have their sights set on the burgeoning middle class in sub-Saharan Africa and this space has also become a viable alternative to extractive industries that previously dominated many African economies.

With the growing demand for FMCG, global trends in the industry have shown the infiltration of concepts such as big data, social media advertising and the use of the internet for a modernised customer experience. These are trends that need to be increasingly leveraged in this sector for companies to be able to track the preferences of their customers as well as achieve greater reach.

South Africa’s FMCG Sector – Ripe terrain for Enterprise Development?

South Africa remains the “gateway” to Africa with its well-developed agriculture, food, beverages and retail markets. However, as mentioned previously, the volatility of the Rand has resulted in the increased prices of a number of goods and so the FMCG sector is in a position where it must find the balance between maintaining profit margins while still making products affordable to financially burdened consumers. It was announced earlier in 2017 that South Africa had officially entered a recession. This automatically raised the alarm for manufacturers and retailers as to what impact this would have on consumers. While they have to be more discerning with their
spending, it has been argued that the economic difficulty will not dramatically alter purchasing behaviour. The main reason behind this assumption is that consumer spending behaviour has actually already changed. This process has happened gradually over the years due to the steady rise in living costs such as food, petrol and electricity.

Research has shown that changes in consumer purchasing behaviour have rendered the following results:

- Customers are doing their research before shopping and actively comparing retailers and brands.
- Product substitutions are happening in store or customers are downsizing their product choices by choosing multi-purpose alternatives and refills of certain items.
- “Best-loved brands” are being exchanged for cheaper brands and, very often, house brands.

As will be outlined in later sections of this report, there are a number of other factors that manufacturers and retailers have to think about such as technology and trends in order to secure the loyalty and enthusiasm of their customers. Therefore, although the financial climate might appear to pose a risk to the FMCG sector, South Africa still has a strong market for this industry with the potential for further growth if strategies are aligned to a deeper understanding of the changing nature of consumer spending behaviour.

In terms of key players in the FMCG sector, the South African food and grocery retail space is dominated by the four major chains: Woolworths, Spar, Pick n Pay, and Shoprite. In fact, there is a major investigation underway into how these “Big 4” have established a seeming chokehold on the market. It is difficult for smaller retailers, and smaller FMCG manufacturers for that matter, have difficulty in breaking out and launching themselves as real competition. Consumers trends have shown shifts towards favouring artisanal and environmentally friendly products but this is among certain customer segments. Therefore, while there is a demand for niche products, it is
still a challenge to benchmark oneself against the dominant retailers and manufacturers. Partnerships are key and enterprise and supplier development are tools that can be of extreme value in this space. More local produce on the shelves, the increased use of local manufacturers, combined with industry expertise can really bolster the sector and make it more inclusive and transformative. Enterprise development can take the form of investment, mentorship and education. Each of these components can render meaningful change in the industry and prepare the ground for an FMCG industry that not only services but also benefits the population.

South African manufacturing giant, Tiger Brands, has been reported to be looking at expansion into Africa. It has claimed to view East Africa as an attractive market for products such as baby, homecare, personal care and breakfast goods. The group also wants to explore manufacturing some of its well-known brands in other African countries as a result of trade tariffs and a lack of foreign exchange liquidity in certain markets. The expansion into emerging markets such as Africa, Asia and South is a necessity across businesses to ensure success on a global scale. As Shoprite’s spreading into Nigeria has shown, South African brands have the potential to be regional leaders.

In 2011, the retail giant Walmart signed a deal with Massmart in South Africa in which it acquired 51% of Massmart. However, the Competition Tribunal approved this deal on a number of conditions. One of these was that Walmart would commit to spending R100-million to develop local South African suppliers over the next three years. Massmart has established a R200m Supplier Development Fund to develop small and medium enterprises, which are either existing or potential suppliers and, although it no longer exists, Walmart since inspired the Ezemvelo Direct Farming Programme.
In April 2017, a Memorandum of Understanding (MOU) was signed between Nestlé South Africa and the Department of Small Business Development. This MOU stipulated that both parties were committed to sourcing and developing micro-distributors primarily located in townships and rural areas. In her address at the signing ceremony, Minister of Small Business Development Lindiwe Zulu expressed how this partnership supported the mission to create an environment that was conducive to the development of small businesses as well as the commitment towards job creation. As part of the initiative, funding would be provided to micro-distributors as well as upskilling in other areas of business such as sales, merchandising and warehouse management.

These are examples of the important role that the private sector can play in the industry to drive the development of small businesses through enterprise development initiatives that encompass both funding and knowledge transfer.
Transformation in Agriculture
Agriculture is a widely popular industry in South Africa. It is one upon which so many people rely and it is the basis of many FMCG products. The agriculture sector has been identified as a key vehicle for growth, transformation, and job creation with an estimated potential for the creation of one million jobs by 2030. As such, it would be worth exploring transformation initiatives that are currently underway in the agriculture space as well as the possibilities that exist for authentic partnerships in this arena that can unlock the door to further transformation and development.

In 2012, the Broad-Based Black Economic Empowerment Sector Code for Agriculture (AgriBEE) was launched. It is the outcome of deliberations from the AgriBEE Charter Council following the gazetting of the AgriBEE Transformation Charter in 2008. The need for agriculture-specific codes arose from the vision of a “united and prosperous agriculture Sector designed to meet the challenges of constrained global competitiveness and low profitability, skewed participation, low investor confidence, inadequate support and delivery systems, and poor and unsustainable management of natural resources” (DTI, 2012).

The AgriBEE Fund was initiated by the Department of Agriculture, Forestry and Fisheries as a support programme for previously excluded persons to participate in the sector's economic activity. The AgriBEE Fund targets small, medium and micro enterprises to promote enterprise development along the value chain (Department of Agriculture, Forestry and Fisheries). Access to funding is a crucial component for many businesses wishing to strengthen their efforts and grow in any particular industry. However, education and mentorship are also key to enabling new market entrants or those developing their position in a sector such as agriculture and manufacturing. The AgriBEE Fund seeks to advance enterprise development through agri-processing and other value-adding activities.

With the gazetting of the Amended AgriBEE Codes of Good Practice in December 2017, there are a variety of opportunities for funders to get involved in the transformation of South Africa's
agricultural sector by providing finance to small-holder farmers and farm workers, and advice to established farmers seeking BEE partners. This is according to NPI Governance Consulting, which has been anticipating increased BEE activity in South Africa’s agricultural sector in the medium term as large-scale farmers come under more pressure to comply with transformation requirements.

According to Israel Noko, CEO of NPI Governance Consulting, there is a great deal of opportunity in agriculture for SMMEs. Barriers to entry into market are lower with regards to crops such as corn and most vegetables because there is such a high demand and some of the key suppliers want to source from local producers. However, the biggest opportunity is also the biggest challenge for small-scale agricultural entrepreneurs: meeting this demand.

Zaheera Khota, Specialist Business Consultant at NPI Governance Consulting, explains that different retailers have different quality standards that producers have to meet in order to become suppliers. The same goes for the volumes that are needed in order to meet the demand of some of the most dominant retailers. This is often costly for the small business owner and the scale is difficult to achieve depending on the size and experience of the farmer. Other challenges include the fact that prices are varied according to the quality of the produce and farming is a high-risk industry due to natural disasters.

Although livestock farming is not faced with the same challenges as crop farming, it too has a number of interesting points for consideration. Given that many livestock farmers are located in rural areas, travel distances are greater and this becomes an issue for access to healthcare for the animals, transport and even access to markets. In South Africa, there is also a strong cultural and social dynamic associated with livestock, says Khota. Owners of livestock do not tend to identify the potential in farming their livestock as a trade and this influences the shifting of mind-set from farming for subsistence to commercial farming. The transition from subsistence to commercial
is true of both livestock and crop farming. There is tremendous opportunity in South Africa’s agriculture industry but it is not necessarily seen as a business and career but rather something that is done for one’s own survival.

Despite these challenges that are specific to this sector, agriculture holds immense potential for the small business owner / entrepreneur. It gives one agency to be actively involved in the growth of one’s business across the value chain and is at the core of many FMCG goods, for which there is high demand in the country and across the continent. Government cannot do it alone, there is considerable room for the private sector to play a role in growing SMMEs in this space. In fact, Noko argues that there is a “politically global imperative” for development in agriculture. The United Nation’s (UN) World Food Programme states that, in order to end world hunger by 2030, governments, civil society organizations and the private sector must all work together to invest in and create innovative and effective solutions. This speaks directly to the second Sustainable Development Goal of “zero hunger” – which aims to end hunger, achieve food security, improve nutrition and promote sustainable agriculture. This is the World Food Programme’s priority and highlights the importance of agriculture in a country’s development.

Noko and Khota both expressed how interesting it is to see how companies are getting more involved in this space and often have a dedicated team to deal with enterprise development initiatives. They do this in recognition of the fact that it is important to address the ecosystem in which they operate in order to ensure sustainability. It is evident from the number of companies engaging in Social Return on Investment (SROI) studies to measure their impact and this in turn sees them conducting business much more responsibly. There is also acknowledgment that agriculture requires specific expertise and so mentorship and education are ways in which support can be provided to the small business owner or entrepreneur.

“Enterprise Development, the key to success for realising the growth and transformation potential of the FMCG and agriculture industry.”
Conclusion
• FMCG is a lucrative industry on the African continent but the weakening South African Rand and level of inflation of the cost of living has made consumers more careful about their purchases.
• FMCG is definitely an area for potential growth and transformation (there is always a demand) but new market entrants and smaller industry players need to identify consumer trends and take advantage of their local know-how.
• There needs to be a combination of funding, mentorship and education in FMCG and agriculture enterprise development because it is such a specific industry and dominated by bigger players and partnerships are key for success in this sector.
References


Israel L. Noko

Israel is the Founder & CEO of NPI Governance Consulting (a leading BEE Advisory & Project Management company) and Noko Pioneer Investments (an Broad-Based Investment holdings company). He is passionate about the intentions behind Broad-Based Black Economic Empowerment (“BEE”), including the economic transformation of South Africa. Israel's experience has focussed on developing and executing strategies which would enable companies to better position themselves in the market, and develop partnerships with companies and organizations that want to implement “business-sense” enterprise development, socio-economic development and BEE strategies. Israel also served on the Boards of a variety of different organisations/companies.

Israel has been involved in various mergers and acquisitions other general corporate/commercial transactions. He has also advised on BEE joint venture structure, company formations and reorganisations.

Israel has extensive experience in business entity formation and governance matters, M&A, and BEE financing transactions in a wide variety of sectors. In addition to handling BEE transactions, he advises boards of directors with respect to fiduciary duty and other corporate governance issues. Having worked with a number of multinational clients, Israel has advised on the implementation of Equity Equivalents, BEE compliance and has strong relations with the Department of Trade & Industry, the verification industry and various transformation stakeholders.

Israel has had extensive working experience in France, Switzerland, UK and South Africa in both private and public sectors. Having worked at the United Nations Environmental Program, the Canadian High Commission Trade Office (as Trade Commissioner) in South Africa, Enablis (as Head of Partnerships) and in the financial services industry, Israel has assisted a number of Canadian companies understand BEE and how it may impact on their business. Israel also presented Canada's Clean Development Mechanism programs and private sector expertise to over 50 companies in South Africa during the World Summit on Sustainable Development (WSSD).
Israel studied Law and Social Sciences Diploma at the University of Warwick, UK and pursued and completed a LL.B in Business Law at Coventry University, UK. Israel is a commentator in the press and business sector regarding transformation and sustainable development-related topics and has been invited to speak at several conferences on topics relating to transformation and sustainable development.

Current Directorships & Committee Members
- BankSETA (Non-Executive Director)
- Hydro Power Equipment (Pty) Ltd (Non-Executive Director)
- Micro Finance South Africa (MFSA) (Non-Executive Director)
- Inyathelo: The South African Institute for Advancement (Trustee)
- Atlas Finance (Pty) Ltd (S&EC Chairperson)
- WorleyParson Employee Share Trust Independent Chairman
- Khetimplo Aids for life Deputy Chairperson

Academic & Professional Qualifications
- LL. B in Business Law, Coventry University, UK
- Management Development Programme (NQF 7) in B-BBEE, University of Watersrand
- Certificate in Strategic Mergers & Acquisitions, Gordon Institute for Business Science
- Certificate in Law & Social Sciences, University of Warwick, UK
- Associate Certified Sustainable Assurance Practitioner (AS1000AA), UK
- Certificate in Financial Valuations, BETA Finance
- Court Annexure Mediation (NQF Level 8), University of the Witwatersrand
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