Special Report **Global Brands**

Samsung Electronics Co Ltd

Samsung blazes a trail adapting for the African market

The South Korean group shows how global brands extend local reach

Samsung phones on sale in a shop in Nairobi, Kenya © Bloomberg

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Samsung has suffered a torrid 12 months including the recall last autumn of its fire-prone Galaxy Note 7 handset and the arrest of its acting head, Lee Jae-yong, on bribery allegations in February.

Even so, South Korea's largest conglomerate has had a good run in Africa. It was named Africa's most admired brand of 2016 by the annual Brand Africa 100 survey.

Samsung designs products specifically for African consumers under its "Built for Africa" strategy. "The African customer has different needs," says Melissa Cook, managing director of African Sunrise Partners, a business research company. “Devices need to work in a harsher environment.” Samsung’s AddWash washing machines, for instance, are designed to minimise water use and withstand dips and surges in the power supply.

The South Korean manufacturer dominates the continent’s $15.5bn smartphone market, with a 42 per cent share of sales in 2016, according to technology researcher IDC. Samsung is also present in many African homes, offices, schools and hospitals with products such as air-conditioners, televisions, printers and refrigerators.

Samsung is not alone in adapting its products for the African market. “Unilever, Nestlé and GSK have been reducing packet sizes to meet the needs of African consumers,” says Sharat Dua, who manages the Magna Africa Fund at Charlemagne Capital.

In many African markets, poorer people might prefer to buy single sachets of items such as coffee or personal care products for smaller sums at a time.

Similarly, Coca-Cola has adapted its delivery service in the Moroccan city of Fes. As motor vehicles are prohibited, its drinks are delivered by donkey.

Such adaptations have helped global brands extend their domination of local markets across Africa, while indigenous African brands have shrunk in stature. Of Brand Africa’s top 100 brands last year, just 16 were African, compared with 23 in 2015.

These 16 brands, including Kenya's Tusker beer and Nigerian industrial conglomerate Dangote, represented just 0.75 per cent of the total value of the top 100. MTN, the South African telecoms group, was previously Africa's most admired brand but was unseated by Samsung last year following a scandal that saw MTN pay a fine of some $1bn to regulators in Nigeria.

Coca-Cola transports its produce by donkey in Fes, Morocco, where motor vehicules are unable to pass through the narrow streets © Alamy

Last year was difficult for many African companies. Hindered by the downturn in oil and commodity prices and exchange rate volatility, African economies grew at their slowest rates on average in more than 20 years, weakening consumer purchasing power.

Global companies were able to weather the storm. In Nigeria, for example, where recession and a questionable foreign exchange policy shackled local businesses, some international companies profited.

“Nestlé’s market share in Nigeria has gone up dramatically, while its competitors have disappeared,” says Oliver Bell, portfolio manager at T Rowe Price, the fund management company.

Economic headwinds have been exacerbated by structural challenges. “Two areas where we are lagging behind are in research and intellectual property,” says Thebe Ikalafeng, chairman of Brand Africa, a non-profit organisation that showcases African companies. In 2007, the African Union set a target of investing 1 per cent of GDP on research and development. Today only Kenya (0.8 per cent), Mali (0.7 per cent) and South Africa (0.7 per cent) come close. By contrast, South Korea’s investment rate of 4.3 per cent makes it the world leader in R&D spending.

In addition, Africa’s trademark activity — often a sign of companies investing in and building brands — in 2015 represented just 3 per cent of the global total, according to the World Intellectual Property Organisation.

African companies also struggle with access to credit and poor infrastructure, says Ramazan Yavuz, research manager at IDC.

Nevertheless, optimism is high on the continent, particularly for the prospects for technology and financial services.

One area of success has been the bypassing of traditional banking systems made possible by high penetration of mobile telephony on the continent, says Mr Dua of Charlemagne Capital. He describes M-Pesa, the Kenyan mobile money service, as “the classic African innovation story". In 2015, about $28bn — equivalent to 44 per cent of Kenyan GDP — flowed through M-Pesa, which was used by more than 25m customers to send funds, access loans and purchase goods and services.

Rising smartphone ownership, mobile broadband usage and data traffic in Africa point to an attractive tech ecosystem. "We strongly believe that the technology sector in the region will continue to be a strong area of growth," says Pule Taukobong, founding partner of CRE Venture Capital, which specialises in investing in sub-Saharan tech start-ups.

Samsung's success in Africa has been down to the company's ability to merge global technology with African knowledge. The same is true for M-Pesa, which, according to Mr Dua, was ahead of the rest of the world in using the mobile phone as a payment channel. "The innovation and technology on the continent is astounding," says Ms Cook. "But companies have to take the lead."

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