

Growth and Development in the Cosmetics, Soaps and Detergents Regional Value Chains: Zambia and South Africa

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Introduction

- What are the opportunities for harnessing industrialisation & intra-regional trade from the growing demand for soaps, detergents and cosmetic products?
- Paper analyses the critical factors influencing success and growth in RSA and Zambia
- Policy levers to stimulate the industries

Mapping the value chain: Cosmetics, soaps and detergents



Soaps, detergents & cosmetics industries in SA

Soaps and detergents

Laundry care	2015
Unilever SA	50.6
Colgate-Palmolive	13
Procter & Gamble	8
Others	28.4
Total	100

- Approximately 250 companies
- highly concentrated with HHI of 2919
- Dominated by large multinationals

Cosmetics

Cosmetics	2015 (%)
Unilever	13.3
Procter & Gamble	7.3
Colgate-Palmolive	5.9
Johnson & Johnson	2.3
Others	71.2
Total	100

- Atleast 153 firms
- Less concentrated, HHI = 1031
- Entry due to changing trends

Zambia soaps, detergents & cosmetics

Soaps and detergents

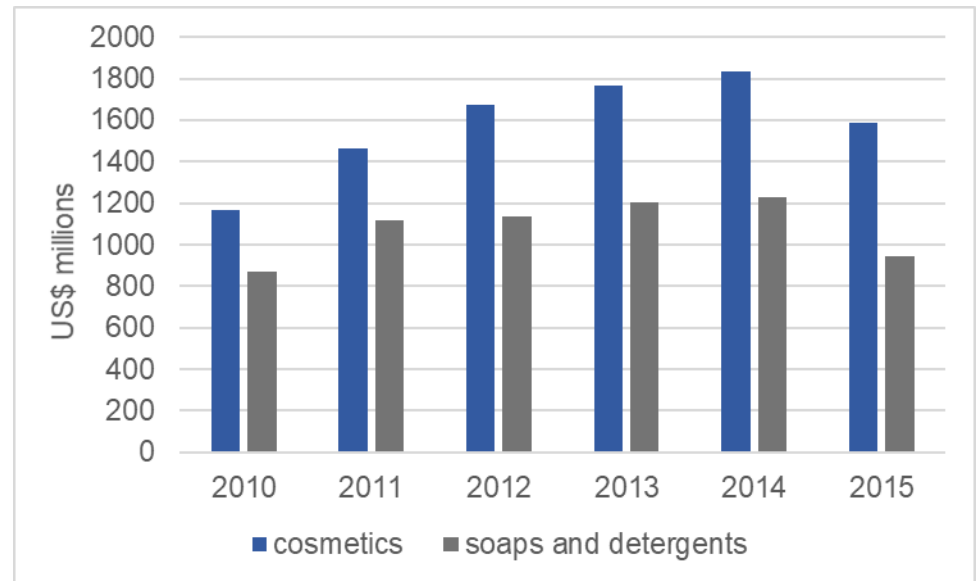
- Main players are Trade Kings & Epsilon
- Trade Kings-mkt leader
 - Products in 9 in SADC
 - Produces 320 products, heritage brand Boom
- Epsilon Industries
 - 1st manufactured on behalf of Colgate Palmolive, has own brands
- Rest of the market comprises smaller players

Cosmetics

- Very few players, Vitafro and Vita Life
- Few emerging firms engaged in the manufacture of organic cosmetic products
- Industry dominated by imported MNC cosmetic products from SA

Opportunities for intra-regional trade

- Import replacement: SADC trade deficit \$955m in 2016
- Soaps intra-regional regional imports, 39%
- Cosmetics intra-regional imports, 45%
- SA accounted for 29% of southern Africa's total imports whereas Zambia accounted for a mere 1% btwn 2010 & 2015

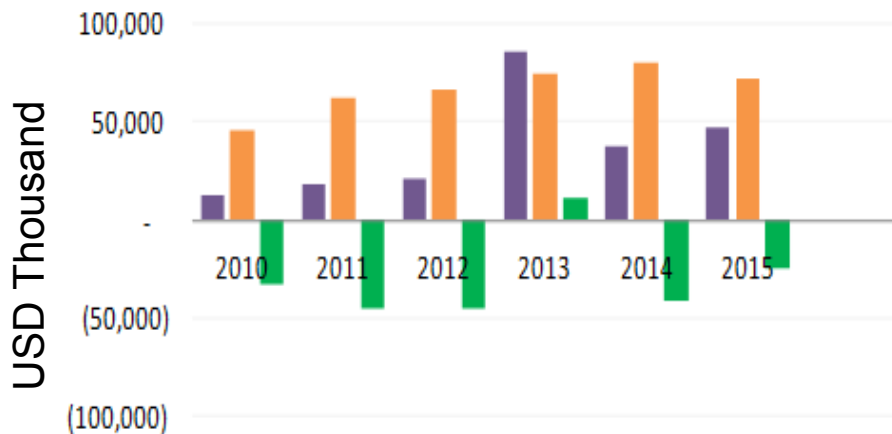


- Increasing capabilities to meet demand in SA and Zambia

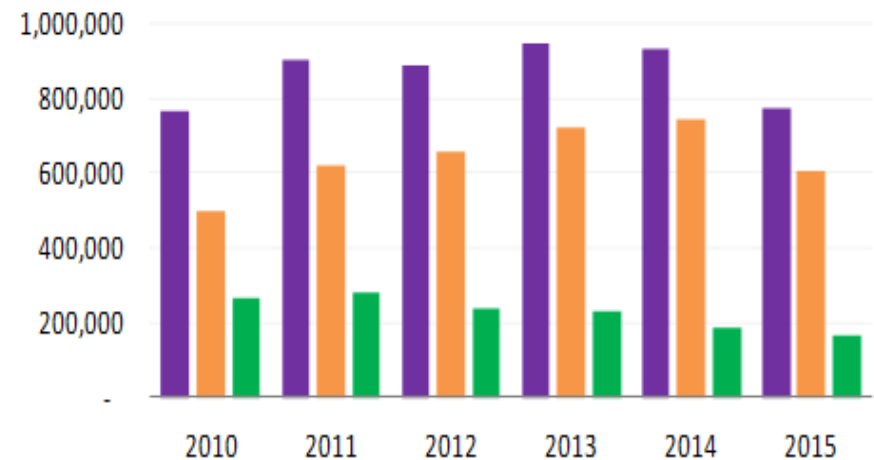
Potential for intra-regional trade

Trade in soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations (\$'000)

Zambia's Total Trade in Soaps and Detergents



South Africa's Total Trade in Soaps and Detergents



- Zambian exports of manufactured Soaps and Detergents to the world
- Zambian imports of manufactured Soaps and Detergents from the world
- Trade Balance Zambia

- South African exports of manufactured Soaps and Detergents to the world
- South African imports of manufactured Soaps and Detergents from the world
- Trade Balance South Africa

Factors affecting firm competitiveness

- Scale
 - low production volumes- lack of access to markets
- Packaging
 - minimum order quantity restrictions as high as 5000 units
 - smaller firms lack the scale to invest in unique packaging designs due to costly moulds
- Standards and regulations
 - Self-regulatory => low quality products, illegal imports
 - Complying with certain standards such as GMP expensive
 - Import duties on raw materials costly
 - Ad-valorem tax of 5% to 7% too high
 - Challenging to acquire biodiversity permit for firms using natural ingredients
 - Lack of harmonisation of standards and certification inefficiencies

Growth constraints

- Raw materials
 - majority of raw materials imported
 - Zambian firms largely rely on agents owing to their lack of scale
 - In SA, petroleum jelly and other waxes available locally through Sasol, however quality is not stable
- Access to finance
 - Limited access to finance, finance typically does not account for importance of advertising
 - Cost of capital high. Interest rates as high as 40% in Zambia
- Skills shortage
 - chemists and technical assistants
- Dependence of contract manufacturers on the performance of clients
- Competition from imports, esp. Zambia

Growth opportunities

- Expenditure on upgrading capabilities (% of total expenditure)
 - Research and Development 7,0%
 - Training 2,0%
 - Royalties 6,7%
- Patents and copyrights, 27% of total manufacturing
- Natural and ethnic products
 - Emerging market for cosmetics and skin care products formulated using natural organic ingredients
 - Availability of natural ingredients s.a coconut oil, tea tree oil, Rosemary oil, Grapefruit, Eucalyptus
- Contract manufacturing

Routes to markets

- Riding on the spread of supermarkets
 - At least 70% of soaps & detergents sold through supermarkets in SA. 38% for cosmetics
 - In Zambia, 50% through supermarkets, 20% wholesale, 30% independent stores
 - strong growth in number and spreads of supermarkets in Southern Africa
- Barriers to Accessing Supermarkets
 - Listing requirements: bar-coding, labelling and packaging requirements, merchandising, advertising, rebates and nation-wide distribution.
- Alternative routes to mkt, salons, hotels, direct marketing

Conclusions

- Opportunities
 - Developing capabilities in light manufacturing-NB for economies with relatively less skilled labour force
 - Large range of products, but required capabilities are similar
 - Natural ingredients supporting poor communities
- Challenges
 - Scale
 - Packaging
 - Access to supermarkets
 - Access to finance

Policy recommendations (1/2)

- Cross cutting
 - Engage supermarkets to open up shelf-space to regionally produced products, & natural products
 - Establish industrial clusters that aggregates small scale firms in order to meet production scale, and allow for sharing of common costs such transport and distribution costs
 - Establish centres of excellence that have testing facilities & 3D printers for prototyping
- Zambia
 - Providing access to affordable and quality packaging materials
 - Provide access to affordable finance that has less collateral demands, lower interest rates and less onerous application requirements
 - Institute protectionist measures with the least trade distorting effects to reduce excessive competition from imports

Policy Recommendations (2/2)

- South Africa
 - Leverage IDC shareholding of Le-Sel Research to support entrants
 - Provide more funding for export missions to assist firms to penetrate regional markets
 - Engage input suppliers such as Sasol to provide competitively priced inputs