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GROWTH AND DEVELOPMENT IN THE COSMETICS, SOAPS AND DETERGENTS REGIONAL VALUE CHAINS: SOUTH AFRICA AND ZAMBIA[1]

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Abstract

The challenge facing regional economies is how to leverage rising urbanisation, increasing populations and incomes and the resultant higher demand for fast moving consumer goods towards building industrial production capabilities and diversifying production away from minerals towards labour absorbing manufacturing that ensures sustained and inclusive economic growth. Zambia's economy has not achieved the industrial development required for sustainable inclusive economic growth and employment creation. Zambia's manufacturing base remains low, its export base remains concentrated in metal commodities and 54% of the country's population remains below the poverty line despite recording impressive economic growth over the past two decades. On the other hand, South Africa has experienced premature deindustrialisation with a significant decline in employment in light manufacturing and is facing high unemployment rates and inequality. The growing demand for consumer goods on the back of increasing incomes in the region present opportunities for light manufacturing and industrialisation in both Zambia and South Africa. Trade date shows that there is a trade deficit of $536m for cosmetics & $667m for soaps and detergents in the SADC region. This presents an opportunity for the region to meet this demand internally rather than imports from global markets. This paper discusses the relative importance of light manufacturing as a stepping stone toward economic transformation and the establishment of industries in the region. It maps the cosmetics, soaps and detergents value chain in South Africa and Zambia and analyses the critical success factors, growth constraints and opportunities presented by end markets.

[1] This paper draws on research conducted by CCRED and ZIPAR and funded by the South African Department of Trade and Industry on regional value chains.

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Abbreviations

CARG	Compounded Annual Rate of Growth
CCRED	Centre for Competition Regulation and Economic Development
CSO	Central Statistical Office
FMCG	Fast Moving Consumer Goods
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman index
ISIC	International Standard Industrial Classification
SABS	South African Bureau of Standards
TIPS	Trade and Industrial Trade Strategies
UAE	United Arabs Emirates
ZABS	Zambia Bureau of Standards
ZIPAR	Zambia Institute for Policy Analysis and Research

1. Introduction

The challenge facing economies in the Southern African Development Community (SADC) is either stalled industrialisation or early deindustrialisation. These economies are typically reliant on the production and export of minerals and as a result the fall in commodity prices has had a significant impact on performance. This has led to the various the SADC member states placing industrial development at the core of the region's integrated development agenda. This means that there is a need to engage with debates on structural transformation and how best it can be achieved in the region. In terms of economic literature, structural change can be achieved through moving across sectors, from low to medium and high productivity sectors (inter-sectoral transition) and changes within sectors to higher value-added activities and improved productivity (intra-sectoral deepening). Both these processes are at the core of diversifying economies and thus policies that will effectively drive industrial development require one or both as its objectives.

There has been much debate in the literature on the types of industrial policies that can facilitate structural change. While some have advocated for support of capability development packages for example implementing skills development programmes (Joffe et al, 1995), others have argued that that targeted industrial policies that target particular sectors or activities are more effective (McMillan *et al*, 2017). Though structural change dynamics within an economy are linked to the level of capabilities available in the economy, policy programmes that simply support capability development have not been effective in delivering the required structural change. For example, in the 1990s the post-apartheid government in South Africa followed this approach and 23 years after democracy the structure of the South African economy is still similar to that inherited in 1994. What is required is a policy programme that targets particular activities or sectors that are to be developed. The challenge then is always is which sectors or activities should be supported by policy. This can be done by an assessment of the opportunities that exist as well as the extent to which these opportunities will address the challenges that are faced.

The opportunities

In SADC, these opportunities are sought in non-commodity manufacturing in order to foster sectoral transitioning. There are a number of opportunities that can be leveraged for growth in the region. First, the SADC region has been experiencing rapid urbanisation, increasing populations and incomes. Demand for consumer goods is expected to grow on the back of rising incomes in the region. Though the region recorded an average GDP growth rate of 3.3% (2011-2015) there are a few countries in the region that are growing at GDP rates above 5%. There is a collective interest for the SADC countries to support growth in the region as the main source of demand for manufactured exports for all the member states. Light manufacturing (including that of consumer goods) is an important stepping stone toward economic transformation and development of production capabilities in the region.

Second, there is an opportunity for import replacement in certain industries within the consumer chemicals. There is a trade deficit of trade deficit $536m for cosmetics & $667m for soaps and detergents in the SADC region presenting an opportunity for the region to meet this demand internally rather than imports from elsewhere. Intraregional trade in soaps and other surfactants and cosmetics has grown significantly between 2011 and 2015. Third, the consumer chemicals sector is important because it has relatively low entry barriers, so policy-makers can support domestic firms.

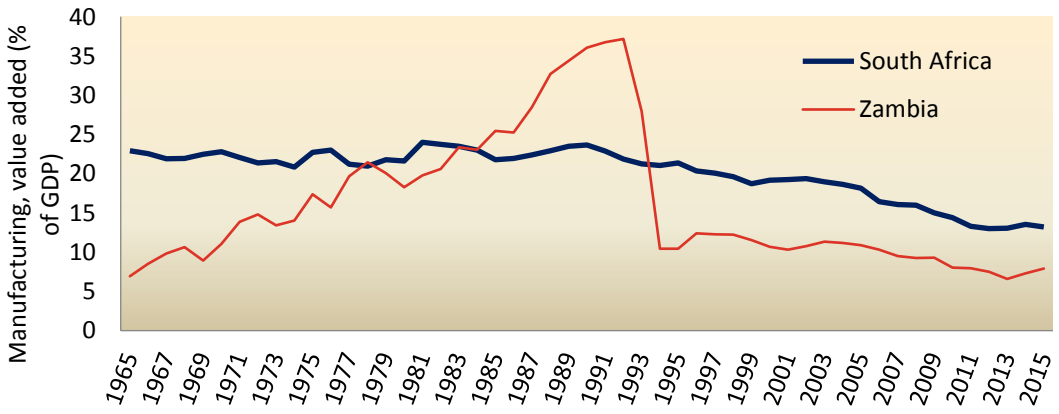
Fourth, the regional trade for these consumer goods is further fuelled by the cross-border operations of retail chains. Given the multinational nature of many supermarket chains in the region, supermarkets open up a much larger regional market for suppliers to attain the necessary scale to become competitive in national, regional and potentially even international markets.

Given that one of the rationales for choosing cosmetics and soaps and detergents is meeting the increasing consumer demand within the region, a partnership between Zambia and South Africa for development of the value chains would have a number of advantages. These include Zambia's proximity to neighbouring countries that are further away from South Africa, the opportunities presented by the expansion by retail into mining towns and rural areas within Zambia and forecasts of spending on consumer goods expected to double from 2014 levels of $15.6 billion to $28.2 by 2019. As well as the existing base of capabilities in South Africa.

The challenges in Zambia and South Africa

Zambia has recorded impressive economic growth averaging over 6% per annum over the past two decades. However, Zambia's economy has not achieved the industrial development required for sustainable inclusive economic growth and employment creation. This is evident from the recent slowdown witnessed in Zambia's economic growth following the fall in international commodity prices in the years 2014 and 2015. Real economic growth reduced to 2.9% in 2015 from 4.7% recorded in 2014. Zambia's economic growth, like many other countries in the growth has over the years been driven by the commodity price boom of the 2000s. The risk of commodity prices' driven growth however, is the susceptibility to international commodity price shocks. As a result, growth is not sustainable and is often not inclusive in the absence of adequate redistribution policies. The recent effects of the fall in commodity prices on Zambia's economy has reiterated the need to diversify towards other economic sectors that are more resilient to external shocks. Manufacturing is one such sector. However, Zambia's manufacturing base has remained low and the country's export base remains concentrated in metal commodities. The recent growth has done little to provide jobs that can offer the majority of the population reprieve from poverty. More than half of the population, approximately 54% are still living below the poverty line.

Figure 1: Manufacturing Share of GDP, Zambia and South Africa 1965-2015



Source Author's construction using World Bank national accounts and OECD National Accounts data

On the other hand, South Africa has experienced premature deindustrialisation with a significant decline in employment in manufacturing. The country's growth slowed down to 1.3% in 2015 from 3% recorded in 2010 (World Bank Development Indicators, 2016). Overall unemployment in the year 2016 remains high at 25.9%. These challenges highlight the need for industrialisation. As evidenced in figure 1 above, Zambia's once thriving manufacturing industry collapsed between 1992 and 1994 following the liberalisation of the economy and privatisation of many state-owned enterprises that soon ensued. The contribution of the manufacturing industry to GDP in Zambia dropped sharply from a peak of 37.2% in 1992 to 10.4% in 1994 denoting a structural break as the country moved from a closed to an open economy (World Bank, 2017). Since then, manufacturing's contribution to GDP has fallen and remained flat averaging 8.4% per annum over the period 2006 and 2015. Similarly, the contribution of South Africa's manufacturing industry to the country's GDP has been falling since the year 1990 albeit less dramatically. The industry's share reduced from 23.6% in 1990 to 13.2% in 2015 suggesting early deindustrialisation.

It is quite evident that in order to create sustainable economic growth, there is need for industrialisation. Literature suggests that industrialisation offers the most potential for employment creation in high productivity and higher value-addition industries. For economic growth to be sustainable and contribute to the creation of productive employment, it must be accompanied by structural transformation (Dinh *et al*, 2013). The growing demand for consumer goods on the back of increasing incomes in the region present opportunities for light manufacturing and industrialisation in both Zambia and South Africa.

This paper thus discusses the relative importance of light manufacturing as a stepping stone toward economic transformation and the establishment of industries in the region. It maps the cosmetics, soaps and detergents value chain in South Africa and Zambia and analyses the critical factors influencing success, growth constraints and opportunities presented by end markets.

This paper is premised on the methodology employed in the full paper on the Growth and Development in the Cosmetics, Soaps and Detergents Value Chains. The study employed both qualitative and quantitative methods for data collection, following the global value chain framework of analysis as a method of understanding the linkages between the firms along the soaps and detergents/hair preparations value chains. Secondary and primary data were collected using primary and secondary sources. A small scoping exercise of the various players in the soaps, detergents and cosmetic value chain was undertaken in both countries. Specifically, data was collected from chemical input suppliers, soaps and detergent manufacturers, retailers (both formal supermarkets and independent retailers), key stakeholders such as the relevant industry associations, government departments and development funding agencies.

This data is augmented with available secondary data. However, there are limitations with this data. In the ideal situation, industrial output and market share should be measured through regular censuses and surveys of firms. In terms of Zambia, these are quite infrequent and as a result this information is not available for all firms and the industrial output does not capture all the firms in the industry. Further, in some instances, firms do not disclose accurate or any information at all for questions where responses may be based on financial records which impacts on the quality of the data and depth of the analysis. In terms of the South African data,

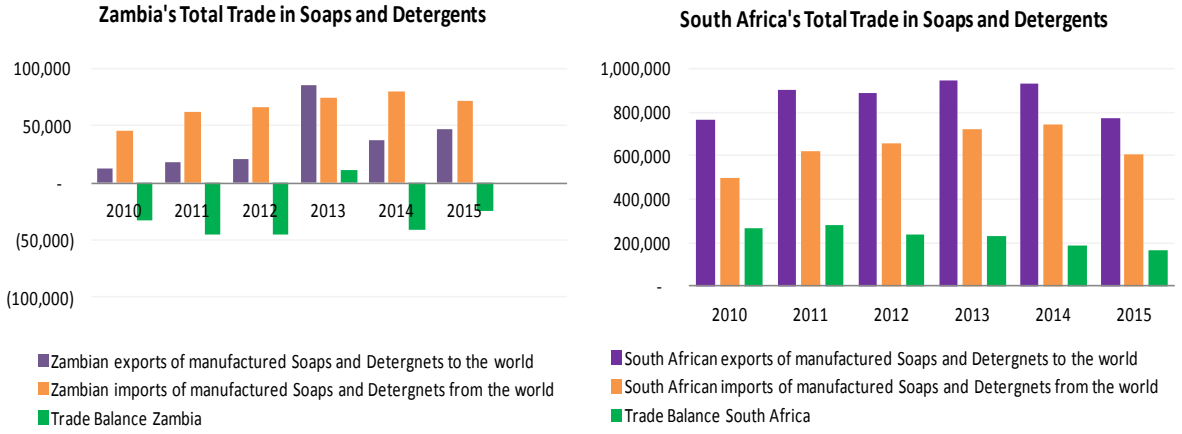
Statistics South Africa conducts a manufacturing survey every few years and reports some data at the level of cosmetics and soaps and detergents. We note that the survey is base. Therefore, to the extent possible, quantitative data was collected from secondary sources, namely government central statistical offices, and international organisations such as the United Nations Statistical database (Comtrade, Trade Map etc.)

The soaps, detergents and cosmetic value chain was mapped using a deductive approach. This was done by grouping data for similarities and differences and isolating the experiences of dominant players. The study sought to identify where the core competences of the domestic, regional and international firms lie by analysing the flow of inputs – goods and services – in the production chain to determine the factors that present constraints or opportunities in the soaps and detergents and cosmetics value chains using descriptive analysis. The regional point of entry for the value chain and how producers access final markets and the critical success factors in final markets were also analysed.

2. Capitalising on regional demand

Trade data shows that Zambia's exports of manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations has been growing over the past 6 years (figure 2) although the country still faces a trade deficit in the same products. Exports averaged USD 36.8 million over the period 2010 to 2015 while imports averaged USD 66.4 million giving rise to an average trade deficit of USD 29.6 million over the same period. This trade deficit presents opportunities for import substitution in this industry. In contrast, South Africa's exports are 20 times the size of Zambia's exports averaging USD 865.8 million over the period 2010 to 2015. The country enjoys a trade surplus in these products that averaged USD 225.6 million over the reference period. Notably, the country's exports started declining in the year 2014. On average, exports reduced by 13% between the years 2010 and 2015.

Figure 2: Trade in Manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations, Zambia and South Africa 2010-2015 ($'000)



Source: Author's construction based on World Bank WITS data

The leading sources of Zambia's imports of soaps and detergents are South Africa and China with the former accounting for over 60% of various import lines. On the other hand, the major

export market for Zambia's soaps and detergents is the Democratic Republic of Congo. Zimbabwe and Malawi are also other major export destinations for Zambia. Similarly for cosmetic products, South Africa dominates the sources of Zambia's imports in nearly all product lines. Interestingly, South Africa was equally Zambia's major export destination for hair products and essential oils. The region remains the major market for Zambia. In particular, the DRC, Mozambique, Botswana are major importers of cosmetic products from Zambia. Others notable and interesting market destinations include Belgium and the UAE (Table 1).

Table 1: Leading sources and destinations of Zambian soaps, detergents and cosmetics - 2014

Soaps and detergents	**Export destinations**		**Import sources**	
Soaps	Congo, Dem. Rep.	40%	South Africa	75%
Cleaning products	Congo, Dem. Rep.	61%	South Africa	75%
Artificial and prepared waxes	USA	98%	South Africa	79%
Polishes and creams	Zimbabwe	69%	South Africa	73%
Lubricating products	Congo, Dem. Rep.	98%	South Africa	68%
Candles	Malawi	86%	China	60%
Cosmetics	**Export destinations**		**Import sources**	
Shaving products	Belgium	60%	South Africa	85%
Dental hygiene products	Botswana	56%	South Africa	64%
Hair Products	South Africa	47%	South Africa	78%
Beauty or makeup preparations	Mozambique	14%	South Africa	73%
Perfumes & toilet waters	UAE	73%	South Africa	46%
Odoriferous substances	Congo, Dem. Rep.	94%	Swaziland	43%
Essential oils	South Africa	96%	South Africa	56%

Source: The ATLAS of Economic Complexity

South Africa's three leading export destinations of soaps and detergents in 2014 were Zimbabwe ($90m), Namibia ($60m) and Zambia ($50m), while for cosmetics it was Namibia ($80m), Swaziland ($49m) and Botswana ($46m) (Trade Map, 2015). Disaggregating the soaps, detergents and cosmetics subsectors shows that Botswana is leading the soaps (21%); Mozambique the Cleaning products (20%) and Dental hygiene products (11%); and Namibia the Lubricating products (25%), Shaving products (23%), Beauty or makeup preparations (14%), and Perfumes & toilet waters (43%) (Table 1).

Table 2: Leading sources and destinations of South African soaps, detergents and cosmetics - 2014

Soaps and detergents	**Export destinations**	**Import sources**

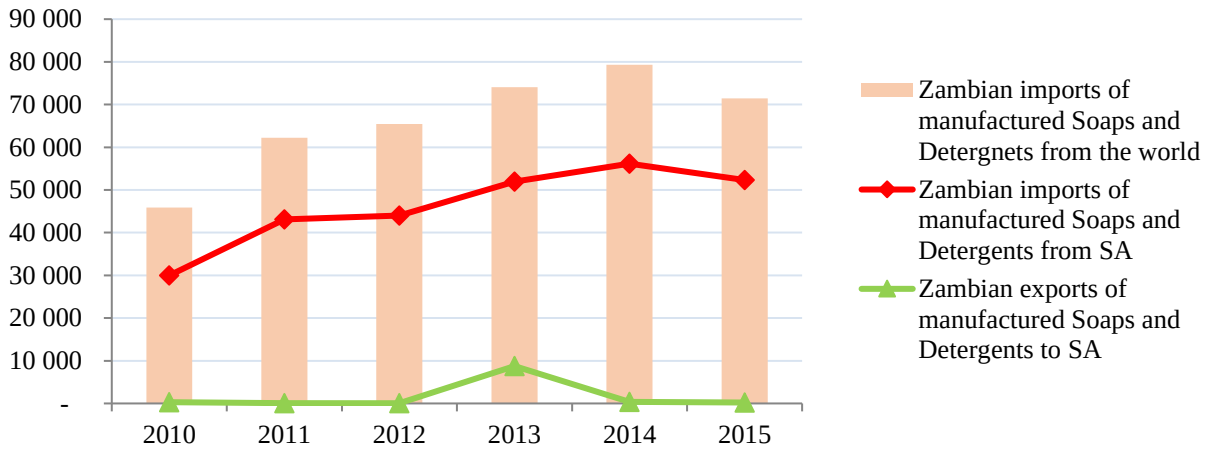
Soaps	Botswana	21%	UK	18%
Cleaning products	Mozambique/ Zimbabwe	20%	Germany/Spain/Romania	13%
Artificial and prepared waxes	USA	70%	Germany	43%
Polishes and creams	Zimbabwe	25%	USA	32%
Lubricating products	Namibia	25%	Germany	22%
Candles	Congo, Dem. Rep.	21%	China	72%
Cosmetics	**Export destinations**		**Import sources**	
Shaving products	Namibia	23%	Germany	35%
Dental hygiene products	Mozambique/UK	11%	UK	26%
Hair products	Angola	19%	France	24%
Beauty or makeup preparations	Namibia	14%	USA	20%
Perfumes & toilet waters	Namibia	43%	France	46%
Odoriferous substances	Swaziland	41%	Swaziland	67%
Essential oils	Swaziland	27%	India	32%

Source: The ATLAS of Economic Complexity

On aggregate, Germany was the leading source of soaps and detergents imports in 2015 with value of $43.9m, followed by USA ($42.6m), China ($21.3m) and United Kingdom ($20.4m) (Trade Map, 2015). In cosmetics, the leading countries were Swaziland ($315m), USA ($84.1m), France ($82.9) and Germany ($58.7). Disaggregating the soaps and detergents subsector further confirms that sources most the soaps and detergents products from Germany. That is, Germany is the leading source of soaps (17%), cleaning products (13%), lubricating products (22%), artificial and prepared waxes (43%), and shaving products (35%). United Kingdom supplies most of polishes and cream (22%), and dental hygiene products (26%). And Swaziland supplies most of odoriferous substances (67%).

The trade between South Africa and Zambia is highly imbalanced with trade skewed in favour of South Africa (figure 3 below). On average, South Africa accounted for 70% of Zambia's total imports of soaps, detergents, cleaning and polishing preparations, perfumes and toilet preparations over the period 2010 to 2015 whereas Zambia's exports of the same products averaged a paltry 0.3% of South Africa's total imports. Suffice to say, the polarity in trade simply underscores the differences in the size and maturity of the industries in the two countries.

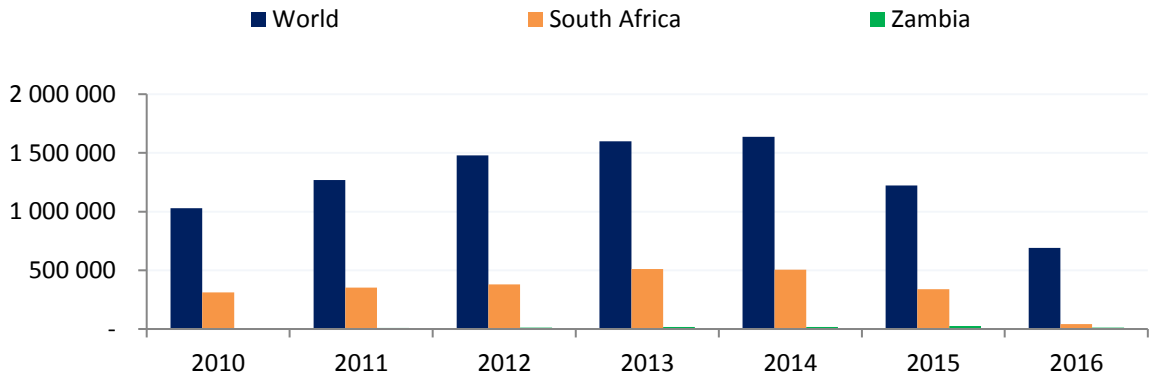
Figure 3: Trade in manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations between Zambia and South Africa 2010-2015 ($'000)



Source: Author's construction based on World Bank WITS data

South Africa has stronger production and export capabilities as evidenced by its deeper traction in southern Africa compared to Zambia (figure 4). For example, over the period under discussion, on average, South Africa accounted for 29% of southern Africa's total imports whereas Zambia accounted for a mere 1%. This potentially leaves 70% of imports of soaps, detergents, cleaning and polishing preparations, perfumes and toilet preparations by Southern Africa from the rest of the world for possible substitution with imports from both Zambia and South Africa. To capitalise on this opportunity however, Zambia needs to grow its production capabilities and focus on products in which it can acquire a competitive edge.

Figure 4: Southern Africa's imports of manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations, 2010-2016 ($'000)



Source: Author's construction based on World Bank WITS data

3. The soaps and detergents and cosmetics industries in Zambia and South Africa

South Africa's industries for soaps, detergents and cosmetic products is typically more developed and presents competition to Zambian soaps, detergents and cosmetic products. The soaps and detergents industry broadly includes the manufacturing of soap, synthetic organic detergents, inorganic alkaline detergents, and crude and refined glycerine from vegetable and animal fats. The major product sold in South Africa is laundry care. The South African soaps and detergents subsector consists of approximately 250 companies, 49 of these being major players (FRIDGE, 2011 and Who Owns Whom, 2016). There is also a big presence of contract manufacturers and a large number of small and medium producers. The soaps and detergents segment of the market is highly concentrated with an Herfindahl-

Hirschman index (HHI) of 2919.3 The soaps and detergents (exl. Cosmetics) industry is dominated by large international manufacturers, namely Unilever; Procter and Gamble; Johnson and Johnson; and Colgate Palmolive. Unilever continues to lead the South African detergents segment with a value market share of 51%; followed by Colgate-Palmolive (Pty) Ltd, Procter & Gamble and Bliss Chemicals (Pty) Ltd with shares of 13%, 8% and 7% respectively (Table 2).

Table 3: Laundry care market shares in South Africa

Laundry care	2015
Unilever South Africa (Pty) Ltd	50.6
Colgate-Palmolive (Pty) Ltd	13
Procter & Gamble (Pty) Ltd	8
Others	28.4
Total	100

Source: Euromonitor (2015)

An analysis of the performance of different Unilever brands suggests that the firm continues to benefit from the strength of its heritage brands, Omo, Skip and Sunlight. However, Procter and Gamble's Ariel brand has made significant headway in terms of winning market share in the South African market, as has been the case in other African countries (for example Kenya). At the moment, Ariel is imported from France and even though Procter and Gamble had announced that it would build a plant in South Africa in 2013, construction of the site is yet to begin. The entry of Ariel into the market also started price wars between the main producers which has been challenging for smaller firms due to lack of economies of scale. The Competition Commission is currently investigating whether or not firms were pricing below cost during the price wars.

On the other hand, Trade Kings Limited is the local industry leader in the manufacture of soaps and detergents in Zambia and is fast becoming one of the major manufacturers in the region with its products being sold in 9 of the countries in the region. The company's growth has been fuelled by the success of Boom Detergent Paste which has remained the company's trade mark product since 1995. The firm's growth has been tremendous having grown by tenfold between the years 1995 and 1996 from 200 thousand kwacha to 2 million kwacha by the end of 1996. Production of Boom Detergent Paste increased by nearly 2, 000% from 100 tons per month in 1995 to 1,850 tons per month in 2013 (Trade Kings, 2013). Further, the firm has diversified its product line over the past 22 years into 320 products that include various sizes of detergent powders, carbolic and medicated soaps, assorted household cleaning agents, fabric softeners, confectionery products and energy drinks which are competing favourably against the renowned brands of Unilever, Colgate Palmolive and Reckitt Benckiser.

Other notable local players in detergents include Epslon Industries who initially used to operate as a contract manufacturer for Colgate Palmolive in Zambia. However, following Colgate Palmolive's decision to exist the manufacturing industry in Zambia, the firm has remained manufacturing the same brand detergent paste – Dynamo – which directly competes with Boom Detergent Paste of Trade Kings. The rest of the local market comprises smaller players that manufacture liquid detergents and dish washing liquids predominately for

[3] As a rule of thumb, an HHI below 1500 is indicative of a competitive market place, an HHI between 1500 and 2500 is moderately concentrated and HHI above 2500 is regarded as highly concentrated.

industrial use. These firms have predominantly focused on this market largely because it does not require huge investment in packaging and is thus less competitive. Zambia's soaps and detergents industry is also highly saturated with popular international brands such as Omo, Sunlight, Protex, Lifebouy, Dettol, Axion, Harpic etc. manufactured by Unilever, Colgate Palmolive and Reckitt Benckiser. The two former multinationals previously operated manufacturing plants in Zambia. The liberalization of Zambia's economy in the early 90s however, opened the domestic manufacturing sector to competition from imports of cheaper FMCGs. As a result of the relatively higher cost of production in Zambia, many multinational companies including Unilever and Colgate Palmolive consequently relocated or closed their manufacturing plants in Zambia but retained distribution firms.

The Cosmetics Market in South Africa and Zambia

The cosmetics industry is made up of a number of personal care products ranging from skin, body and hair care. The cosmetics (exl. soaps and detergents) industry is not as dominated by large companies as the soaps and detergents. The four multi-nationals that hold the highest market shares together hold 28.8% and the remainder of the market is held by a range of other firms including domestic firms (Table 3).

Table 4: Retail Market shares in SA

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

Source: Euromonitor (2015)

In South Africa, there is a large presence of firms in the cosmetics industry, the Cosmetics Toiletries and Fragrances Association of South Africa has a membership of 153. The multi-national firms either have production plants within the region or use third party manufactures within the region and should be part and parcel of a strategy to develop the regional cosmetics industry. Cosmetics segment is not concentrated, HHI=1031.

Though there is no available industry data in Zambia, some consumer chemicals firms have emerged and have performed well. The cosmetics industry in Zambia consists of very few players with a few emerging firms engaged in the manufacture of organic cosmetic products. A few local firms in the cosmetics industry in Zambia have exhibited longevity. Vitafro and Vita Life are among the notable firms that have been manufacturing a wide range of domestic-use cosmetic products for over 20 years and have been successful in supplying supermarket chain stores. These firms have a wide range of products namely hair shampoos and conditioners, hair oils, body lotions, glycerine, aqueous creams, petroleum jelly; other players include a few firms that are manufacturing a narrow range of products for both domestic and/or industrial use. Notwithstanding, these local players, the industry is dominated by imported cosmetic products from Unilever, Colgate Palmolive and Johnson and Johnson's notably from South Africa.

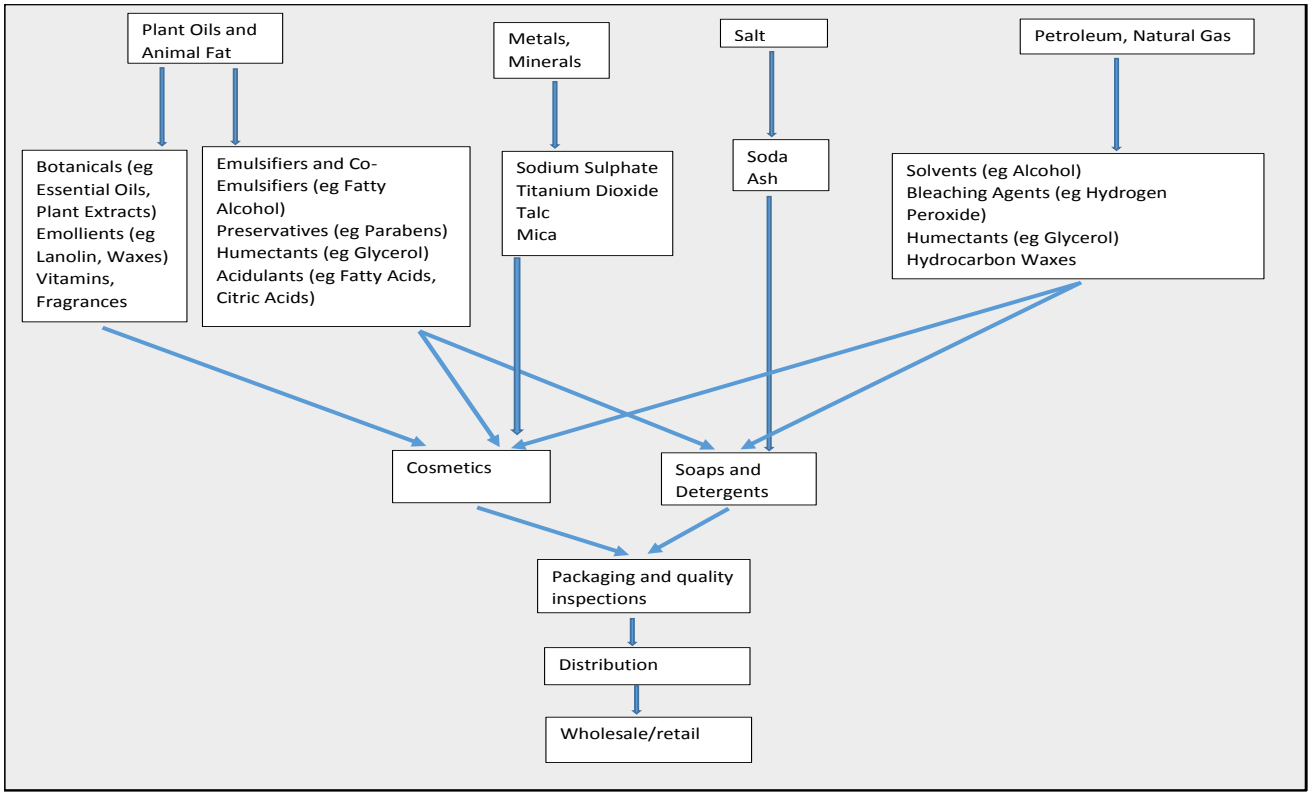
A phenomenon in the use of organic products has taken root in the cosmetic industry globally and Zambia and South Africa have not been exempt from this wave. There is an emerging market for cosmetics and skin care products formulated using natural organic ingredients in cosmetic products such as coconut oil, tea tree oil, Rosemary oil, Grapefruit, Eucalyptus etc. that are entirely pure or free from synthetic ingredients. What started as a niche market has now evolved into a mainstream trend. This trend has grown as more consumers have become increasingly aware of the potential side effects of many artificial substances used in cosmetic products that damage the skin or are not environmentally friendly. The growing interest in wellness products, particularly herbal and other natural items traditionally sold through health-food stores, has spilled over into consumer preferences for personal care products (Center for Competitive Analysis, 2000). This line of products has been growing in Zambia led by Umoyo, a health-wellness centre and retailer shop of locally manufactured and imported herbal and natural cosmetic products. The availability of natural trees such as the Baobab tree, Moringa Tree, Devil's Claw, Mongogo, Kalahari Melon seed, Ximeina, Marula in Zambia that can be used in the manufacture of natural cosmetic products provides readily available inputs for production.

4. Mapping the cosmetics and soaps and detergents value chain industries

4.1 Sourcing upstream Inputs

Various raw materials are used in the manufacture of soaps, detergents and cosmetic products as depicted in figure 4 below. These are primarily chemical products. In South Africa, the basic chemicals sector is dominated by larger multinationals such as Sasol, AECI, Omnia and Dow Chemicals which produce a variety of chemicals that feed into different sectors including cosmetics, soaps and detergents. Other relatively smaller players include Akulu-Marchon (Pty) Ltd, Bayer (Pty) Ltd, Clariant Southern Africa (Pty) Ltd, NCP Chlorchem (Pty) Ltd, Chemical Initiatives (Pty) Ltd, CJP Chemicals (Pty) Ltd. However most of the chemical ingredients into the cosmetics, soaps and detergents are largely imported.

Figure 5: Cosmetics and soaps value chain:



Source:http://ukchemistrygrowth.com/Portals/3/Downloads/Importance%20of%20Chemicals.pdf

Most of the firms interviewed indicated that ingredients are predominantly imported (at least 80%), mainly from Germany, France, United Kingdom, China. In soaps for instance, some companies noted that only sodium silicate, cuastic soda, petroleum jelly and sodium sulphate are available locally. Due to limitations in local production of raw ingredients, firms get exposed to exchange rate risk and as well as high import duties. Nevertheless, South Africa has abundance of natural ingredients such as Baobab, Marula etc. that are used in cosmetics.

The breadth and complexity of the composition of the products vary according to firm development and advancement and these are sourced from various markets. In Zambia, the relatively small firms interviewed in the study (employing less than 50 employees) indicated that inputs used in the manufacture of soaps, detergents and cosmetic products are predominantly imported either through local agents (about 80%) or through international agents (about 20%). Imported raw materials include fragrances (mainly imported from Switzerland), sulphuric acid, wax, colour, sulphonic acid, hydrochloric acid, Sodium Lauryl Ether Sulfate (SLES), NP9, Caustic Soda, amongst others. The main source countries for these raw materials include Switzerland, India, the UK and South Africa.

These firms largely rely on agents owing to their lack of scale to import directly from input suppliers. Firms that had previously imported inputs directly from suppliers indicated import taxes levied on inputs as well as meeting the minimum import quota demanded by input suppliers as challenges. According to the Zambian Customs and Excise Tariff Guide, imports of chemicals such as Sulphonic acid, hydrochloric acid, sulphates and other similar chemicals do not attract customs duty when imported in bulk, that is, more than 5 kilograms or 5 litres. Although a standard rated value added tax is applied. The role of agents in the value chain is therefore quite significant for small players. These agents are able to import large quantities of various inputs duty free (allowing for economies of scale) which are then sold in smaller

quantities to various manufacturers of soaps, detergents and cosmetic products. This spreads the input costs and allows firms to circumvent the direct costs associated with input imports as well as having to meet the minimum import quota demanded by input suppliers. In addition, local chemical suppliers offer inputs to manufacturers on a credit basis (usually 30 days). This confers benefits such as continuity in production and offers a cash flow buffer for periods between production and receipt of monies for sales.

Industry leaders exhibit similar behaviour. Trade Kings, Zambia's dominant player in the Zambian soaps and detergents industry similarly procures some of its inputs locally. Its scale however, allows the firm to source some chemical inputs directly mainly from China, South Africa and South Korea. Because inputs are imported, all the firms in the industry are facing high input costs owing to the pass-through effects of the depreciation of the kwacha which has increased the cost of production.

4.2 Factors affecting firm competitiveness

Economies of scale

Despite the domination of few multinationals, the South African and Zambian soaps, detergents and cosmetics sectors have plenty of small firms. Mostly these firms, however, produce in low volumes due to various factors such as limited production capabilities and lack of access to markets. Many firms struggle to expand their production due to lack of finance for investing in machinery and equipment, while concurrently facing challenges accessing markets because of difficulties in accessing retailers. Retailing is the major route to markets for soaps, detergents and cosmetics products. Even the firms that have sufficient machinery and equipment fail to maximize their capacity due to limited access to markets, amongst others. Almost all the small firms interviewed in South Africa and Zambia produce below their maximum capacity. Failure of small firms to meet sufficient production volumes deprive them of the benefits of economies of scale, and renders them uncompetitive compared the big multinationals.

Packaging

In both Zambia and South Africa, packaging companies often impose minimum order quantity restrictions on their products to as high as 5000 units. Furthermore, retailers normally set their own packaging requirements to manufacturers in order to stock their products. However smaller firms lack the scale to invest in unique packaging designs, and as a result, use generic packaging which is not very appealing. This is because moulds are expensive, and can cost as high as R2 million to R10 million. So once a design has been agreed upon and a mould purchased, it becomes difficult to change the design. Big multinational companies however have sufficient scale to justify investments in these moulds, and are able to have access to specialised packaging which gives them competitive edge over smaller firms.

Nonetheless, technological innovations such the 3D printing used for prototyping have the potential to boost the competitiveness of these industries. This is a relatively cheaper (cost as little as R15000) innovation that smaller firms can use to test out different designs before eventually settling for a particular design.

Standards and regulations

In South Africa, the general self-regulatory nature of the industry makes it vulnerable to low quality products as well as illegal imports. Notwithstanding that, companies are still required

to comply with certain standards such as Good Manufacturing Practice (GMP), which they find to be expensive. On the other hand, firms that want to export to the European Union (EU), need to acquire EU certification which is also expensive. This is in spite of the fact that firms can claim up to 50% of costs incurred in getting EU certification from the DTI.

The challenges that firms face include import duties on raw materials, ad-valorem tax on finished goods, product testing and biodiversity permits. Many firms are of the view that import duties on raw materials cost too much, and that ad-valorem tax of 5% to 7% is just too high. However, the DTI has submitted that ad-valorem tax is only applied to selected luxury products including perfumes and toilet waters; skincare preparations; lip and eye make-up preparations; manicures and pedicures; and skincare powders. Despite the common practice to impose tax on luxury products, this may be costly for small manufacturers.

On the other hand, firms using natural ingredients from indigenous plants, such as Baobab, Marula etc. need a biodiversity permit to be able to export their products. The application process for the permit is very cumbersome; the application form is long and complex, and the permit takes long to come out. Retailers require products they stock to be tested, however SABS is currently unable to offer testing services. Moreover, private testing is expensive (costs as much as R40, 000).

In Zambia, the acquisition of product accreditation presents additional costs for firms. For instance, to acquire a permit to supply for the first time, a company has to be inspected four times within one year, with a fifth inspection made the following year to renew the accreditation (Ziba and Phiri, 2017). For a firm to acquire certification, the Zambia Bureau of Standards (ZABS) has to carry out two intensive inspections. According to ZABS, the cost of acquiring certification is estimated to average between K20,000 and K25, 000 and is premised on the turnover of the firm. Nonetheless, majority of firms interviewed in the study possess certification for their products.

Furthermore, there appears to be a mismatch between Zambian standards and those imposed in export markets. Previous efforts to adopt various international standards and harmonise standards with COMESA and SADC countries have excluded standards for soaps, detergents and cosmetic products. Furthermore, while ZABS has international accreditation for its laboratory testing services, as well as Zambian standards being mostly based on international standards, ZABS is yet to be accredited to an international body for its inspections. This presents challenges of recognition of the Zambian standards in export markets and is therefore a barrier to exporting. In addition, this compels firms to seek accreditation by other internationally recognized standard organizations. To counter some of these challenges, ZABS has entered into a few bilateral arrangements with two countries regarding standards and the export of selected products. Particularly, ZABS has an MOU with Botswana on the export of groundnuts and an MOU with Namibia for various products.

4.3 Growth constraints

The cosmetics and soaps and detergents value chain face a number of constraints which limit growth in the value chains. The constraints faced by both South Africa and Zambia are briefly discussed in the upcoming sections.

Barriers to Accessing Supermarkets and Export Markets

Retail plays a huge role in the trading of soaps, detergents and cosmetic products by providing key routes to markets through linking producers and consumers, and providing export gateway

for domestic suppliers. However, firms face challenges in accessing these markets owing to shortage of shelf space that leads to stringent listing requirements imposed by supermarkets. These include bar-coding, labelling and packaging requirements, merchandising, advertising, rebates and nation-wide distribution. Small firms face challenges meeting all these requirements. Limitations with access to retail space also impact negatively on exports. That is, firms that could penetrate export markets through retailers are otherwise constraint. However, export capabilities are also affected by other factors such as lack of harmonisation of standards and certification inefficiencies. For instance, lack of recognition of the Zambia Bureau of Standards (ZABS) certification is a challenge in Zambian firms accessing export markets.

Raw materials

A significant proportion (at least 80%) of raw materials consumed by both Zambian and South African industries is imported. In South Africa for instance, few raw materials such as petroleum jelly and other waxes are available locally through Sasol, however firms complain that their quality is not stable. One firm noted that H&R South Africa (Pty) Ltd provides better quality petroleum jelly. In the washing powder market, some firms noted that only sodium silicate, cuastic soda, petroleum jelly and sodium sulphate are available locally.

Reliance on imported raw materials exposes manufacturers to foreign exchange risk and import duties. For instance, in 2015 and 2016, the Zambian kwacha depreciated by more than 50% against major currencies effectively increasing the cost of inputs. On the other hand local firms are purported to face high compliance fees related to inspections of inputs. Furthermore, fragmentation in payment of these fees results in the duplicity of fees paid to authorities. Additionally, the cost of clearing inputs at the border is considered to be high, and inefficiencies of ZABS results in delays in clearing inputs.

Access to finance

It is expensive for small entrants to manufacture their own products due to the high costs of purchasing equipment, compliance costs, setting up factories and meeting working capital requirements among other costs. This is particularly the case for small entrants that need to meet certain minimum scale requirements for them to compete effectively with the big incumbents. Normally funders require bankable business plans that small firms struggle to provide. Moreover, Zambian firms cite the cost of finance as the main hindrance. For instance, interest rates on loans by Zambian commercial banks averaged 40% for the month of February 2017. Further, in most cases small firms do not have collateral and cannot measure the potential of growth of their products in order to get funding. The Department of Trade and Industry (DTI) in South Africa provides funding to small firms through its incentives programmes, however the funds are limited and cannot service the majority of the small firms.

Despite significant commonalities indicated by the challenges discussed above, the size and maturity of the soaps, detergents and cosmetic industries between Zambia and South Africa are very different owing to the relative sophistication and development of the South Africa industries. As such there are certain country-specific challenges that need to be highlighted.

South Africa

Skills shortage

There is generally shortage of skills required to supplement the competitiveness of the industry. For instance, critical skills such chemists and technical assistants in the cosmetics

industry are limited. Those that are available are mainly employed by bigger companies that have attractive remuneration packages. Further, the shortage of engineering skills contributes to other sectors that feed directly into the soaps and cosmetics industry, such as packaging. For instance, the production of moulds for the packaging industry requires critical engineering skills which South Africa is short of. Nonetheless, there are some measures being put in place to address the issue of skills shortage. The DTI is working towards developing a safety assessment Masters programme aimed at increasing the number of toxicologists in South Africa. This is expected to be launched in 2017. The Society of Cosmetic Chemists of South Africa (COSCHEM) already offers a Diploma in Cosmetic Science which the industry regards as an advantage.

Dependence of contract manufacturers on the performance of clients

The competitiveness of contract manufactures is dependent on the performance of their clients. For instance, large clients may produce in-house if the industry is not performing well, which negatively impacts the competitiveness of contract manufacturers. However, this is limited to clients that have manufacturing facilities. On the other hand, some firms use contract manufacturers as an entry strategy i.e., they first test out the market without investing in production facilities. This could impact negatively on contract manufacturers if such clients decide to invest in production facilities at the later stage.

Moreover, multinationals have global raw materials agreements with certain suppliers that impacts on the competitiveness of contract manufacturers. That is, if a particular local firm is the product manufacturer of a multinational, it is obliged to procure raw materials from that global supplier even if it is not cost competitive to do so. In the case of the global supplier being located abroad, the contract manufacturer will be compelled to import unnecessarily irrespective of the availability of raw materials locally.

Zambia

Competition from Imports

Globalisation while conferring benefits on consumers such as increased product availability, choice and competitive prices, is a game of winners and losers in which the firms with better access to factors of production will triumph. Zambian industries are highly affected by competition from imports. That is, local firms face competition from imports of cheaper products from the East owing to economies of scale that have been acquired by firms in these countries. South Africa similarly presents competition to Zambian firms owing the country's relatively more sophisticated and developed industry. Particularly, products of Unilever, Johnsons and Johnsons, Reckitt Benckiser that possess strong brand awareness are the major competing brands in the soaps, detergents and cosmetics industry.

Other constraints

Other challenges cited are not uniform across the board and were reported by a micro firm. These include challenges in accessing land and the high cost of electricity. The latter constraint is shared by Trade Kings, the industry leader in soaps and detergents. The new taxation system that was introduced in 2017 which imposes a specific amount flat in addition to a flat rate of 3% levied on firms' turnover also presents challenges for firms, particularly for micro and small firms. For firms whose business is cyclical, the specific tax implies that firms are paying tax even in months in which they may not have recorded and sales.

4.4 Growth opportunities

Natural and ethnic products

There is an emerging market for cosmetics and skin care products formulated using natural organic ingredients in cosmetic products such as coconut oil, tea tree oil, Rosemary oil, Grapefruit, Eucalyptus etc. that are entirely pure or free from synthetic ingredients. What started as a niche market has now evolved into a mainstream trend. This trend has grown as more consumers have become increasingly aware of the potential side effects of many artificial substances used in cosmetic products that damage the skin or are not environmentally friendly. The growing interest in wellness products, particularly herbal and other natural items traditionally sold through health-food stores, has spilled over into consumer preferences for personal care products (Center for Competitive Analysis, 2000). This line of products has been growing in Zambia led by Umoyo, a health-wellness centre and retailer shop of locally manufactured and imported herbal and natural cosmetic products. The availability of natural ingredients from indigenous plants such as the Baobab tree, Moringa Tree, Mongogo tree, Ximeina tree, Marula tree, Kalahari Melon and Devil's Claw in Zambia that can be used in the manufacture of natural cosmetic products provides readily available inputs for production. Similarly, South Africa also has a vast amount of indigenous plants whose ingredients manufacturers can leverage into developing cosmetic products. These include Baobab tree, Marula tree, Trichilia tree, Ximenia tree, Kigelia Africana Fruit, Devil's Claw, Kalahari Melon and Rooibos.

However, South African firms using natural ingredients from indigenous plants, such as Baobab, Marula etc. need a biodiversity permit to be able to export their products. The application process for the permit is very cumbersome; the application form is long and complex, and the permit takes long to come out. However, there is currently a problem regarding the ownership of these natural resources. Furthermore, companies are required to have biodiversity permits. DTI is already working with IDC to develop the natural products to cosmetics value chain in general. Moreover, Baobab growers, CTFA, formulators and manufacturers in South Africa are already setting up a forum in order to implement an online integrated system for Biodiversity permit applications.

Contract manufacturing

Contract manufacturing is a phenomenon whereby some firms outsource some of their manufacturing activities to other firms, or whereby firms that lack manufacturing capabilities contract particular manufacturers to produce products on their behalf. This practice has boosted the growth and competitiveness of the soaps, detergents and cosmetics sectors particularly in South Africa. The difficulties associated with access to retailers tend to limit the growth and competitiveness of smaller firms. However, contract manufacturing has enabled many small players to access these markets indirectly. That is, some of the big multinationals that already have access to retailers tend to contract smaller firms to manufacture on their behalf. This eliminates the need, on the part of contract manufacturers, for own brand development that would otherwise have to compete with the established brands of such multinationals.

4.5 Getting the Goods to markets

The question of access to markets has been cited as a barrier to entry and or expansion by the manufacturers of cosmetics and soaps and detergents producers.[4] Retailers and supermarkets in particular, are becoming an increasing important route to market for many consumer goods in southern Africa, providing an opportunity for suppliers to participate in lucrative retail value chains (Boselie, Henson and Weatherspoon, 2003).

4.5.1 Riding the supermarkets wave

Southern African countries, including Zambia, have experienced strong growth in a number and spreads of supermarkets over the past two decades. This has largely been driven by the expansion of South African supermarket chains both within South Africa and Zambia and the rest of the southern African region. Ziba and Phiri (2017) attribute the wave of retail modernisation in Zambia to a number of factors namely: increased urbanisation; economic growth; emergence of a middle class; and changes in food consumption patterns as a result of globalisation, food marketing and advertisements.

Supermarkets' role in the value chain for soaps, detergents and cosmetic products is very critical to addressing the issue of scale, stimulating increased industrial production and encouraging production upgrading. The strategic location of supermarkets in prime shopping malls and their spread in various towns and cities, provide firms with access to a larger and broader market. For firms, access to a wider market entails demand for higher volumes of their manufactured products, which in turn could lead to the acquisition of economies of scale as local firms expand their output to meet the higher demand for manufactured goods. In addition, firms' integration into supermarket value chains has the potential to compel local manufacturing firms to improve their production capabilities by acquiring and enhancing their technology and production techniques in a bid to meet the higher quality demands and private standards of supermarkets (Ziba and Phiri, 2017). In the long run, this could trigger knock-on effects on employment creation, efficiency and increased industrialisation for Zambia as firms expand and improve their production capabilities. Further, the multinational nature of supermarket chains in the region open up firms to a much larger regional market for FMCGs.

Zambia

The scoping survey results revealed that only a few select firms use supermarkets as their main route to market. These firms that have successfully integrated into supermarket value chains didn't report any challenges with regard to supplying supermarkets. For firms not supplying supermarkets, the major reasons cited included high packaging demands by supermarkets and the inability to meet the volumes demanded by supermarkets as a result of the firms' limited production capabilities.

Interviews held with two dominant South African supermarkets operating in Zambia reveal that soaps, detergents and cosmetic products are predominately imported due to limited production capabilities in Zambia. On this basis, the reported proportion of locally sourced soaps, detergents and cosmetics products versus imported products for Game Stores were estimated at 40%, 40% and 5% respectively. In comparison, the proportion of cosmetic products is very low owing to the lack of brand awareness of locally produced goods which is

[4] Firm interviews.

very critical to the successful sale of cosmetic products. While a few local firms have successfully integrated into supermarket value chains, a large number of them is still excluded. Supermarkets reportedly face a number of challenges with local suppliers that prohibit local suppliers' integration into supermarket value chains. Local suppliers often fail to meet the volumes demanded by supermarkets and are not consistent with supply. This is largely as a result of firms' limited production capabilities and the lack of logistical support. Firms further lack good quality packaging which renders most of their products unattractive. Related to this is the inability of some firms to meet ZABS standards. Local products are also reportedly relatively more expensive than imports rendering them uncompetitive.

For firms to successfully integrate into supermarket value chains, they need meet supermarkets' procurement criteria. Above and beyond meeting the Zambian standards, supermarkets' criterion for the procurement of soaps, detergents and cosmetic products is premised on the cost and quality of the product and the ability of the local firm to consistently supply the volumes ordered. The ability of the firm to offer a rebate on the unit price of their products is also very critical for a few select supermarkets. Brand awareness is very critical in driving the sales of soaps, detergents and cosmetic products. Supermarkets also expect firms to have barcodes for soaps, detergents and cosmetic products and to meet the distribution costs associated with supplying the stores. Other additional criteria although not binding, include having merchandisers. Supermarkets also expect product packaging to clearly indicate key information such as the manufacturing and expiry date.

Firms also face strategic barriers to entry. Strategic barriers relate to supermarkets' procurement strategies such as the level at which decisions are made regarding suppliers. For most foreign supermarkets, the selection of suppliers is often the discretion of the store head office. The increasingly higher private standards demanded in addition to mandatory legal standards are often times, barriers to entry owing to the costs associated with meeting these standards. Private demands such as bar-coding, labelling and packaging requirements, merchandising, advertising, rebates and nation-wide distribution all have cost implications for local firms trying to enter and compete with incumbent suppliers or with global suppliers. The payment period for goods supplied to supermarkets which averages between 30-60 days is also a constraint due to the cash flow challenges the long period possess for small financially constrained businesses.

An interesting development is the increasing vertical integration of supermarkets. Supermarkets are extending their operations to include the manufacture and packaging of house brands that have grown exponentially over the past 5 years. Products include disinfectants, cleaning agents, toilet paper, tooth pastes and other private brands of manufactured foods and household products. These products are predominately manufactured in South Africa owing to the relatively lower cost of production and existing production capabilities in South Africa. This suggests opportunities for local manufacturing of supermarkets in-house brands through Contract Manufacturers in Zambia which remains relatively unexploited.

South Africa

Retail chains including supermarkets possess considerable buyer power in South Africa, even though there are alternative routes to market for cosmetics (see Table 4 below). In addition to this, in the cosmetics sector, branding is a major factor that contributes to the market power

of a handful of large, powerful incumbent suppliers (e.g. Nivea, Johnson and Johnson, Proctor and Gamble etc.). Therefore, new suppliers in the cosmetics sector are faced with difficulties arising both from buyer power from a vertical perspective and market power from a horizontal perspective.

New entrants struggle to enter and maintain a consistent foothold on supermarket shelves as their products typically do not sell as fast as the well-known branded products. Retailers want products off the shelf at the fastest rate possible and push suppliers to invest in merchandising. Fast-selling products in turn require high marketing and advertising spend, as well as extensive brand, sales and merchandising support, which smaller players often struggle to meet. Small players find it difficult to fund merchandisers at every store to ensure that their products are well placed on shelves. This is exacerbated by large multinationals who are typically category managers or controlling how the shelf is displayed. This also makes it difficult for new, less well-known players to compete. Aesthetic packaging and labelling is also very important to drive sales, which is expensive for small players and new entrants.

Suppliers to supermarkets like the SPAR Group who operate under a franchise model have more opportunity to access shelf space given that individual franchise owners have the discretion to source from smaller, or regionally based, suppliers. Despite this, SPAR notes that small players including those supplying private labels often fail. Further, to successfully participate, it is often necessary to supply a wide range of products and retailers are reluctant to deal with a supplier that only sells a single range. There have been some successes however in certain products for SPAR in-house brands and for certain small suppliers where branding has not yet become important. These include glycerin and aqueous creams, but new players in soaps and shampoos have been less successful, highlighting the barrier that branding can have.

Another cost that suppliers typically incur (for all products, and not just cosmetics) in South Africa are listing fees. From the supermarkets' perspective, charging listing fees is standard practice, especially in the cosmetics, health and beauty sector, given the constant launching of new products. Reconfigurations of shelf space and product ranges are allegedly hard, and this forms part of the motivation to charge listing fees. It however appears that supermarkets make higher margins in the cosmetics category relative to other products, with SPAR estimating that it makes at least 20% on cosmetics products sold.

Suppliers interviewed also highlighted difficulties generally with listing with supermarkets, with one of the requirements by certain supermarkets being listing fees. Some suppliers highlighted further difficulties in listing new products with retailers, particularly if they were small companies with new products competing with products of existing large multinationals.

Suppliers further noted other trading terms that make it difficult to deal with retailers and that trading terms are often skewed to the benefit of the retailers. These include rebates payable off the list price (which for one supplier was 13.5% for Clicks and 17.5% for Pick n' Pay), marketing fees in certain cases (for instance, one supplier used to pay a 3% marketing fee at Pick n Pay while another had to commit to a marketing budget and advertise in Clicks brochures in an effort to increase market share) and transport costs to deliver to individual stores or distribution centres. In certain instances, suppliers are also required to participate and contribute to costs of advertising and promotional activities of the retailer. Another concern, especially with smaller players, is long payment periods (30 – 60 days). This creates cash flow crunches for smaller suppliers who in turn have to pay their suppliers.

Table 5: Routes to Market for soaps and detergents, % value 2015

	Bleach	Dishwashing	Laundry care	Surface care
Grocery Retailers	98.5	99.3	96	98.3
Convenience Stores	1.2	0.8	0.9	1.1
Discounters	0.9	1	1	1
Forecourt Retailers	0.2	0.3	0.5	0.3
Hypermarkets	9.4	9.3	8.8	9
Supermarkets	74.8	73.9	70.9	71.8
Independent Small Grocers	12	14	14	15.1
Non-Grocery Specialists	0.5	0	0	0
Health and Beauty Specialist Retailers	0.5	0	0	0
Department Stores	1	0.6	0.6	0.3
Mass Merchandisers	0	0.1	0.3	0.2
Warehouse Clubs	0	0	0.2	0
Non-Store Retailing	0	0	3	1.3
Home shopping	0	0	2.3	0
Internet Retailing	0	0	0	0.1
Direct Selling	0	0	0.7	1.2

Source: Euromonitor

In Zambia, the main channel for distribution of cosmetics and soaps and detergents is to some degree determined by whether or not firms supply supermarket and whether the products are for domestic or industrial use. For firms supplying supermarkets, 50% of their output is channelled through the supermarkets. Wholesalers play an important role, distributing 20% of retail sales and other retailers including independent stores constitute 30% of retail sales. Firms manufacturing cosmetic products not supplying supermarkets predominantly channel their products through wholesale shops at 90% of total sales value while the remainder is distributed through hair salons. The main market for industrial-use detergents and cleaning agents include hospitals, schools, parastatals; independent companies; informal traders. Here again supermarkets are an important route to market, however, less than 50% of total sales are distributed via this channel. The implication is that firms can target alternative markets, however, we note that for the detergents market, where economies of scale in production matter for cost competitiveness, firms may have to distribute using all channels including supermarkets.[5]

4.5.2 Tapping into alternative routes to markets

Despite the challenges associated with accessing supermarkets and exports markets, there are other alternative markets open to small manufacturers that have less onerous requirements for supply. These include salons and spas; direct marketing; hotels and cleaning services.

Salons and spas

[5] Boisu et al, 2016

In South Africa and Zambia, 2% and 10% of cosmetics sales are distributed through salons and spas respectively. Selling products to salons visa-vis supermarkets is advantageous in that it has lower advertising costs, lower volume requirements and flexible packaging guidelines. Furthermore, selling products to salons located in high end markets tend to yield higher profit margins since these markets normally sell professional brands which are generally regarded to have high quality. Examples of a successful professional brands sold exclusively to spas and salons include the Ladine hair care range in South Africa, and the Elite conditioner in Zambia.

Direct marketing

Direct marketing refers to the direct communication of a marketing message to a prospective consumer by the seller of a product or his agent without the use of indirect media or the involvement of a middleman[6]. It involves lower start-up and overheads costs as compared to mass media advertising campaigns. Direct marketing agents buy products in bulk at a discount from the supplier, the discount becomes the agent's retail profit. A company called Ruutos in South Africa sells its products to agents at a 25% discount, and hence the 25% discount is the agent's retail profit. However, products sold through the direct marketing channel cannot be sold in supermarkets, as the supermarkets would compete with the direct agents.

Hotels

Hotels are particularly important for contract manufacturers producing cosmetics, soaps and detergents. Similar to salons and spas, hotels have flexible packaging requirements and lower marketing costs. In Zambia, international hotels such as Protea, Intercontinental and the Taj Pamodzi, Southern Sun use branded toiletries manufactured in other countries. These can be substituted with domestically manufactured toiletries by contract manufacturers.

Cleaning services

Cleaning services market generally have lower barriers to entry due to flexible packaging requirements. For instance, 100 litres of liquid soap packaged in 20 litre containers may be ordered as opposed to 750ml bottles required by supermarkets. Marketing costs, start-up costs and volume requirements are generally lower. Zambian firms manufacturing industrial-use liquid detergents and other cleaning agents already cite this as one of their main routes to markets owing to the lower demand for quality packaging.

5. Conclusion and policy recommendations

The size and maturity of the soaps, detergents and cosmetic industries between Zambia and South Africa are very different with South Africa having the more sophisticated and developed industry. The South African market is dominated by few large multinationals and many small firms that have generally managed to penetrate the regional markets. Zambia on the other hand already has a dominant firm in the soaps and detergents industry that has successfully penetrated regional markets.

The penetration of regional markets by some South African and Zambian firms, coupled with the trade deficit in the southern African region, presents opportunities for harnessing regional industrialisation and improving intra-regional trade. Moreover, the abundance of natural

[6] *Mullin, R (2002). Direct marketing: A step by step guide to effective planning and targeting. London: Kogan Page Limited*

ingredients in these countries; the relatively established contract manufacturing in South Africa; and the tremendous growth of Trade Kings in Zambia indicate potential for increased growth of these sectors.

Notwithstanding these opportunities, the South African and Zambian industries face several challenges. Major cross-cutting challenges include high inputs costs owing to high cost of raw and packaging materials; barriers to accessing supermarkets; lack of production scale; limited access to finance, particularly for advertising; skills shortages; exchange rate movements; and unfavourable regulation and standards. In order for Zambia and South Africa to achieve the objectives to industrialise, integrate and create sustainable inclusive economic growth, the paper puts forth the following recommendations.

Cross cutting recommendations

- Facilitate domestic and regional market access for goods. Particularly, engage Supermarkets to provide preferential market access to natural products, as well as opening up shelf-space to regionally produced product/offtake commitments. Additionally, develop supermarket regional procurement strategy that facilitates the entry of local products supplied in supermarkets into other subsidiary supermarkets in the region.
- Establish industrial clusters that aggregates small scale firms in order to meet production scale, and allow for sharing of common costs such as packaging input costs (i.e., moulds) and distribution costs.
- Develop a chemical innovation centre with 3D printing and testing facilities for new products that can be shared by two or more countries in the region.

Zambia

- Providing Access to Affordable and Quality Packaging Materials. The soaps, detergents and cosmetic industry is a consumer-driven industry that heavily relies on brand awareness. Quality and packaging thus plays a crucial role in shaping consumer preferences and driving sales. For firms to be competitive and succeed, the firms need to invest in quality and appealing packaging
- 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. Levy surcharges on imports that offer the most potential for increased local production (natural cosmetic products and imported soaps, detergents and cosmetics used in hotels, lodges) for a specific period of time.

South Africa

- Leverage IDC shareholding of Le-Sel Research to support entrants. Le-Sel research is a contract manufacturer that is 70% owned by the IDC. Its services include research and development, compiling product dossiers, packaging design, developing formulations. Government could subsidise access to these services 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 and purify petroleum jelly for domestic industry. There is an industry-wide cry about the uncompetitive pricing of input materials supplied by Sasol, and the unstable quality of its petroleum jelly.

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