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

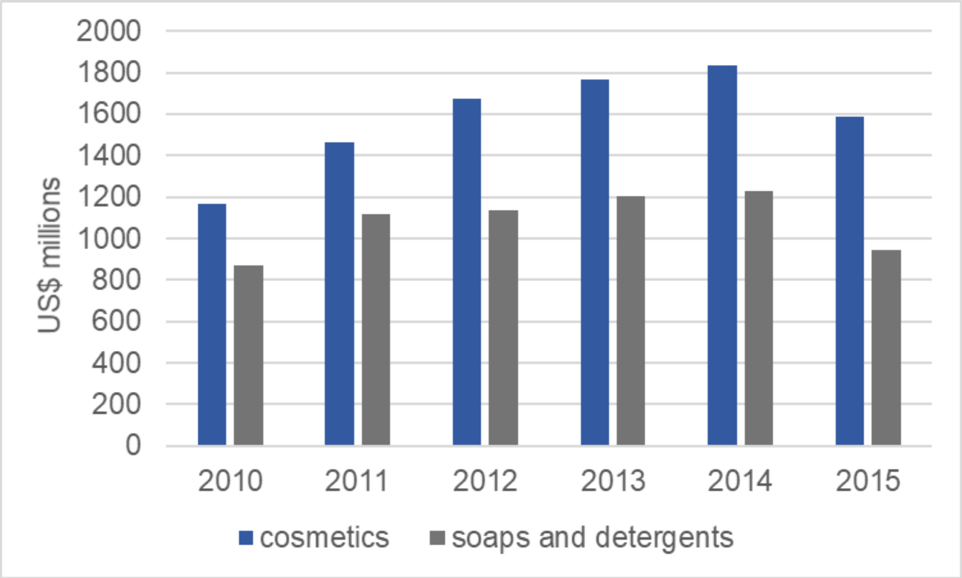
- Main players are Trade Kings & Epslon
- Trade Kings-mkt leader
  - Products in 9 in SADC
  - Produces 320 products, heritage brand Boom
- Epslon Industries
  - 1st manufactured on behalf of Colgate Palmolive, has own brands
- Rest of the market comprises smaller players

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

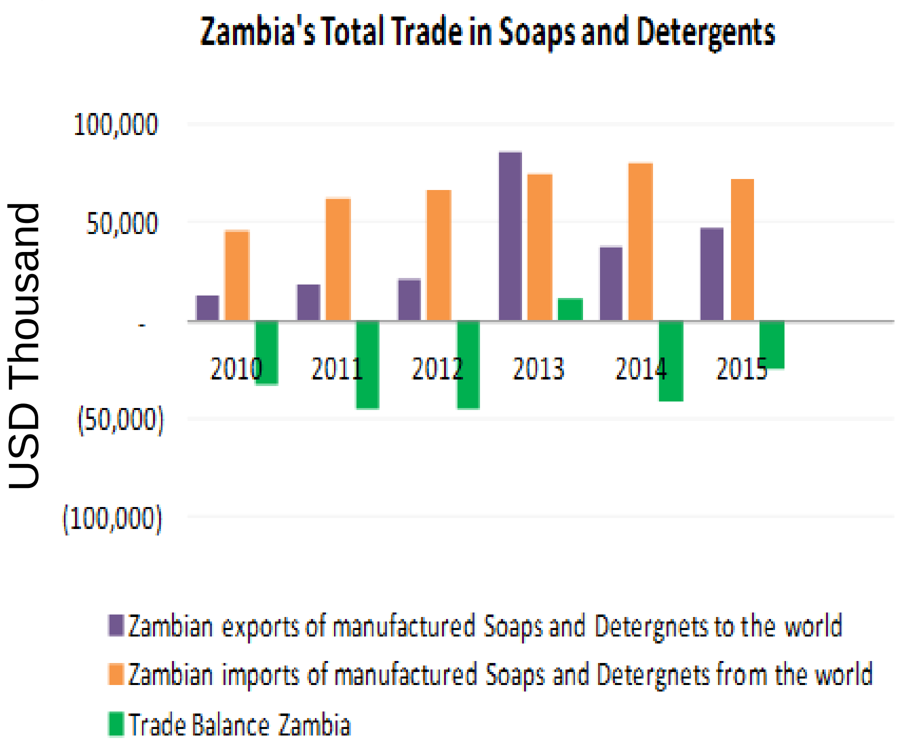
- Import replacement: SADC trade deficit $955m in 2016
- Soaps intra-regional regional imports, 39%
- Cosmetics intra-regional imports, 45%
- SA accounted for 29% of southern Africa's total imports whereas Zambia accounted for a mere 1% btwn 2010 & 2015

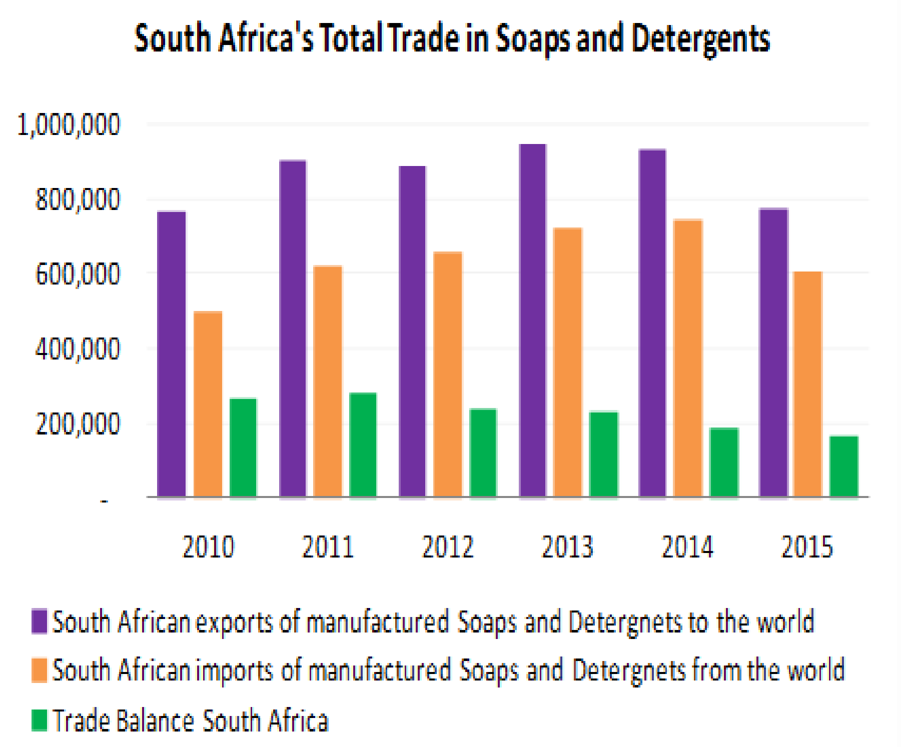


- Increasing capabilities to meet demand in SA and Zambia

Potential for intra-regional trade

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





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