Luxury goods and wealth management in Africa

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INTRODUCTION

The wealth generated on the African continent has increased immensely in recent decades. This has been driven by the continent’s abundance of natural resources, while the underdeveloped and unsophisticated nature of most economies on the continent has provided significant scope for further, rapid development. In addition, the continent’s demographic profile, with decreasing dependency ratios and a youthful population, also bodes well for future growth, particularly when considering the enthusiasm with which the younger generations in most countries have embraced technological advances. However, it should be noted that this wealth creation has not been uniform, neither between different countries nor within specific economies. This has resulted in significant economic disparity across the continent, with fragmented islands of wealth surrounded by oceans of poverty. Due to the prevalence of inequality, significant wealth can be found in most countries, albeit to varying degrees. In highly populated countries with large economies such as South Africa, Nigeria, Ethiopia and Egypt, a small segment of the population accounts for a large proportion of economic wealth. In turn, countries with small populations but with high per capita consumption figures, such as Gabon, Botswana, Namibia, and Mauritius, also have these concentrations of wealth as consumption is not evenly distributed across the population.

This has notable implications for the development of luxury goods markets across the continent. Luxury goods are considered to be products that are not essential but are highly desired and associated with wealthy or affluent individuals. This report broadly categorises luxury goods into four categories, namely high-end clothing & accessories, fine jewellery, exclusive vehicles, and premium alcohol. High-end services are also covered, such as wealth management (financial services and investments). Anecdotal evidence is used to provide insight into the current luxury goods market, but due to data constraints, some of the analysis will focus on macroeconomic trends that drive the size of the African luxury goods market more generally.

While most countries will have small pods of high-income earners, this will vary considerably between countries, and many wealthy individuals might gravitate towards regional pockets of wealth. Consequently, the African luxury goods market is highly fragmented, with few regions providing scope for economies of scale. However, there has been an increase in the concentration of wealth in cities such as Johannesburg, Lagos, Luanda, Cairo and Nairobi, as these regions both attract foreign wealthy individuals as well as create new wealth. In addition, the relatively established nature of some of the luxury goods industries in these cities will attract affluent tourists from other countries across the continent, which will further support the development of these luxury goods markets. That being said, the overall African luxury goods market is much smaller than that of other more developed regions, particularly when considering the fragmented nature of the market. However, a salient feature that has emerged from interaction with industry participants is the role of the middle-class in developing the continent’s luxury goods market. This is not only due to the fact that many of these households will enter the high-income bracket as rapid economic growth continues, but also due to the predisposition of the African middle-class to spend proportionally more on luxury items than what would otherwise be expected. This is due to the importance assigned to status in many African countries, and the ability to acquire status through the purchase of luxury goods.

Therefore, the African middle-class is also briefly examined, which will not only have implications for future luxury goods markets, but also give insight into which luxury goods segments are benefiting from middle-class spending habits. Looking forward, the positive economic growth prospects enjoyed by many countries across the continent could potentially create new centres of wealth, while also supporting further development of established luxury goods markets as scale benefits increase.
WEALTH ASSESSMENT

The African Economy: An Overview

Economic activity in Africa is highly concentrated in a handful of large economies. The continent’s five largest economies – Nigeria, Egypt, South Africa, Algeria and Morocco – accounted for 62% of economic activity in Africa during 2015. The latest macroeconomic estimates from the IMF indicate that Egypt replaced South Africa as the continent’s second-largest economy near the end of 2015. Nonetheless, South Africa still boasts a more diversified economy than its competitor in North Africa, and is generally seen as the continent’s most diversified and most industrialized economy. In turn, both Nigeria and Egypt have considerable populations, together accounting for a quarter of the total African population. Overall, the continent generated an estimated $2.26trn in economic activity in 2015. This was slightly smaller than a figure of $2.48trn recorded for 2014 due to the widespread depreciation in African currencies seen during the year.

Figure 1

In order to control for population size in analysing economic well-being, and consequently determining where the highest ratio of wealth relative to population is located, it is also important to compare gross domestic product (GDP) per capita. This changes the picture significantly. The top 10 countries now include hydrocarbon producers Equatorial Guinea, Gabon, Libya, Algeria and Angola, island nations Seychelles and Mauritius, and the relatively diversified economies of Botswana, Namibia and South Africa. In turn, continental giants Nigeria and Egypt are ranked 16th and 12th, respectively. The GDP per capita measure provides an indication as to where pockets of affluence can be found on the continent, largely in urban areas of these countries.

Figure 2

However, a much deeper analysis of income and wealth is needed in order to understand the scope of luxury goods markets. Due to the nature of Africa’s resource-dependent economies – half of the continent’s export revenues are from petroleum oils, metal ores, and precious metals and stones – overall and per capita GDP readings often distort the perception of general welfare in a country. While the largest economies will tend to have the most affluent individuals, this will often be evident against a background of general poverty. Indeed, in most African cases, the wealth generated by extractive industries does not flow directly towards the majority of the population. High levels of income inequality see a significant amount of wealth concentrated in a few affluent segments of the population. For example, some 30% of Mauritius’ income is earned by 10% of its people.
Annual economic growth across the continent has averaged 4.5% since 2000, an improvement from 2.5% during the period 1988 to 2000. That compares to a growth rate of 1.5% in the advanced economies and 4.4% across other developing economies. However, the ‘Africa rising’ narrative has been questioned by some due to the nature of the growth. Many countries have become highly dependent on their natural resource sectors as the global commodity boom generated investment and infrastructure development concentrated in these sectors, which became the driving force behind the strong growth figures. This increased GDP, but the resource wealth did not filter through to the majority of the population. However, most countries across the continent have still been able to increase economic welfare. This is in part due to greater macroeconomic stability in many countries, while base effects should also be taken into account.

Figure 3 shows that consumer spending has increased across the continent, more than doubling in some regions over the past decade. The graph provides a weighting to each country based on that country’s population, meaning a country with a large population but low per capita consumer spending such as Ethiopia will weaken the East Africa region’s overall performance in this regard, while a country such as Gabon with a small population but high consumer spending per capita will not distort (artificially increase) the franc zone figures. Because Figure 3 is weighted by population, this shows a general rise in consumption across Africa, and not just concentrated in fast-growing or economically stable countries. Consumption on a per capita basis is still dominated by Southern African and North African countries, particularly in Angola, Botswana, Namibia and South Africa in the former, and in Egypt, Libya and Tunisia in the latter. In turn, while East Africa has been the fastest growing region on the continent, per capita consumption is still less than half that of its southern or northern peers. Again, it should be emphasised that due to the prevalence of income inequality across the continent, regions such as East Africa with the lowest average consumption per capita figures will still have pockets where wealth is concentrated.
Looking at country-specific data, we see that the highest consumption per capita is found in Botswana, Gabon, South Africa, and Namibia. However, when also considering the population figures, we see that three of these countries, namely Botswana, Gabon and Namibia, have populations of under 2.5 million. This has implications for potential luxury good markets, as there are little scale benefits, and countries such as Botswana and Namibia will have largely fragmented markets. While the luxury goods industry does not necessarily focus on scale, or at least to a lesser extent than non-luxury goods, the fragmented and small nature of these markets could reduce the scope for the development of a luxury goods industry. That being said, the high consumption per capita figures, combined with pervasive income inequality – particularly in countries such as Namibia and Gabon – does indicate that markets do exist for luxury goods.

The large geographic size of countries such as Namibia and Botswana combined with small populations suggest that commercial activity will be concentrated in certain areas, which does provide an opportunity to overcome the problem of fragmented markets. Looking at the other end of the spectrum, countries such as Ethiopia, Tanzania, and Uganda have much larger populations, but much lower consumption per capita figures. While countries such as Ethiopia and Uganda have much less income inequality (as reflected in Gini-coefficient figures) than the countries with higher consumption per capita figures, the large populations combined with the relatively large economies will also tend to result in pockets of affluence, while the majority of the population remains in the lowest income brackets. This is particularly true in Ethiopia, where a large proportion of the population still lives below the poverty line, which then suggests that a smaller part of the population is responsible for a much larger share of total consumption.

Looking deeper into consumption capacity, Figure 5 shows the top nine countries with the highest number of households in each income bracket. This provides a more accurate reflection of the luxury goods market potential in each country, while the actual income bracket will also indicate which luxury goods will have larger demand in which regions. We can see that South Africa and Angola dominate in this regard, boasting considerably more households in each of the top income brackets compared to other African peers. Nigeria and Namibia also feature prominently in all income categories, albeit to a much lesser extent than South Africa and Angola. It is also interesting to note that the other countries that complete the top-nine list remain unchanged, only interchanging positions between each other depending on the income category. Looking at the highest income category, South Africa’s 26,600 households that earn more than US$250,000 annually is more than double the Angolan figure of 13,000 households, and significantly more than the estimated 1,200 households in the third-best performer Namibia.
Breaking down actual consumption expenditure will provide insight into which product categories receive higher priority in overall spending. This partly reflects cultural differences between countries, where certain products are regarded as being more prestigious than others (more important status symbols). Figure 6 distinguishes between **per capita consumption on various product categories** in the countries with the largest per capita consumption figures. While these figures also include non-luxury expenditure on these goods, the fact that consumption is not equal across these countries means that some individuals spend significantly more on certain products than on others, with the proportions of expenditure also reflected in these figures. In addition, all the product categories under analysis will have a luxury dimension, with all product categories including non-essential items.

We can see from Figure 6 that personal care goods receive a considerable share of total expenditure in countries such as South Africa, Botswana, Namibia and Angola, while this product category does not receive such a large proportion of expenditure in countries such as Gabon, Tunisia and Egypt. In turn, the latter three have much larger proportions of consumption committed towards clothing than the former four countries. Furthermore, expenditure on vehicles is much higher in countries with larger overall consumer spending figures, while the proportion of total consumption directed towards vehicles is largely negligible in countries with lower consumer spending figures. By looking at per capita figures, the findings do not reflect income inequality in these countries, but they do show that certain products receive higher prominence in different countries, which will have implications for current luxury goods markets, as well as the prospects for the development of future luxury goods industries.

**Figure 6**

**Per Capita Expenditure Profiles (US$, 2014)**

Sources: Oxford Economics, NKC Research

![Graph showing per capita expenditure profiles in various countries.](image-url)
The index attempts to indicate which African countries offer the best opportunity for luxury goods sales in the long term. It considers only the demand side and will therefore not indicate how saturated a market is from the supply side. The dominant indicator in the index is the projected urban population size in 2030.

The market size is a hugely important factor for companies as it will allow them to earn more revenues and to take advantage of economies of scale. Therefore, this indicator constitutes more than one-third of the entire index.

The second-biggest weight is given to the number of households with incomes above US$20,000 p.a., which provides a measure of the size of the middle- and high-income market. This indicator accounts for one-fifth of the total index and provides a good snapshot of the size of the market at this point in time, while the inclusion of the middle-income segment (as opposed to the high-income segment only) gives the indicator a forward-looking aspect as well, since this group will be the future high-income earners, provided that the economy grows. Another important reason for including the middle-income group is that, at present, the high-income bracket is limited outside South Africa. Therefore, considering the current high-wealth segment alone would understate the potential in many African countries. Additionally, the middle-class will often buy high-end goods, albeit less frequently than high-income earners.

The rest of the index consists of 21 indicators and attempts to capture the level of wealth and the growth potential of a country.

**Breakdown of Components**

The index can be divided into three components, namely demographics, income, and institutional factors. The **demographics sub-index** accounts for 39.5% of the overall index, mainly due to the large weight given to urban population. The respective components are as follows (with their respective weights shown in brackets):

- **Urban population (35.5%)**
  - This is based on the UN Population Division’s forecast for total urban population in 2030. For luxury goods, the size of the urban population is deemed to be more important than the total population, since people living in rural areas in Africa can rarely afford luxury goods.

- **Projected urbanisation ratio in 2030 (1.25%)**
  - Countries with high urbanisation ratios tend to be at a higher stage of development. It is also easier for companies to target a market that is highly urbanised rather than scattered across a large area.

- **Average urbanisation growth rate over the 2015-30 period (1%)**
  - Rapid growth in urbanisation will tend to support economic growth.

- **Current dependency ratio (1.25%)**
  - This is the number of people aged below 15 and above 65 as a proportion of the working aged population.
  - In countries with low dependency ratios, each working-aged person will have fewer non-working-aged people to take care of and will therefore have more resources available to spend on, inter alia, luxury goods. In addition, a very high dependency ratio is usually indicative of a very high mortality rate, suggesting that a country had a war or that health is very poor.

- **Projected dependency ratio in 2030 (0.5%)**
Figure 7 depicts the performance of selected African countries on the demographics sub-index (on the y-axis) and the number of middle- to upper class households (on the x-axis), while the bubble sizes reflect each country’s urban population size in 2030. It is notable that some smaller countries such as Tunisia, Botswana and Mauritius have significantly more wealthy households than some much larger countries, such as the DRC, Ethiopia and Tanzania.

The **income sub-index** has a weight of 47% in the overall index, with the number of wealthy households and GDP per capita accounting for the largest part of this index. GDP per capita on its own is however not the ideal indicator of wealth; therefore, we include various other indicators that capture the level of actual consumption in each country. These indicators include some high-end products, such as yachts, Swiss watches, European perfumes and German cars. However, it also includes indicators associated with the middle-class, i.e. the passenger vehicle penetration rate, and the imports of televisions, washing machines, televisions, and refrigerators. The rationale behind their inclusion is that African countries that can already afford large amounts of so-called middle- to upper-middle income type goods today are most likely to afford high-end goods in two decades from now. The full list of components is as follows:

- Number of households with incomes above US$20,000 p.a. on average from 2010-12 (20%)
- GDP per capita in 2015 (5%)
- Typical middle-income goods and services (11.5%)
  - Vehicle penetration rate, i.e. the number of passenger vehicles in use per 1,000 people (3%)
    - This is based on OICA’s estimates for the number of passenger vehicles in use; other sources are used for countries where OICA data is not available.
  - Value of washing machines, televisions and refrigerators imported per capita (each has a weight of 2.1%)
    - Based on Trade Map data. These indicators provide a measure of the size of the middle-to high-income brackets.
  - Value of outstanding mortgage loans as a share of GDP (2.2%)
    - Based on various sources including the Centre for Affordable Housing Finance in Africa and the Housing Finance Information Network.
- Typical luxury goods and services (10.5%)
  - Number of German cars sold per capita (2.3%)
    - Based on Trade Map data for imports of passenger cars with an engine larger than 1,500 cc from Germany; adjustments were made to account for German cars made and sold in Southern Africa and Egypt.
  - Value of Swiss watch and clock imports per capita (1.8%)
  - European perfume imports per capita (1.8%)
  - Yacht imports per capita (1.4%)
    - Based on Trade Map data for yacht imports, with conservative adjustments made for yachts produced and sold in South Africa. The weight is slightly lower than for watches and perfumes so that countries without access to water are not penalised too severely.
  - Stock market capitalisation as a percentage of GDP (3.2%)
    - The stock market is generally an important source of income for high-income people. This measure gauges whether people have the opportunity to invest on a local stock exchange.

Figure 8 shows the African countries that perform the best in three of the luxury goods components. The size of the bubbles indicates which countries have the highest number of German car sales per capita, while the x- and y-axes show which countries have the highest amount of European perfume and Swiss watch imports per capita. **Mauritius, South Africa, Tunisia** and, to a lesser extent, Morocco, perform consistently well across all three components.

**Figure 8**

**Luxury Goods Sales per Capita**

Index Values (100 = Best; 0 = Worst)

Sources: Oxford Economics, NKC Research, Trade Map
Figure 9 shows which countries have the highest per capita sales of three of the goods typically associated with upper middle-income consumers. Specifically, the sizes of the bubbles indicate the vehicle penetration rate, while the x- and y-axes depict the per capita imports of televisions and washing machines, respectively. The countries that perform consistently well across the three indicators are Mauritius (which is among the top two in Africa in all the middle class goods indicators), South Africa, Namibia, Cape Verde and Algeria. Interestingly, Seychelles is among the top two in Africa in all the indicators, except for vehicle penetration, which is very low.

The third sub-index captures institutional factors and accounts for 13.5% of the overall index. Countries with stronger institutions will tend to grow faster and have higher levels of wealth. The inclusion of the institutional factors is very important, especially in a low commodity price environment. While commodity prices were high, there may well have been a legitimate argument for excluding such institutional factors on the basis that export earnings from commodities would allow governments to increase spending, including on wages, subsidies, and investment projects, all of which helped to support people’s purchasing power. Most notably, though, politically-connected individuals became very rich from these revenues, which supported a growing luxury goods market, especially in oil-producing countries like Nigeria and Angola. However, with commodity prices having fallen to a structurally lower level, commodity-dependent economies have come under severe stress and the influx of cash has dried up. Looking forward, therefore, economic growth will rely on factors such as strong institutions, a stable political environment, a welcoming business climate, and will favour countries with diversified economies.

More than two-thirds of the institutional sub-index is made up of indicators from the World Bank’s World Governance Indicators (WGI), namely the ‘Rule of Law’ and ‘Political Stability and Absence of Violence/Terrorism’. Arguably, violence and the absence of rule of law inhibit economic development more than any other factors. Other indicators included in the institutional sub-index are economic freedom, property rights, doing business and the ease of getting credit, all factors that will have a positive impact on economic growth. In addition, easy access to loans will facilitate consumer spending, especially for expensive products, such as luxury homes, yachts and cars.
## Index Results

### Luxury Goods Potential Index (All Values out of 100)

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<td>1.7</td>
<td>8.1</td>
<td>14.9</td>
</tr>
<tr>
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<td>Burundi</td>
<td>5.9</td>
<td>1.1</td>
<td>6.4</td>
<td>21.0</td>
</tr>
<tr>
<td>44</td>
<td>Central African Republic</td>
<td>4.4</td>
<td>0.4</td>
<td>7.7</td>
<td>9.0</td>
</tr>
</tbody>
</table>
South Africa & Nigeria Lead the Pack

Based on the index, South Africa and Nigeria are comfortably the most attractive markets for luxury goods. South Africa’s strong performance is underpinned by its high income level by African standards and the large number of households in the middle to high income categories. As a result, South Africa is one of the biggest markets for a wide range of high-end products. For example, South Africa’s sales of German cars are significantly higher than the rest of the continent combined. The country also performs reasonably well in the other sub-indices: it is ranked fifth for institutions and sixth for demographics.

In contrast to South Africa, Nigeria’s strong performance is largely based on one indicator: its population size. Nigeria’s urban population is projected to reach 159.2 million in 2030, which clearly offers massive opportunities, even if only a small share of the population has high income levels. According to Oxford Economics estimates, nearly 3.2 million households had an annual income level of US$20,000 on average over the 2010-12 period. With the population set to grow significantly over the next 20 years and with economic development still just in its infancy, the number of high-income households can still rise substantially over the next few decades. On a per capita level, however, income levels are still very low, and the country has significant structural shortcomings.
**Figure 12**

**Luxury Goods Market**

Size of Bubble = Number of Households with Income > US$20,000 p.a.

For comparison: SA = 3m households; Angola = 600,000; Gabon = 99,000.

Sales of Luxury Goods per Capita (Index)

Sales of Upper Middle Income Goods per Capita (Index out of 100)

Sources: Oxford Economics, NKC African Economics, Trade Map
Four of the Top Seven are from North Africa

The North African foursome of Egypt, Morocco, Algeria and Tunisia all perform consistently well across the sub-indices, with the exception of Algeria which has a fairly weak score for institutions. Egypt’s ranking is underpinned by its third position in the demographics sub-index and second position in the income sub-index (with the latter largely owing to the large number of households with income above US$20,000 p.a.). Egypt’s Achilles’ heel is its institutional ranking, mainly due to weak scores in the WGI Violence index and a lack of property rights. Furthermore, on a per capita basis, Egypt lags well behind Morocco and Tunisia on most measures of income. These two countries are consistently among the biggest markets for both upper-middle and luxury goods on a per capita basis, while also having large mortgage markets. Morocco’s stock exchange is also among the biggest in Africa.

Island Nations Should Not Be Overlooked

Despite being third-last in the demographics sub-index, Mauritius claims the fifth position in the overall index thanks to excellent performances on all other components of the index. On a per capita basis, Mauritius is among the top three markets for high-income goods across all the goods that were considered for the index. Not only are Mauritians relatively rich compared to the rest of the continent, but luxury goods sales are also supported by the country’s thriving tourism industry. As can be seen in Figure 12, Mauritius has the highest per capita consumption of high-end goods on the continent. Mauritius is also ranked first in the institutional sub-index thanks to its excellent business environment, high levels of economic freedom, low levels of conflict risk, and adherence to the rule of law.

In the same vein, Seychelles and Cape Verde perform remarkably well on the index despite their small populations. Both perform well on the institutions sub-index and have high per capita consumption levels by African standards. Notably, Seychelles has the highest GDP per capita in Africa and has the highest per capita imports of washing machines, fridges, European perfumes, Swiss watches and yachts. As with Mauritius, the tourism sector also contributes significantly to domestic demand. The country’s car imports are however fairly low, as most areas are easily reachable by bicycle or bus. This is also the reason why Seychelles is not in the top right corner in the bubble graph.

Top 10 for Botswana and Namibia

Botswana and Namibia are very similar, although Botswana edges ahead thanks to its excellent institutions. It is also noteworthy that although these countries have among the smallest populations on the continent, they are ranked ninth (Botswana) and 11th (Namibia) for the number of households with incomes above US$20,000 p.a.

West African Oil Producers Show Potential

Angola has become an increasingly popular investment destination in recent years due to its strong economic growth and emerging high-end market. However, the country does not perform especially well on the index – it is ranked 12th on the overall index, which is on par with the ranking of its population size. One indicator where Angola performs very well is the number of households with income above US$20,000 p.a. – Angola is ranked sixth in this regard, with nearly 600,000 households falling into this category according to Oxford Economics estimates. There are also further signs of an emerging high-end market, with the country performing well in terms of per capita television, refrigerator, wine and yacht imports. However, it performs poorly on most other wealth indicators. The index also points out some structural challenges for Angola, including an exceptionally high dependency ratio and very weak institutional indicators. The concern for Angola is that the basis for the growth in its wealth over the past decade has been rising oil revenues. Now that oil prices have fallen to a substantially lower level, the concern is that the country will not have the institutions in place to grow in the absence of high oil revenues.

Another oil producer on the west coast of Africa, Gabon, is just below Angola in 13th position. Similar to Angola, the country has a relatively high, but very unequally-distributed aggregate income level. Moreover, Gabon’s economic outlook is also uncertain in a low oil price environment. Compared to Angola, though, Gabon is more diversified and has better institutions, which makes it less susceptible to falling oil prices. In addition, Gabon also has significantly higher per capita spending on luxury items than Angola, as is illustrated in Figure 13. In particular, Gabon has high levels of spending on yachts, European perfumes, and Swiss watches. Figure 13 also shows that both Gabon and Angola have significantly higher per capita luxury spending than Nigeria, with the latter being below the ‘Africa Average’ in all four luxury goods spending categories as well as on the market capitalisation indicator.
East African Countries Languish at the Bottom, but EAC Bloc Collectively Shows Potential

East African countries perform very poorly on the index, largely because of their low income levels. The best-performing East African country on the index is Tanzania, which is ranked 15th, followed by Kenya and Ethiopia in the 17th and 20th positions, respectively. The weak performance of Kenya is especially surprising and is largely attributable to its weak performance on the institutions sub-index, where it is ranked 29th in Africa. As depicted in Figure 14, Kenya performs reasonably well in an African context in terms of indicators like economic freedom and the business environment. However, its institutions score is brought down by its poor performance in the World Bank’s WGI indicators for violence and rule of law, which have a large weight in the overall institutions score. If Kenya improves in this area – and its violence and rule of law indicators rise to above 50 out of 100 – then Kenya’s ranking in the overall index would improve to 15th, i.e. above Tanzania.

Sources: Oxford Economics, NKC African Economics
Tanzania, Kenya and Ethiopia all have high rankings in the demographics sub-index thanks to their reasonably large urban populations and high projected urbanisation growth rates over the next 15 years. Tanzania and Ethiopia do particularly well in the demographics sub-index as their urban populations are forecast to reach 33.3 million and 36.9 million, respectively, in 2030, compared with Kenya’s 21.8 million. In contrast, these three countries – and the rest of East Africa – perform very poorly in the income sub-index. Apart from Kenya, the average score for the six other East African countries is 2.4 out of 100. These countries all have very low per capita GDPS and do very poorly on all the other wealth indicators – both for upper middle class and luxury type goods. As shown in Figure 15, most of the EAC countries have scores close to zero out of 100 in the luxury goods indicators, with only Kenya performing slightly better. However, Kenya stands out from the rest of East Africa in terms of income. Its GDP per capita is comfortably the highest in the region, and according to Oxford Economics estimates, the vast majority of households in East Africa with incomes above US$20,000 p.a. are based in Kenya. Moreover, Kenya records decent scores for television and European perfume imports, the value of mortgages, and the size of the domestic stock market. Even so, in a continent-wide context, Kenya still performs quite poorly – it is ranked only 16th in the income sub-index.

The other East African countries do even worse – Rwanda is ranked 25th, Madagascar is 27th and Uganda is 28th. Despite having one of the best institutional scores, Rwanda’s overall ranking is constrained by its very weak income and demographic scores.

**Figure 15**

EAC Countries’ Performance in Luxury Goods Indices

(Best = 100; Worst = 0)

- Yacht Imports per Capita
- Market Capitalisation, % of GDP
- Perfume Imports per Capita
- German Car Sales per Capita
- Swiss Watch Imports per Capita

Africa Avg
Tanzania
Kenya
Uganda
Rwanda
Burundi
Individually, therefore, the East African countries seem to offer few opportunities in the luxury goods market. However, with strong and free trade links within the EAC bloc, we also considered the EAC as a collective. As one can expect, the region does poorly in terms of income and institutions; however, with the bloc forecast to have a combined urban population in 2030 of 79.2 million, its demographic score is excellent. In fact, when viewed along with other countries, its demographic score is the second-best in Africa after Nigeria, and a long way ahead of the DRC in third place. On the overall index, the EAC would be ranked fifth, after South Africa, Nigeria, Egypt and Morocco.

That said, it needs to be kept in mind that according to Oxford Economics’ estimates, the bloc contains only 183,900 households with incomes above US$20,000 p.a. (92% of which live in Kenya). To put this into context, Tunisia, which has a population of 11 million (i.e. 7% of that of the EAC), has an estimated 440,500 households with incomes above US$20,000 p.a. So, luxury goods companies may well struggle to achieve high sales volumes in the EAC for a few more years to come; but the longer-run prospects are good.

Figure 16

Sources: Oxford Economics, NKC African Economics
The index gives a rigorous way of showing which African luxury goods markets have the best long-run prospects. The results are robust to different specifications and weightings, but do provide some surprises. Arguably, one of the most surprising results is that the smaller, richer countries perform very well. These include the island nations of Mauritius, Seychelles and Cape Verde, as well as Botswana and Namibia. Perhaps, though, this should have been expected given that most of continental Africa is still very poor and will therefore provide limited opportunities in the luxury goods segment for the foreseeable future. In contrast, the abovementioned smaller countries (in terms of population) have relatively high per capita spending levels and strong institutions. Mauritius and Seychelles also benefit immensely from the influx of high-spending tourists. Another result that was unexpected a priori is the weak performance of Kenya, which is only ranked 17th on the index. As is the case with the rest of East Africa, though, Kenyans are still very poor, which is a major constraint for the luxury goods market. In addition, according to the World Bank, the risk of political violence in Kenya remains high and the general adherence to the rule of law is low compared with other African countries. Despite the weak performance of Kenya – and all individual East African counties – the EAC bloc, when viewed as a single entity, is expected to offer strong opportunities in the long run, as the bloc is projected to have a substantial combined urban population by 2030 and to have offer strong economic growth prospects. Since there is free trade within the bloc, companies will be able to take advantage of economies of scale, even granted though that it will still be a number of years before incomes are high enough to be truly attractive for luxury goods companies.
African City Luxury Goods Demand

Economic growth across Africa is forecast to remain relatively robust over the medium to long term, despite global headwinds in the form of low-trending commodity prices and slower growth in China. Robust economic growth should push per capita income levels higher and this, coupled with strong population growth across the continent and high rates of urbanisation, will contribute to rising consumer spending at the city level.

That said, the number of middle- and high-income households represents a better approximation of potential luxury goods demand. South African cities will to a large extent remain the biggest markets for high-end luxury goods. Apart from Johannesburg which is forecast to boast the highest number of households earning more than US$100,000 annually by 2030, four other South African cities are placed among the top 10. Furthermore, Angola’s Luanda will become an increasingly important market for retailers of luxury goods on the expensive side of the price spectrum. Meanwhile, Nigeria’s cities of Lagos, Abuja and Kano will experience a sharp rise in middle-income households, which could see demand for appropriately priced luxury goods increase significantly. Cairo represents an even bigger opportunity in this regard, with Alexandria not lagging far behind.

Population Growth and Urbanisation

As a result of strong economic expansion and rapid population growth, urbanisation rates across Africa are amongst the highest globally. Africa boasted three so-called mega cities with a population in excess of 10 million by 2014, according to Oxford Economics. These mega cities included Cairo, Lagos and Kinshasa. The continent was also home to 51 urban agglomerations with a population of more than one million in 2014. This picture is forecast to look substantially different in 2030, when Africa is expected to have six mega cities and 68 urban agglomerations.

The population of Lagos is expected to reach 23.5 million by 2030, almost double the size of the city’s population in 2014. This impressive growth, making Lagos the most populated city in Africa in two years’ time, certainly represents an attractive proposition from a consumer market perspective. The staggering rate at which Lagos’ population is expected to grow is also by no means an isolated phenomenon in Africa. More than 35 African cities will see their populations expand by more than 50% during 2014-30, while nine of these cities will see their populations almost double during this period. Besides Lagos, the Democratic Republic of Congo’s (DRC) Kinshasa represents another large city that will see its inhabitants increase dramatically over the next 15 years. Kinshasa’s population is forecast to increase from 11.2 million in 2014 to 21.1 million by 2030 – Kinshasa will overtake Cairo as Africa’s second-largest city in 2021. Furthermore, Angola’s Luanda is expected to join the ranks of Africa’s mega cities with a forecast population of 11.7 million in 2030. This will see the Angolan city move up to fourth position on the list of Africa’s largest cities.

The populations of traditional powerhouses Johannesburg and Cairo are forecast to expand at a more moderate pace. This is mainly ascribed to slower population growth on a national level, seeing as both South Africa and Egypt are fairly developed countries in an African context.
Figure 17

Africa’s Most Populated Cities (Population, Millions)

Source: Oxford Economics
Despite global macroeconomic headwinds in the shape of a commodity price slump and signs that the Chinese engine is cooling down, economic growth across Africa is expected to remain fairly robust over the medium to long term. The resultant rise in per capita income levels will contribute to a marked increase in consumer spending. The impressive population growth across the continent and high rates of urbanisation will further support city-level consumer spending.

*Cairo* and South Africa’s largest city, *Johannesburg*, are embedded within more developed and diversified economies than many of their African peers, and they will remain the continent’s biggest in terms of total consumer spending in 2030. But the astonishing population and output growth rates of some other cities will allow them to take huge strides in catching-up with Africa’s economic leaders. *Lagos* and *Luanda* in particular should experience a significant increase in consumer spending over next two decades. By 2030, *Luanda* will be the fourth largest African city in terms of consumer spending. Apart from the expected rise in Angola’s population, the country’s economic growth prospects are also very positive as Angola is likely to see a number of large-scale oil projects coming online over the medium term. The forecast rise in consumer spending in *Lagos* is equally impressive. Despite the crude oil price shock, the medium-term outlook for the Nigerian economy remains favorable, driven largely by the construction, manufacturing and service sectors benefitting from a growing middle class, increased availability of electricity, and government incentives.

The sharp forecast rise in total consumer spending across a number of African cities bodes extremely well for retail in general. That said, consumer spend per capita represents a better approximation of purchasing power and will allow for identifying the areas where the average consumer is expected to become wealthier over the medium to long term.

**Figure 18**

*Consumer Spending in African Cities*  
(US$bn, constant prices)  
*Source: Oxford Economics*
Figure 19 attempts to distinguish between African cities where rising consumer spending is predominantly driven by population growth (volume), increased purchasing power (value), or both. The graph only considers the 20 largest cities in terms of projected consumer spending in 2030. The main findings from Figure 19 are outlined below:

- **Quadrant 1:** Cities in the first quadrant (lower left) include Khartoum, Casablanca, Kano, Ibadan and Algiers. These cities will experience strong population growth and rising per capita consumption, but to a lesser degree than compared to the other top African cities ranked by total consumer spend.

- **Quadrant 2:** Quadrant two includes cities which reflect a volume opportunity. In other words, rising consumption spend is driven predominantly by strong population growth, while purchasing power remains comparatively low. Retail outlets focused on middle and lower price points, like fast-moving consumer goods (FMCG) for instance, will find these cities particularly attractive. These cities include Dar es Salaam, Abidjan, Nairobi, Lusaka and Lagos.

- **Quadrant 3:** Quadrant three contains cities where increased consumer spend will predominately be driven by value or rising wealth, as population growth is forecast to remain comparatively low. The South African cities of Johannesburg and Pretoria are clear outliers in this regard as a result of the fact that consumer spend per capita is projected to be significantly higher by 2030. Retailer outlets selling products at middle and higher price points should see significant growth in these markets. Other cities included in this category are Durban, Alexandria, Cairo, Tunis and Cape Town.

- **Quadrant 4:** The fourth quadrant includes cities that should experience gains in both volume and value (consumer wealth) over the long term. These cities include Abuja, Luanda and Huambo.
The analysis is insightful as it provides a high-level overview in relation to the drivers behind rising consumer spend; in turn, this allows for identifying which markets will offer the greatest growth potential for products from different price ranges. That said, this type of analysis has certain limitations when applied specifically to the luxury goods market. The reason for this relates to the fact that luxury goods are usually sold at high price points, and excluding cities where average per capita income is comparatively lower may result in potentially lucrative markets being overlooked. Lagos represents an especially relevant example in this case. The high population growth rate drags the per capita income figures lower, but this does not necessarily mean Lagos is not home to a large number of wealthy individuals. The next section strives to overcome these limitations by considering household income, where the number of households earning a high income serves as an efficient proxy for potential luxury goods demand.

Notwithstanding a generally weak position in the global wealth environment on an absolute basis, positive base effects and a changing economic structure have given rise to a new crop of African ultra-high net worth individuals (UHNWI), which should be considered in determining the geographical spread of luxury good outlets. According to WealthInsight, the more mature markets continue to account for the largest concentration of the ultra-wealthy in Africa.

Firmly in the lead is Africa’s most sophisticated economy, South Africa, which boasts two of the top five cities as ranked by UHNWI location. Shrugging off macroeconomic and political headwinds is Egypt, with Cairo remaining a strong force to be reckoned with. In turn, West African powerhouse Nigeria, which surpassed South Africa as the continent’s largest economy as measured by GDP, counts three cities amongst Africa’s primary locations for UHNWI populations, with Lagos, Abuja and Kano making the list. Although insightful, considering only the ultra-wealthy does not provide a completely accurate approximation of total potential luxury goods demand. While the ultra-wealthy are certainly more likely to purchase high-end luxury goods such as yachts, private jets and luxury cars, luxury brands on the middle to lower end of the spectrum also target households with a relatively high income (but not classified as being ultra-wealthy). Personal luxury goods such as apparel, jewellery and accessories are typically (there are off course exceptions in this regard) priced with middle- to high-income households in mind. Thus, a more appropriate approximation of the potential demand for luxury goods in general is the total number of households with above-average annual income.

**Figure 20**

<table>
<thead>
<tr>
<th>Number of Households earning more than US$100k Annually</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Oxford Economics</td>
</tr>
</tbody>
</table>
Figure 20 considers the number of households with an annual income in excess of US$100,000 (high-income threshold) in real terms. **Johannesburg** was the African city with the most number of high-income households in 2014, according to Oxford Economics. South Africa is well represented in this regard, as apart from Johannesburg, four other cities from the country were placed amongst the top 10. Surprisingly, **Luanda** occupied the second position, and not one of the other African powerhouses – referring to **Cairo** or **Lagos**. The comparatively high number of affluent households in **Luanda** reflects a combination of Angola’s oil wealth and the city’s high level of income inequality (even by African standards).

**Johannesburg** is forecast to retain its position as the city with the most number of high-income households by 2030. However, **Luanda** will close the gap as a result of the fact that the oil industry will continue to be the main economic growth driver, boosting income levels at the top of the spectrum and incentivising a large role for the state. **Cairo** and **Lagos** are also forecast to experience a significant increase in the number of affluent households, but not nearly as impressive as the case for **Johannesburg** or **Luanda**.

A closer examination of the data suggests that **Cairo** had the largest number of households earning between US$20,000 and US$100,000 (middle-income) annually in 2014, followed by **Johannesburg** and **Lagos**. Again, **Luanda’s** high degree of income inequality is especially evident as it records a much lower figure in this regard. **Cairo** is forecast to easily retain its position as the African city with the largest number of middle-income households by 2030. Also, **Lagos** will surpass **Johannesburg** with roughly 63% more middle-income households than the South African city by 2030. Other cities that are expected to experience a sharp rise in the number of middle-income households include Nigeria’s **Abuja** and Egypt’s **Alexandria**.

While a number of African cities will experience rising household income levels over the next 15 years, there are subtle differences that retailers need to be cognisant of. What is clear from the analysis above is that South African cities will to a large extent remain the biggest markets for high-end luxury goods. That said, Angola’s **Luanda** will become an increasingly important market for retailers of luxury goods on the expensive side of the price spectrum. Meanwhile, Nigeria’s cities of **Lagos, Abuja** and **Kano** will experience a sharp rise in middle-income households, which could see demand for appropriately priced luxury goods increase significantly. **Cairo** represents an even bigger opportunity in this regard, with the other Egyptian city of **Alexandria** not lagging far behind.

It must be highlighted that scale fulfils a defining role in the analysis above. In other words, whilst other smaller African cities could well experience a sharp increase in luxury goods demand, be it due to base effects or fundamental factors, these cities are largely excluded from the analysis. To address this, Figure 22 includes some of the cities across Africa that will yield the highest growth rates in terms of the number of middle- and high-income households during the 2014-30 period – the smallest cities, in terms of household numbers, were still removed to control for significant base effects.
The number of both middle- and high-income households is forecast to rise sharply in Addis Ababa. Income levels in the city will benefit from Ethiopia’s generally favourable economic growth outlook. The country’s impressive economic growth is primarily driven by strong public investment in infrastructure, while the services sector is also performing well – referring specifically to retail/wholesale trade and the transport and tourism sub-sectors. The forecast in relation to the significant increase in the number of wealthy households is partly ascribed to base effects, although the role of the state in driving economic growth will also play a role in this regard. Zambia’s cities of Lusaka, Kitwe and Ndola will also see demand for luxury goods rise significantly during the forecast period. However, low trending global copper prices will hold adverse implications for the economy in general over the short to medium term. The Nigerian cities of Abuja and Onitsha and Ghana’s Accra are also worth a mention and should experience a significant increase in demand for luxury goods over the next two decades.
Having established the potential demand for luxury goods on the African continent, it is worthwhile considering views of the market from the supply side. Put differently, this section will focus on analysing current market characteristics (route to market, competition, marketing and challenges) while also considering future growth potential as perceived by actual market participants. The data collection process involved facilitating interviews with luxury goods suppliers from different industries in South Africa, Nigeria, Kenya and Angola. Apart from the more developed markets of South Africa and Egypt, the major cities from Nigeria, Kenya and Angola all feature amongst the top ten African cities with the largest luxury goods markets – when measured by the number of relatively affluent households (earning more than US$100,000 annually) residing in each city.

Market entry strategies vary significantly dependent on the type of luxury goods and the target market. Certain luxury items such as vintage cars and art pieces usually require in-person inspection by the customer, and as such a physical store is essential. In most instances, this location is also used for marketing purposes to display the various luxury items on offer. That said, smaller luxury items that are often more affordable, such as apparel and accessories, do not always require a store presence and sales are then generated through the internet channel. Wholesale represents another route to market. In this case, luxury brands are sold through established and already well-known retail outlets. Again, luxury items that are traded through this channel are more likely to be priced in the more affordable bracket. One disadvantage of following the wholesale route relates to the fact that exclusivity is not guaranteed in the same way as when a store is dedicated solely to a specific brand.

Please see the appendix for an Interview Index
## Market Entry Strategies for Selected Luxury Goods Companies in Nigeria

<table>
<thead>
<tr>
<th>Company</th>
<th>Zashadu</th>
<th>Maison Adelay</th>
<th>Maldesa</th>
<th>BoConcept</th>
<th>Skymit</th>
<th>Coscharis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Zashadu sells luxury leather products (handbags, sandals, belts etc.)</td>
<td>Maison Adelay stocks affordable luxury accessory items</td>
<td>Maldesa Nigeria is a distributor of exclusive wines, champagne and spirits</td>
<td>BoConcept is a luxury furniture (concept) store that recently opened in Lekki Phase 1</td>
<td>The company sells luxury vehicles (mostly Mercedes-Benz) across Nigeria</td>
<td>Company secured franchise to market BMW and Land Rover, also recently Rolls Royce</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td>Wholesale</td>
<td>Online</td>
<td>Wholesale &amp; events</td>
<td>Direct store</td>
<td>Direct stores</td>
<td>Direct stores</td>
</tr>
<tr>
<td><strong>Income Bracket</strong></td>
<td>sub-HNWI &amp; HNWI</td>
<td>sub-HNWI</td>
<td>HNWI &amp; UHNWI</td>
<td>HNWI &amp; UHNWI</td>
<td>HNWI &amp; UHNWI</td>
<td>HNWI &amp; UHNWI</td>
</tr>
<tr>
<td><strong>Age Profile</strong></td>
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<td>Varied</td>
<td>Varied</td>
<td>&gt; 30 years</td>
<td>&gt; 40 years (Rolls Royce brand)</td>
</tr>
</tbody>
</table>

Source: Interviews facilitated by Whitehouse & Associates

The income bracket of the target market also plays a role in relation to the market entry strategy. A physical store presence becomes increasingly important as the value of the particular product increases, as it contributes to the exclusivity and prestige of the product. **Maison Adelay**, which sells luxury accessories in Nigeria, targets middle to high-income households – the aspiring people, not so much the high net worth individuals (HNWIs), but those that are on their way there. The fact that the company is **not targeting HNWI** provides the opportunity to have a business model focused exclusively on online sales. In contrast, **Skymit Motors**, which sells luxury vehicles, targets HNWIs and the ultra-wealthy. In this case, a physical store presence is essential both from exclusivity and marketing perspectives. It is also worth noting that for luxury items targeting HNWIs and UHNWIs, **personal interaction between the seller and the buyer becomes more important and often is part and parcel of the purchasing decision**.

The location of the target market is especially important in relation to deciding where the business premise will be located or even when devising a marketing strategy. Wealth is usually concentrated in a few areas across a specific city. Ketan Shah, **Director of Coral Property Consultants** in Kenya, states that there is a shortage of high-end commercial property in **Nairobi**. This may well complicate finding retail space in a relatively affluent area of the city and the rental fees are likely to be high.

In countries like Angola, where political elites represent a fairly large share of the country’s UHNWI population, it may well be a good strategy to ensure the firm has a presence in close proximity to government offices. The **Porsche dealership in Angola**, owned by Esmeraldo Chinguto, is currently located in downtown Luanda. It is very close to the Department of Finance and the head offices of major banks. While this location has served the company well, a large new development is taking place in Talatona and the Porsche Centre has already bought land there with the aim of relocating the dealership.

The location of luxury hotels is arguably even more important. The **Wheatbaker Hotel**, part of the Legacy Hotel Group, is a premium boutique hotel located in Ikoyi, Lagos. According to the General Manager, Simon Grindrod, the hotel has performed well since its establishment in 2011, mainly because it offers the right product, at the right time, and in the right location. In turn, **Starwood Hotels and Resorts** is a global hotel company with different brands. In Nigeria, they presently operate only three of their brands, the **Four Points**, the **Sheraton**, and the **Le Meridien**. The **Four Points and Sheraton** hotels are in Lagos (there is also a Sheraton hotel in Abuja, the capital) and the **Le Meridien** can be found in Port Harcourt. **The Four Points hotel is located on Victoria Island, an affluent area of Lagos**. The Sheraton Hotel is located in Ikeja, close to the government reserved area (GRA) which houses many of Lagos’s political elites.
Wealth Maps

Lagos Wealth Map

Country: Nigeria
City Population: 12.7 million*
Lagos GDP: US$77bn*  

* Source: Oxford Economics  
(2014 estimates, constant 2012 prices)

The map to the right indicates some of the wealthiest suburbs in Lagos

Nairobi Wealth Map

Country: Kenya
City Population: 3.8 million*
Nairobi GDP: US$12.7bn*  

* Source: Oxford Economics  
(2014 estimates, constant 2012 prices)

The map to the right indicates some of the wealthiest suburbs in Nairobi

Luanda Wealth Map

Country: Angola
City Population: 5.8 million*
Luanda GDP: US$54.4bn*  

* Source: Oxford Economics  
(2014 estimates, constant 2012 prices)

The map to the right indicates some of the wealthiest suburbs in Luanda
Market Characteristics

Purchase Decisions

- Status is the driver
- Investing in appearances
- Emulating what is observed overseas
- Brand recognition
- Perceptions of exclusivity trump product origins
- Easily displayable products will be targeted first

The factors affecting luxury purchase decisions will inevitably vary between countries and cultures across the African continent. However, the numerous interviews undertaken have illuminated a few fundamental considerations that are prevalent in most countries, and affect decisions across the continent. For example, according to RLG Africa (Pty) Ltd, the sub-Saharan subsidiary of Richemont, status symbolism plays a salient role in purchase decisions in most African countries, with brand perception and shopping experiences being key considerations when making purchases. The company notes that there is a very small group of “collectors” in Africa who will make sure they purchase limited editions and the like, but generally purchase decisions are driven by status. Many of these individuals are not price sensitive, and are willing to pay a premium to acquire the specific products that they want.

With the proliferation of social media, consumers are widely exposed to and can quickly emulate international trends. In some countries, such as Nigeria, status is a key driver of purchase decisions.

Niche brands do well among the very rich who want to show off their brand knowledge. In turn, the ‘masses’ prefer the brands that are best known to emulate the lifestyle they want, according to Maldesa Nigeria Limited (a high-end alcoholic beverage provider). Aspirational people will first buy luxury goods that people can immediately observe (e.g. vehicles and jewellery) before they proceed to invest in high-end real estate. It should also be noted that some brands prefer not to have a large presence in large shopping malls or widely circulated media. This gives the perception of exclusivity, particularly in a country such as Nigeria where word-of-mouth endorsements play an important role in allowing upper class individuals to distinguish themselves from aspiring middle-class households. Many luxury brands want to be associated with the elite, while the elite only want to be associated with other elite.

A key theme reiterated by numerous luxury goods industry insiders is brand consciousness, with the brand’s associations generally considered to be more important than the origin of the product. While some regions have close associations with luxury items (e.g. France for perfumes, Switzerland for watches), a well marketed brand can detach itself from its origin in the minds of its target audience. Agency Global Resources (a Nigeria-based complete lifestyle-enhancing platform) notes that Nigerians do not really think about the origins and history of the brand but only relate to the brand by its prestigious name recognition. The fact that it is an international brand makes it expensive due to high importation costs, but more important is the recognition of the designer names as being global, exclusive brands.

Purchases intended as gifts also have a significant role in luxury markets in many African countries. Zashadu (a producer of luxury leather products based in Lagos) estimates that around 40% of its sales are intended as gifts, while approximately 30% of Skymit Motors business stems from gifting. According to the Agency Global Resources, business gifting is particularly prevalent among men, as wealthy men invariably are owners of corporations that make a lot of money in telecoms, oil & gas, and banking, whilst women primarily spend on clothing and accessories for themselves. In turn, Ronel Lategan, the brand manager for Chanel at Prestige Cosmetics, notes that gifting at Christmas is not really widespread among Africans in the South African market. Traditionally people will splurge on themselves at the end of the year in celebration of a successful year. Also, the company is seeing a trend where newly emerged business women are being given hugely expensive gifts by family and friends for birthdays as they want them to be seen as successful. This in turn will reflect on the family.

Decisions to purchase luxury items that are not easily displayed in public, such as real estate, have rather differing demand drivers. While prestige does play a role in living in luxurious neighbourhoods and houses, investment also plays a key role (although a significant proportion of property investment is directed overseas). This is in part due to rising demand for high-end real estate in many business centres such as Nairobi, Lagos, Accra and Luanda, but also the hedging effects that real estate provides (against monetary developments). According to Coral Property Consultants, in Nairobi there is growing demand for gated communities with security and common facilities. There is a trend for people to sell their stand-alone houses and move to apartments – international travel is increasingly becoming part of the lifestyle of the wealthy individuals, and there is a move towards ‘lock up and go’ properties.
Competition

- Domestic competition in luxury goods not particularly strong in most countries
- Competition from abroad is more compelling
- There is competition between luxury products
- African luxury goods market still far from saturated
- Many markets also competing with illegal traders and smugglers

Competition varies between luxury product categories. According to Zashadu, competition in this segment of the market is not particularly strong at the moment, with few large-scale producers or high-end retailers in the market. However, the company did note that there has been an increase in competition more recently. This opinion is shared by BoConcept, which stated that over time more brands will enter the market, but emphasised that the luxury market is not saturated yet. Agency Global Resources notes that, while many different luxury brands exist in Nigeria, competition is not really a factor in that the market is not yet saturated with enough luxury brands (relative to wealthy individuals) to cause intense competition in the luxury business. In addition, Magnus de Souza, the owner of Maldesa Nigeria Limited, notes that, while it is difficult to dethrone the most accepted brands in Nigeria, the luxury market is not saturated at all, and there is plenty of room for new brands.

There is, however, a sense of competition between various luxury products, as wealthy individuals decide to spend their money on certain products while abstaining from others. These decisions could be affected by the extent to which the products can be flaunted, or driven by developments overseas that guide the luxury goods culture. The president of Rolls Royce Motor Cars Limited, based in Nigeria, has stated that his company does not strictly compete with any other brand in the automobile industry, but rather with other luxury products that potential customers could decide to spend their money on. According to Nairobi-based Onyx Jewellers, there was strong demand for fashion items some five years ago, whereas now there is a move towards ‘fine’ jewellery.

Many luxury goods providers also face competition from external sources, as wealthy individuals can directly import products (e.g. luxury vehicles, yachts) or return with products after traveling abroad (e.g. jewellery, clothing). Most wealth in Africa is found north of the equator with imports (e.g. luxury vehicles, yachts) or return with products after traveling abroad (e.g. jewellery, clothing). Most wealth in Africa is found north of the equator with the exception of Angola and South Africa, which increases potential competition from Europe and the Middle East – with the former having a strong history as a purveyor of luxury goods. However, some companies have reduced this obstacle by increasing the attractiveness of making purchases from domestic luxury goods outlets. For example, in Angola, the domestic luxury Porsche provider has secured much of the luxury vehicle market by offering excellent after-sales services which one cannot get if the vehicle was directly purchased from abroad. The Porsche dealership, based in Luanda, sells on average 40 vehicles per annum, including four different models of the Porsche Cayenne. In turn, Skymit Motors, a Nigeria-based luxury vehicle dealership specialising in Mercedes Benz, was the first car company in Nigeria to accept payment in instalments (in association with a bank or through the company’s credit facility), which increased the country’s market potential. This also established relationships between the company and recurrent clients. In addition, RMA Motors, a Jaguar and Land Rover franchise with a presence in Johannesburg, Lagos, Nairobi and Angola, has a number of subsidised financial schemes to assist their customers. This focus on service also extends to other luxury goods products. Luxury clothing retailer Little Red (based in Nairobi) provides a Made-to-Measure Service, in which tailors are sent to take measurements of their clients, and the company then sends the custom-made suits a few weeks later. Little Red offers the Made-to-Measure services in Nairobi, Kampala, Dar es Salaam and Juba.

Furthermore, some luxury sub-sectors still lack the presence of international brands. According to Onyx Jewellers which operates in East Africa, none of the big international brands of jewellery or watches have a presence in Kenya. However, the company expects international designer stores to slowly flock to Nairobi, and this will be driven by heightened awareness and international exposure.

Another salient source of competition stems from the prevalence of illegal traders and smugglers. In many countries it is difficult to do things legally and to still remain competitive. The prevalence of replica products and high import tariffs for luxury goods reduce the competitiveness of above-board domestic suppliers, which remains a hurdle in many African countries.

Marketing

- Many marketers target the ‘aspiring’ market (middle class that spends a disproportionate amount on luxury)
- Bigger-ticket items are marketed directly to individuals
- Social media very important in brand marketing for most products
- Word-of-mouth and celebrity endorsements remain salient forms of marketing

An important dimension to marketing luxury goods on the continent relates to the status of the actual channel though which the marketing is done. For example, RLG Africa has noted that the company has benefited from high-profile international journals and magazines (such as the Wall Street Journal) creating an aura of status around their products, and stimulating aspiration to be associated with these products. In turn, East Africa luxury clothing retailer Little Red advertises in publications like the Kenyan Airways Inflight Magazines and Nairobi Law Monthly.
However, less expensive luxury goods that are easily displayed, such as high-end alcohol, tend to be marketed through less sophisticated channels in order to capture the ‘aspiring’ market. According to Maldesa Nigeria Limited, luxury alcohol brands in Nigeria were traditionally doing their marketing in the upmarket magazines, but they are now also putting ads in the regular Sunday papers to capture the new aspirants, which drives demand. In turn, a company such as Rolls Royce Motor Cars Limited in Nigeria does not advertise through traditional media platforms such as television or radio, but rather opt for direct marketing, especially through small events - sponsoring events at Embassies and hosting intimate dinners with an exclusive guest list. In addition, Jaguar and Land Rover franchisee RMA Motors sponsors the Capital Club in Nairobi, an upmarket and exclusive club frequented by UHNWI. This strategy is also pursued by other luxury product providers that attempt to build relationships with clients that span over generations. For example, Little Red will pay for their East and Central African clients to visit the store in Nairobi, and the company will pay all expenses, including flights and accommodation at a top hotel. The Little Red business is built on personal relationships, and in some cases, it is the third generation that is being dressed by the company.

Social media also plays a salient role in brand marketing in most African countries, with the degree of engagement and platform of communication differing between as well as within luxury products. For instance, according to Rolls Royce Motor Cars Limited, for individuals who can afford a Rolls Royce, social media is not very important. However, for the aspiring individuals who are acquiring a BMW (which the company also sells), social media is important. In turn, according to Bo Concept, for accessories and jewellery the role of social media and blogging is very important, while interior design is much less social (the latter being dominated by sophisticated catalogues).

Social media is very big in Nigeria, specifically blogging. For example, a primary driver behind the development of Zashadu was social media in the form of blogs. The business practically grew from the founder’s blog (blog. zashadu.com), which in time received requests from outside Nigeria. The company now exports to several countries in Europe, South Africa and the USA, with bag prices ranging from US$150 to US$3,000.

Many luxury goods producers or stand-alone retailers do not have the scale required to undertake traditional marketing strategies, and opt for more engaging social media approaches. For instances, Zashadu has particularly made use of Instagram to get its products noticed, while word-of-mouth remains a salient form of marketing. In Nigeria, brands are often tagged in pictures of celebrities, and endorsement by key individuals in society is a strong method to attract new customers. This is particularly effective for visually-sensitive products such as jewellery and fashion. Kenya-based Onyx Jewellery notes that the company rarely needed to advertise, and word-of-mouth referrals have always been very powerful. However, the company acknowledges that this is changing and social media offers fantastic opportunities for marketing their products.
Market Outlook

Interview responses were generally positive in relation to the growth outlook for Nigeria’s luxury goods market. The demand for luxury goods is expected to increase in line with a growing middle class, while social media is projected to play an increasingly important role in driving sales. According to Ronke Onadeko, BNP Paribas’ Nigeria representative, the luxury goods market in the country is to a certain extent driven by the lower-middle class. As aspirational spending increases by the former, upper-class individuals go to greater lengths to pursue exclusivity. Consequently, high net worth individuals now enjoy destination parties and make use of private jets, while the luxury market for the ultra-high net worth individuals has become insanely luxurious. The growing middle class will increase the amount of aspirants who will spend on luxury accessories, which will in turn increase the extent to which the upper-class pursues exclusivity through further spending increases.

This opinion is shared by Maison Adelay. The company expects positive growth in individuals that are just under HNWI in Nigeria, who will spend disproportionately on luxury accessories to claim their new status and show it to the world. Consequently, a lot of the growth in the luxury market will come from those that in other countries may not be seen as target clients for luxury brands as their overall income may be a bit too low.

Many respondents also highlighted that luxury goods demand is less susceptible to macroeconomic headwinds as wealthy individuals are unlikely to become poor overnight. Ronke Onadeko highlights that the current oil price slump will have a less pronounced impact on Nigeria’s HNWI population and the fact that individuals falling within this category have the habit to spend will continue to be supportive of market growth.

That said, not everyone is as optimistic. Cosmas Maduka, Chief Executive Officer (CEO) of Coscharis Motors, expects the Nigerian economy will endure a short-term slump before rebounding over the medium term. Cosmas Maduka is also less optimistic in relation to the ability of the new administration to implement economic policies conducive of stronger real GDP growth going forward. Furthermore, Rama Shagaya, Managing Director of Maison Adelay, notes that, while the economy is going through a rough patch at the moment, the five- to 10-year prognosis remains very positive.

In Kenya, the outlook for the luxury goods market is also generally positive, supported by the prospect of robust medium-term real GDP growth which should boost income levels. An interesting point that was raised by numerous interview respondents relates to the role of regional expansion in driving sales growth. Aziz Fazal, Executive at Little Red – a luxury clothing outlet in Kenya – highlights that the company is seriously considering expanding operations to Dar es Salaam, but notes that starting a business in Tanzania remains a complicated process which may sway the company’s thinking to consider other locations, such as Kampala in Uganda where regulations are not as strict.

Onyx Jewellers, with three stores in Nairobi, is also considering expanding across the border. The company is already fairly familiar with business conditions in Tanzania due its frequent dealings with the tanzanite mines in the country. Onyx’s Nawaaz Meghji notes that Tanzania has rich mineral resources and that Tanzanians understand the value of gemstones and fine jewellery better than Ugandans. Also, Tanzania has a strong retail business culture and the country has benefited from the security threats in Kenya.

The Angolan luxury goods market has enormous growth potential. Currently, a significant proportion of luxury goods are purchased outside of the country. Prestige Cosmetics in South Africa – the company is the representative for a number of luxury cosmetic brands including Chanel perfumes – sells its products through retailers and also through the duty free zones of the O.R. Tambo and Cape Town International airports. Interestingly, the company notes that Angolans account for a large share of total sales through the airport locations. The fact that a significant number of Angolans still purchase luxury goods abroad could well reflect a domestic supply shortage. The domestic market will however benefit immensely if a larger share of luxury goods demand is fulfilled locally rather than abroad.

Meanwhile, Esmeraldo Chinguto of the Porsche Centre in Angola believes the country’s economy will rebound once crude oil prices recover. When this happens, sales of luxury items will pick up and demand will continue to grow. Angola’s economy will however continue to grapple with the adverse effects of lower global crude oil prices over the short term – oil prices are also now widely expected to remain low for longer than what was the case during the previous price shock of 2008/09. These adverse effects will take the form of a weaker local currency, tighter forex liquidity, reduced government spending and higher inflation. That said, the prospect of increased crude oil production over the medium term should help Angola weather the oil price storm.

The African continent’s largest oil producer, Nigeria, will suffer many of the same consequences as a result of lower crude oil prices. Interview respondents were particularly concerned about foreign exchange shortages and the impact thereof on the ability to import luxury goods. Other import barriers (duties and tariffs) represented yet another challenge facing Nigeria’s luxury goods market. Furthermore, electricity supply has been a perennial problem in Nigeria, and higher utility prices and poor power supply drive up operational costs.
The main challenges facing the Kenyan luxury goods market pertain to grey products, a tourism slump and import barriers. The former is more of a concern in relation to luxury goods that are easily replicable or where substitute products play a larger role, such as furniture, accessories and clothing. Sheba Gurel, General Manager of Bo Concept in Kenya, notes that people often come into the store and pick up the product catalogue and take it to a local furniture manufacturer. **That said, Sheba Gurel is not overly concerned.** Grey products are probably more problematic in relation to the luxury clothing brand market. Aziz Fazal of Little Red notes that the local market is awash with grey clothing products and that international fashion houses continuously have to protect their brands. Grey imports confuse the client and the market, and tarnishes the image of the brand. Nike (East Africa) also highlights the presence of grey products as a challenge in the Kenyan luxury market.

Turning to tourism, the decline in foreign visitors has had a negative impact on Onyx Jewellers. Nawaaz Meghji states that the downturn in tourism adversely affected growth from North American and European clients. On the positive side, this has been partly offset by increased demand from China and other Asian countries. Import barriers in the shape of high duties and tariffs represent yet another challenge for luxury goods suppliers in Kenya. Ashmali Thakkar from Nike (East Africa) explains that prices in Kenya are high due to import duties. The company can match the global style, branding and store layout locally, but not the price.
LUXURY GOODS IMPORTS

Introduction

The unavailability of reliable data regarding luxury-goods markets on the African continent requires creative solutions to develop some gauge for market size. While the increasing demand for luxury goods on the continent has received considerable media attention, there is no reliable data regarding the actual size of the market and the way in which it has developed over time. The luxury goods sector is notoriously difficult to assess due to the fact that ultra-wealthy individuals that make up the market have the means to travel to the sources of these products, and thus in a sense circumvent the domestic luxury goods market.

That being said, this report focuses on imports of high-end products, using creative proxies to represent the demand for certain luxury goods. The fact that these products are imported implies that these goods were either purchased from abroad and are now being brought to the country (reflecting demand for such goods) or these goods are being introduced to the domestic market with the aim of reselling (providing a general sense of the market size). This allows us to compare demand for these luxury goods between African countries, while also putting the overall African demand in a global context.

French Champagne

This analysis focuses on sparkling wine imports from France to gauge the relative market for high-end Champagne. Sparkling wine imports from France will generally be high-end as cheaper brands will be more readily available from closer markets, i.e., South Africa. While some countries with historic ties to France could disproportionately favour French imports, the analysis still provides a general assessment for the demand for such high-end consumer goods, particularly relative to other African countries.
Figure 24

Top French Champagne Importers (US$m, 2014)

Source: Trade Map

Figure 25

Top Imports over time (US$m)

Source: Trade Map

Share of Total World Imports (US $3.5bn)

Source: Trade Map

Key Points

- Nigeria and South Africa dominate the African market for French Champagne, together accounting for nearly half of all imports in 2014.
- While importing similar figures in 2005, growth in Nigerian Champagne imports has significantly outpaced growth in South African Champagne imports.
- Other countries that have also seen a significant rise in French Champagne imports include Republic of Congo and Angola.
- Total African Champagne imports has consistently increased in recent years, reaching a peak of just-over US$100m in 2014.
- The continent still only accounts for a marginal share of global French Champagne demand, estimated at 3%.
Africa accounts for 1% of global luxury vehicle imports. While the continent as a whole is poor compared to other regions globally, the prevalence of HNWIs in many countries provides for a growing market for luxury vehicles. Aspirational Africans spending money on luxury goods like vehicles that their peers can immediately observe. In areas where road conditions are not ideal, African HNWIs prefer luxury off-road vehicles.

With the exception of a handful of manufacturing facilities in South Africa, all of the continent’s luxury vehicles are imported from Europe and, to a lesser degree, North America and Asia. Some two-thirds of Africa’s luxury vehicle imports are destined for just five countries: South Africa, Nigeria, Egypt, Morocco and Kenya. These are, understandably, some of the largest economies on the continent, with significant numbers of high income households.

Growth in Africa’s new passenger vehicle sales averaged 7.5% per annum during 2010-14. However, the second-hand luxury vehicle market is also a very important factor in Africa. In many countries on the continent, new imported vehicles are levied with high import taxes, making second-hand vehicles (sourced from Europe and Asia) more attractive from a price perspective.

**Figure 26**

<table>
<thead>
<tr>
<th>Top Luxury Vehicle Importers</th>
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<tr>
<td><strong>(US$m, 2014)</strong></td>
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<tr>
<td>Source: Trade Map</td>
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</table>

**Figure 27**

<table>
<thead>
<tr>
<th>Top Imports over time (US$m)</th>
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<tbody>
<tr>
<td>Source: Trade Map</td>
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</table>

<table>
<thead>
<tr>
<th>Share of Total World Imports (US $27.5bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Source: Trade Map</td>
</tr>
</tbody>
</table>

- USA 43%
- China 9%
- Africa 1%
- Russia 3%
- Switzerland 3%
- UAE 3%
- South Korea 3%
- Other 24%
Key Points

- South Africa dominates the continent in terms of luxury-vehicle imports.
- North Africa has a strong representation on the list of top African luxury vehicle importers.
- Luxury vehicle imports into the continent peaked in 2007, reaching nearly US$560m.
- This figure has fallen to around US$278m in 2014.
- Countries such as Republic of Congo, Uganda, Kenya, and Mali have shown strong growth in luxury vehicle imports in recent years, albeit from a very low base.
- Africa still only accounts for around 1% of global luxury vehicle imports.
Private Jets

As a proxy for the private jet market we look at imports of aircraft with an unladen weight of over 2,000 kg but under 15,000 kg. This thus excludes both light recreational aircraft as well as commercial airliners. However, it should be noted that a large proportion of private jets are not registered in the owners’ country of origin due to tax and maintenance reasons. Consequently, countries with a widely publicised private jet market such as Nigeria underperform with regard to jet imports, as these jets are purchased and domiciled overseas.

So while the figures do not completely reflect the size of the domestic private jet market, they do show in which countries most private jets are registered, and, accordingly, purchased. It should be noted that private jet imports into countries such as the US do not reflect the entire market as these products are manufactured within the country, but the lack of jet assembly in Africa implies that imports are a more accurate representation of domestic demand, purchased through domestic sources.
Key Points

- Private jet imports are much more volatile than other luxury goods imports.
- South Africa is by far the largest importer of private jets.
- There was a general increase in private jet imports leading up to the global financial crisis in 2008.
- This was followed by a general downturn.
- When looking at the overall private jet market, i.e. total imports over the past decade, South Africa dominates the continent with US$3.5bn in imports, followed by Kenya (US$435m) and Morocco (US$375m).
- Countries such as Equatorial Guinea, Republic of Congo, Sudan and Gabon have a disproportionate contribution to overall imports relative to their economies’ sizes.
- The African continent accounts for around 2% of private jet imports.
Sophisticated African HNW and UHNW individuals have an international perspective when making investment decisions, and embrace the diversification benefits that a global asset allocation can provide. In addition to efficient tax structuring and expert knowledge of sophisticated investment vehicles provided by private wealth managers, the African wealthy demand security and the highest confidentiality. According to Standard Chartered’s Priority Clients division, a HNW investor has investable assets in excess of US$50,000.

The wealthy investor is typically well-informed about global and regional investment opportunities, and plays an active role in determining individual asset allocations. On aggregate, however, differentiation in preferences between private clients on the basis of country of origin do arise; Standard Chartered notes that Nigerian investors typically exhibit a higher appetite for foreign assets such as offshore property, while Kenyan investors show general preference toward local investment. This can partially be ascribed to a historically higher number of Nigerians exploring offshore options for study and work opportunities. According to Standard Chartered, the source of wealth of Priority Clients in Africa differs, although the emerging C-suite and business owners account for the majority. In Kenya, entrepreneurs are the new wealth generation, having made their fortune in the area of services, such as technology. This stands in contrast to the older establishment, which in general acquired their wealth in the manufacturing sector. Clients’ primary needs are for the growth and protection of wealth as well as some diversification away from the source of wealth, while asset allocations bear strong resemblance to an individual’s risk appetite.

Traditional Investments

Traditional asset allocation dictates a division between publicly-traded equity and fixed income instruments based on the consumer’s risk profile and mean-variance optimisation, where the latter refers to the optimal risk/return trade-off. Fixed income is traditionally viewed as suitable for the more risk averse and capital preservation-minded investor, while equity on aggregate is deemed suitable for the investor with a higher risk appetite or longer investment horizon. While this view is outdated, traditional assets continue to offer strong returns to the wealthy African investor. With regard to traditional investments, wealth managers offer clients access to private asset classes including mutual funds, equity funds and fixed income securities, encompassing of both local and offshore instruments. Wealthy Africans increasingly opt to increase their allocation of traditional assets to offshore instruments, drawn to the diversification benefits and the inherent currency hedge.

On home soil, African equity bourses soared to new heights in recent years, driven by cheap liquidity (on the back of the US Federal Reserve’s quantitative easing programme) and attractive valuations. While local equity bourses offer wealth generation opportunities to the median equity investor, the wealthy and ultra-wealthy are concerned about domestic stock exchanges’ lack of depth and generally poor liquidity. Inclusion of foreign equity and fixed income instruments therefore add value to the HNW investor’s portfolio both via the return on capital as well as foreign currency appreciation potential. African local currency units continue to lose ground against major forex crosses including the dollar and the euro, which play in the offshore investor’s favour. The currency effect amplifies the real return on offshore instruments in local currency terms for the wealthy African investor. Subsequently, African investors with exposure to global equity may have realised negative nominal returns on an investment, but still realising positive net returns due to the appreciation of the foreign currency against the investor’s local currency unit.
Figure 30

MSCI Indices (% change from end-2010)

Benchmark Equity Index Performance

<table>
<thead>
<tr>
<th>Benchmark Index</th>
<th>1-year return (%)</th>
<th>3-year return (%)</th>
<th>5-year return (%)</th>
<th>10-year return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI World</td>
<td>(-3.12%)*(-0.88%)**</td>
<td>(25.46%)*(8.07%)**</td>
<td>(39.54%)*(59.54%)**</td>
<td>(34.40%)*(76.19%)**</td>
</tr>
<tr>
<td>MSCI Emerging Markets</td>
<td>(-21.82%)*(-19.64%)**</td>
<td>(-18.34%)*(-11.50%)**</td>
<td>(-23.88%)*(-12.65%)**</td>
<td>(23.80%)*(61.30%)**</td>
</tr>
<tr>
<td>MSCI Frontier Markets</td>
<td>(-26.46%)*(-24.49%)**</td>
<td>(-7.09%)*(1.40%)**</td>
<td>(-13.52%)*(1.47%)**</td>
<td>(-16.07%)*</td>
</tr>
<tr>
<td>MSCI Europe</td>
<td>(1.02%)*(4.28%)**</td>
<td>(32.46%)*(46.27%)**</td>
<td>(36.22%)*(62.69%)**</td>
<td>(16.51%)*(67.74%)**</td>
</tr>
<tr>
<td>MSCI AC Asia Pacific</td>
<td>(-11.40%)*(-9.12%)**</td>
<td>(6.11%)*(15.14%)**</td>
<td>(2.89%)*(18.96%)**</td>
<td>(14.81%)*(51.53%)**</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>(-5.07%)*(-3.09%)**</td>
<td>(36.89%)*(45.55%)**</td>
<td>(72.82%)*(91.58%)**</td>
<td>(60.49%)*(97.85%)**</td>
</tr>
</tbody>
</table>

Source: Bloomberg
All indices are denominated in US dollar. Calculations based on holding strategy.
* Performance based on price change
** Performance if dividends were reinvested into the index
Wealthy African investors are concerned that a weakening local currency unit will erode their portfolio holdings, and seek currency stability and diversification benefits offshore. Michael Whitehead, private wealth manager at Geneva-based DE Planification SA, states that wealthy South African and Zimbabwean clients opt to take as much as 60% of their wealth offshore, while lifestyle assets are generally kept on home soil. Mr Whitehead states that, due to limited faith by African investors in their local currency units, clients tend to change reporting currencies on a portfolio. Approximately 70% of African clients’ written currency is in US dollar.

Mr Whitehead states that, given wealthy African clients’ exposure in their home market to emerging market equities, he tends to operate balanced portfolios for his clients which are generally allocated as follows:

- 35% to 45% in equities. Mr Whitehead states he will generally mirror the Morgan Stanley Capital Index – US, euro zone and selected emerging markets.
- 30% in corporate bonds, either individual or mutual/unit trusts.
- 15% to 20% hedge fund content.
- Small allocation to cash or property. While African investors show strong preference for real estate holdings, Mr Whitehead warns that property holdings may have severe tax implications, which will negate real returns.

Looking ahead, Mr Whitehead warns that the Automatic Exchange of Information, an Organisation for Economic Co-operation and Development (OECD) initiative, may irk wealthy investors who seek anonymity. The Automatic Exchange of Information encompasses the systematic and periodic transmission of “bulk” taxpayer information by source country to the residence country concerning various categories of income, including dividends and interest. This system will provide timely information on non-compliance where tax has been evaded either on an investment return or the underlying capital sum, even where tax administrations have had no previous indications of non-compliance. An agreement between the resident and reporting country needs to be in place prior to the system’s implementation. In this regard, South Africa has committed to the first tranche. Mr Whitehead warns that, when implemented, this initiative will provide numerous complications for smaller independent providers, as the reporting requirements are onerous. Crucially, many of the clients would prefer not to have their off-shore activities reported on due to privacy concerns. Due to these concerns, countries including Nigeria and Zimbabwe do not intend to participate and investors from these countries will not be affected.
Luxury Goods and Wealth Management in Africa

Alternative Assets

Deutsche Bank states that investor interest in alternative assets has grown significantly since the early 1990s due to the attractive returns on offer and diversification benefits. Primary categories of alternative assets include hedge funds, private equity, real estate, infrastructure and art. According to Deutsche Bank, investor interest in alternative assets gathered momentum over the past decade as the yields on traditional assets – such as fixed income – declined. Furthermore, the advent of unconventional monetary policy – quantitative easing – in the US, euro zone and Japan brought about a change in the correlation between equity and fixed income; whereas these assets have traditionally shown an inverse relationship, a breakdown in traditional correlations has been noted in recent years on account of artificial liquidity conditions.

The African ultra-wealthy insist on acquiring global expertise with regard to wealth management, and tend to turn north to Switzerland (Geneva and Zurich), the United Kingdom (London) and Luxembourg to acquire the expertise, anonymity, security and highly customised services offered by elite wealth managers. Towers Watson’s Global Alternatives Survey released in July 2015 shows that the top 100 alternative asset managers, as ranked by assets under management (AuM), managed US$3.5tn in 2014 compared to AuM of US$3.7tn in 2013. The survey indicates that the largest blocks of alternative assets are managed in direct real estate funds, direct hedge funds, direct private equity funds, private equity fund of funds (FoF), funds of hedge funds, direct infrastructure funds and illiquid credit. The survey placed wealth managers as the second largest investor group in alternative assets behind pension funds, outranking insurance companies, sovereign wealth funds, banks and endowment funds.

The Towers Watson survey revealed that the globe’s top 25 wealth managers (who have a specific focus on alternative assets) managed a combined US$453.8bn in 2014, while total AuM for the industry was reported as US$1.09tn. According to the survey, direct real estate funds (53.8% of total alternative asset allocation) were the most popular choice of alternative investment for the top 25 wealth managers, followed by direct hedge funds (19.3%), direct infrastructure funds (10.4%), funds of hedge funds (8.2%), direct private equity funds (6.2%) and illiquid credit (2.1%). Ranked by wealth manager AuM, UBS Global Asset Management, domiciled in Switzerland, ranked first in the survey with US$41.1bn in AuM in the asset class direct real estate funds, followed by Hines (direct real estate funds) with US$28.8bn AuM, Germany-based Union Investment (direct real estate funds) with US$26bn in AuM, UBS Global Asset Management’s fund of hedge funds with US$25.3bn in AuM. Further notable inclusions on the top 25 alternative wealth managers are HSBC Alternative Investments, Deutsche Asset & Wealth Management and LaSalle Investment Management.

Investment in private equity, hedge funds, commodities such as precious metals and gems, and bespoke investment pieces including art, jewellery and rare vehicles have taken off in recent years. The African wealthy refuse to be limited by geographical barriers and partake in auctions managed by elite houses such as Sotheby’s and Christie’s. Alternative assets bought on auction signify both elite status and offer handsome returns, while also acting as a long-term hedge against inflation. New World Wealth attributes the rapid rise in sales of super-luxury watches to increased demand from ultra-wealthy Africans, particularly Angolan and Nigerian buyers. In addition to the status symbol brought to the wearer of an exclusive time piece, rare watches offer exponential return potential. The Henry Graves Supercomplication timepiece by Patek Philippe (circa 1932) set a record US$24m (bought by an anonymous bidder) at a Sotheby’s auction in Geneva, Switzerland in 2014. The watch previously sold at auction for US$11m in 1999.
Property investors and corporate occupiers are increasingly aware of the opportunities in the African real estate market, underpinned by a decade of strong economic growth and increased pace of urbanisation. The cities of Luanda, Lagos and Kinshasa will expand by more than 70% in the 15 years to 2025, according to the United Nations. The rise of the megacity in Africa on the back of demographic trends promise strong returns within the residential, industrial, business and retail property space in Africa, according to Knight Frank. The high yields on offer underpin the substantial benefits of including real estate as alternative asset in a balanced portfolio. Knight Frank notes that property investment markets in Africa are still small and opaque, which offers significant first-mover advantage. Asset managers have taken note of shifting demographics and governments’ infrastructural development ambitions, and numerous real estate-focused funds have been introduced over the past five years. Knight Frank cites Sanlam, Stanlib, Atterbury, Resilient, Ivora Capital, Delta International and Novare as front-runners to unlock potential in the African property market.
African UHNWIs consider real estate investments across the globe, and show strong preference for luxury homes in the cosmopolitan cities of London, New York and Paris. Beauchamp Estates reports that while wealthy Africans account for a mere 1.5% of transactions of ultra-prime real estate (£15m - £25m) purchases in London by volume, buyers from the African continent account for 5% of sales by value. The high-end real estate agency notes that buyers of ultra-prime real estate generally originate from Nigeria, Ghana, Republic of Congo, Gabon, Cameroon and Senegal. Beauchamp Estates reports that Nigerians account for the highest purchases by value, with wealthy Nigerian investors spending in excess of £250m on ultra-high end real estate over the past three years. The exclusive avenue of Kensington Palace Gardens is a popular choice among wealthy tycoons, as well as Mayfair, Belgravia and Knightsbridge. Standard Chartered points out that investment in offshore property – particularly in the UK – appeals to wealthy Africans due to the relative stability of the property market as well as its safe-haven appeal.

Wealthy Africans tend to purchase luxury real estate in their home country as a second or third home. Knight Frank singles out high-end residential real estate in Luanda (central part of the city, or to the south in Talatona) as amongst the most expensive in the world, with the rent on ultra-prime four-bedroom houses averaging US$25,000 per month. In turn, Knight Frank states that the Lagos residential area in Nigeria continues to show signs of growth at the top end, especially in Ikoyi, which states a strong case for investment in African real estate. In turn, Standard Chartered explains that ownership of land and real estate is viewed as an important part of the Kenyan investor’s total portfolio. Standard Chartered cited excellent capital appreciation potential.

**Figure 34**

Art as an alternative asset has grown in prominence in recent years. Fred Scott, partner at Walker Scott Art Advisory, states that the global art market has more than trebled within the scope of 14 years to reach US$64bn by 2015. In contrary to their peers in Europe and the US, African HNWIs have however not yet embraced the diversification and yield benefits of art as part of a comprehensive investment strategy. According to Stefan Hundt, curator of the Sanlam Art Collection, the focus on art as an asset is a new concept in Africa, and still misunderstood. The lack of supportive infrastructure plays a large role. In Europe and the US there is a sophisticated infrastructure around the art market – these art markets have their own sub-sectors and each sub-sector has its own energy. This infrastructure is also underwritten by government through national galleries such as the Tate Modern, which creates a solid base and an established art collecting tradition. In addition, there are a number of corporate collections and UHNWI with their own collections. Africa falls behind with regard to both the lack of sufficient infrastructure and general failure of the state to preserve culture through art. However, there is some move towards growing the infrastructure in support of art in Dakar, Bamako and Cairo, although still in the infancy phase.

This however does not mean that there is a complete lack of interest in art as an investment in Africa, although Mr Hundt commented that serious art investors tend to be geographically concentrated, primarily in Johannesburg, Cape Town, Cairo and Lagos. This view is affirmed by Mr Scott, who further notes that Nigerian collectors have shown preference for contemporary African art. In fact, the general trend in Africa is towards contemporary art of all forms. According to Mr Hundt, there is a growing understanding of sustainable investments in South African and African contemporary art. For an African artist, international exposure and recognition by respected institutions such as the Tate Modern are paramount to investment artist status. Mr Hundt notes that celebrity artists such as South African artist William Kentridge would retain better value for art investors and that fluctuation in prices would be less volatile.

Art as an alternative asset is still niche in Africa, due to the highly heterogeneous nature of the investment and a lack of art-focused exchange traded funds. This leaves the art enthusiast with high barriers to entry, having to seek out expertise and facing high transaction costs in comparison with traditional investment vehicles. However, Mr Scott states that top-end markets and artists provide the investor with consistent growth and protection against volatility – although art as an asset class is positively correlated with the economic cycle. In turn, Mr Hundt notes that art has a role to play as a hedge against inflation over a long-term investment horizon, and that an investor should be able to realise the best return over a period of 10 years. However, popular contemporary art should yield the investor attractive returns within five years. Mr Hundt advises that, generally, art as an asset should be limited to 5% of an investor’s total portfolio.
## APPENDIX

### Luxury Goods Potential Index

#### Demographics Sub-Index

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<thead>
<tr>
<th>Indicator</th>
<th>Units</th>
<th>Weight in Overall Index</th>
<th>Rationale for Inclusion</th>
<th>Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Population, 2030</td>
<td>Number of people</td>
<td>35.50</td>
<td>For luxury goods, the size of the urban population is deemed to be more important than the total population, since people living in rural areas in Africa can rarely afford luxury goods.</td>
<td>UN Population Division</td>
</tr>
<tr>
<td>Urbanisation Growth Rate, 2015-30</td>
<td>% p.a.</td>
<td>1.00</td>
<td>Rapid growth in urbanisation will tend to support economic growth.</td>
<td>UN Population Division</td>
</tr>
<tr>
<td>Urbanisation Ratio, 2030</td>
<td>%</td>
<td>1.25</td>
<td>Countries with high urbanisation ratios tend to be at a higher stage of development. It is also easier for companies to target a market that is highly urbanised rather than scattered across a large area.</td>
<td>UN Population Division</td>
</tr>
<tr>
<td>Dependency Ratio, 2015</td>
<td>%</td>
<td>1.25</td>
<td>This ratio measures the number of people aged below 15 and above 65 as a proportion of the working-age population. In countries with low dependency ratios, each working-aged person will have fewer non-working-aged people to take care of and will therefore have more resources available to spend on, inter alia, luxury goods. In addition, a very high dependency ratio is usually indicative of a very high mortality rate, suggesting that a country had a war or that health is very poor.</td>
<td>UN Population Division</td>
</tr>
<tr>
<td>Dependency Ratio, 2030</td>
<td>%</td>
<td>0.50</td>
<td></td>
<td>UN Population Division</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td><strong>39.50</strong></td>
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### Income Sub-Index

<table>
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<tr>
<th>Indicator</th>
<th>Units</th>
<th>Weight in Overall Index</th>
<th>Rationale for Inclusion</th>
<th>Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Households with Income Above $20,000 p.a., 2010-12</td>
<td>Number</td>
<td>20.00</td>
<td>Measure of the size of the middle- and upper-income market. The middle-class was included due to 1) the small number of high-income individuals outside of South Africa at present; 2) the expectation that strong economic growth will lift many Africans into a higher income bracket over the next few decades; and 3) the fact that middle-income people also buy luxury goods, albeit in smaller quantities.</td>
<td>Oxford Economics, NKC African Economics</td>
</tr>
<tr>
<td>GDP per Capita, 2015</td>
<td>US$</td>
<td>5.00</td>
<td>The only indicator of a country’s broad income level that is measured for practically all countries and reasonably comparable between countries.</td>
<td>International Monetary Fund, NKC African Economics</td>
</tr>
<tr>
<td>Vehicle Penetration, 2013</td>
<td>Cars per 1,000 people</td>
<td>3.00</td>
<td>These goods are associated with middle to upper-middle income groups. African countries that can afford large amounts of these goods currently are most likely to afford high-end goods in two decades from now.</td>
<td>Organisation Internationale des Constructeurs d’Automobiles (OICA)</td>
</tr>
<tr>
<td>Television Imports, 2010-14</td>
<td>US$/capita</td>
<td>2.10</td>
<td></td>
<td>Trade Map</td>
</tr>
<tr>
<td>Washing Machines Imports, 2010-14</td>
<td>US$/capita</td>
<td>2.10</td>
<td></td>
<td>Trade Map</td>
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<tr>
<td>Fridge Imports, 2010-14</td>
<td>US$/capita</td>
<td>2.10</td>
<td></td>
<td>Trade Map</td>
</tr>
<tr>
<td>Outstanding Mortgages, 2011</td>
<td>% of GDP</td>
<td>2.20</td>
<td>Measure of the potential for the housing market.</td>
<td>Centre for Affordable Housing Finance in Africa, Housing Finance Information Network</td>
</tr>
<tr>
<td>Yacht Imports, 2010-14</td>
<td>US$/capita</td>
<td>1.40</td>
<td>Measure of the size of the luxury market.</td>
<td>Trade Map</td>
</tr>
<tr>
<td>Perfume Imports from Europe, 2010-14</td>
<td>US$/capita</td>
<td>1.80</td>
<td></td>
<td>Trade Map</td>
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<tr>
<td>Swiss Watch Imports, 2010-14</td>
<td>US$/capita</td>
<td>1.80</td>
<td></td>
<td>Trade Map</td>
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<tr>
<td>Implied Sales of German Car Brands (Engines Size &gt; 1,500 cc), 2010-14</td>
<td>units/capita</td>
<td>2.30</td>
<td>Stock markets are generally an important source of income for upper-income groups.</td>
<td>Trade Map, OICA, Naamsa</td>
</tr>
<tr>
<td>Market Capitalisation of Stock Exchange</td>
<td>% of GDP</td>
<td>3.20</td>
<td></td>
<td>Bloomberg, various stock exchange websites</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td><strong>47.00</strong></td>
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## Institutions Sub-Index

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<tbody>
<tr>
<td>Economic Freedom</td>
<td>Index</td>
<td>1.30</td>
<td>These indicators tend to be correlated with economic growth. Companies will also find it easier to enter markets that perform well on these indicators. Moreover, a lack of property rights would constrain the development of the property market and makes it challenging for consumers to build up collateral for applying for loans.</td>
<td>Heritage Foundation</td>
</tr>
<tr>
<td>Property Rights</td>
<td>Index</td>
<td>1.00</td>
<td>Easy access to loans will enable consumer spending, especially for expensive products, such as luxury homes, yachts and cars.</td>
<td>Heritage Foundation</td>
</tr>
<tr>
<td>Doing Business</td>
<td>Index</td>
<td>1.00</td>
<td></td>
<td>World Bank Doing Business</td>
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<tr>
<td>Getting Credit</td>
<td>Index</td>
<td>1.00</td>
<td>These two indicators capture political and conflict risk; countries with high levels of conflict will tend to be poorer, will be less attractive markets and will have worse growth prospects than stable countries.</td>
<td>World Bank World Governance Indicators</td>
</tr>
<tr>
<td>Violence</td>
<td>Index</td>
<td>3.90</td>
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<td>World Bank World Governance Indicators</td>
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<tr>
<td>Rule of Law</td>
<td>Index</td>
<td>5.30</td>
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<td>World Bank World Governance Indicators</td>
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<tr>
<td><strong>Sub-total</strong></td>
<td></td>
<td><strong>13.50</strong></td>
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## A Supply-Side Perspective

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<td>DE Planification SA</td>
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Source: Whitehouse & Associates
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CONTACT DETAILS

KPMG AFRICA

Trevor Hoole
Chairman Africa
T: +27846477276
E: trevor.hoole@kpmg.co.za

Bryan Leith
COO KPMG Africa
T: +27116476245
E: bryan.leith@kpmg.co.za

Benson Mwesigwa
Africa Executive, Senior Manager Africa High Growth Markets
KPMG Africa
T: +27609621364
E: benson.mwesigwa@kpmg.co.za

Jelena Kucan
Manager, Africa High Growth Markets
KPMG Africa
T: +27714623405
E: jelena.kucan@kpmg.co.za

WEST AFRICA

Dapo Okubadejo
Partner & Head, Deal Advisory
KPMG Africa
T: +23412809268
E: dapo.okubadejo@ng.kpmg.com

Pavan Kapoor
Partner, Deal Advisory
T: +23412809231
E: pavan.kapoor@ng.kpmg.com

Ijeoma Emzie-Ezigbo
Associate Director, Deal Advisory
T: +23412805338
E: ljeomia.emzie-ezigbo@ng.kpmg.com

Abimbola Ogundare
Manager, Deal Advisory, KPMG Nigeria
KPMG Africa
T: +23412809203
E: abimbola.ogundare@ng.kpmg.com

EAST AFRICA

Sheel Gill
Partner, Deal Advisory
T: +254202806000
E: sheelgill1@kpmg.co.ke

SOUTHERN AFRICA

John Geel
Partner, Deal Advisory
T: +27834608116
E: john.geel@kpmg.co.za

Nick Matthews
Partner, Deal Advisory
T: +27116475331
E: nick.matthews@kpmg.co.za

Donna Gray
Senior Manager, Deal Advisory
T: +27827185705
E: donna.gray@kpmg.co.za

FRANCOPHONE AFRICA

Barema Bocoum
Partner, Deal Advisory
M: +33155686406
E: bbocoum@kpmg.fr

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