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RESEARCH & INSIGHTS

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Business Insights: Africa's eCommerce Boom to Reshape the Continent's Future of Retail and Logistics

The heralded arrival and mass rollout of vaccines signal a shift in focus from a year in which Covid-19 dominated every inch of our business environments to that of the post-pandemic economy.

Admittedly, whilst we haven't yet emerged from the dark woods, attention is turning to what the lasting effects will be.



Africa, largely touted as the next economic frontier has done relatively well to shield itself from the worst of the health crisis and although infection rates in some countries are rising, there is hope that the availability of vaccines will enable an early arrest of this before Africa experiences the scale of infections that countries like the United States, United Kingdom or Italy have endured.

Like much of the world, Covid-19's economic impact on Africa is painfully clear. Economic activity growth has fallen by more than 3% pushing Africa into its first recession in 25 years¹. African anti-virus efforts dealt a heavy economic blow, with retailers hit especially hard as governments have shut markets and restricted the flow of goods and people.

Surge in E-commerce

As with much of the world, the sudden change drove contagion-wary consumers to use E-commerce platforms, accelerating online sales and home delivery.



Senegalese online platform, Rapidos, which has partnerships with supermarkets, bakeries and pharmacies is doing a roaring trade. Set up just two years ago the platform has seen home deliveries increase by 90 per cent according to Managing Director, Mohamed Badiane.

Across Africa, the trend is the same. Confidence in online sales is surging, home delivery is on the rise and digital innovation is changing how Africans interact.

Africa's e-commerce giant, Jumia, which has traditionally struggled with high operating costs, raising questions over its long-term viability has seen a turnaround benefiting from a virus-driven bump in online sales. According to Francis Dufay, the firm's managing director in Ivory Coast, there had been an "explosion of orders," with demand currently three times higher than normal.

In South Africa, a similar trend playing out. Ecommerce firm OneCart saw a 500-per cent increase in their online business in 2020 and have had to expand rapidly to deal with a surge in demand according to co-founder, Lynton Peters.

Whilst e-commerce in Africa lags behind other parts of the world, the continent's growing middle class and its young, urban internet-savvy population are driving the mass adoption of online sales and digital trading. Some 334 million users shopped online in 2020 with sales projected to reach US\$24,759m in 2021 a growth year on year of 18.4%². User penetration is expected to hit 39.5% by 2025 up from 27.9% in 2021.

¹ World Bank 2021

² Statista 2021
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With a revenue annual growth rate 2021-2025 of 13.3%, online sales are projected to drive the market size to US\$40,758m by 2025, with an average basket size of US\$74.08.

Digital Africa

Even before Covid-19, Africa's thirst for digitalisation was increasingly evident.

Nearly half a billion people in Africa have mobile broadband coverage³, and as more and more of these users access the internet for than just mobile payments and messaging, there will be a rapid rise in the African digital ecosystem of local digital content and services - a catalyst in the adoption of digital technologies that connect businesses with customers and suppliers, link students with teachers, and convene families and friends.



Africa's booming digital sector may offer the best opportunity for governments to kick-start a new growth cycle in the aftermath of the Covid-19 crisis. By encouraging the spreading of digital technologies, data and interconnection to all sectors, African countries can accelerate economic transformation and the creation of productive jobs.

Driven largely by private enterprise, Africa's total inbound international Internet bandwidth capacity increased by more than 50 times in past 10 years. Its fibre-optic network extended by almost four times and mobile cellular subscriptions more than doubled. More than 58% of the population live in areas covered by 4G networks and Africa has over 480 million mobile money accounts, more than all other developing regions taken together.

This interconnectivity has seen the creation of more than 500 African companies providing technology-enabled innovation in financial services (fintech) and over 710 tech

³ World Economic Forum
© Logistics Executive Group 2021

hubs are active across the continent. Arguably coming off a low base there is no denying the growth opportunity. Less than 40% of all African firms have their own website and in 37 African countries, more than 50% of the population cannot afford one GB of data per month. As mobile broadband becomes more prevalent and networks more affordable the rise in the active consumer will exponentially increase from what is already a sizeable base.

Supporting this view, IFC and Google estimate that Africa's internet economy could reach 5.2% of the continent's gross domestic product by 2025, contributing nearly \$180 billion to its economy.

Rise of the Last Mile

Previously, many e-retailers were put off by the myriad problems, ranging from a lack of street names, to limited internet access and suspicion of online payments. It has been previously estimated that the average international cost to the last mile for any manufacturer works to around 28 per cent of the cost of the product. But within Africa, this cost spirals to around 35-55 per cent pressured by issues such as weak infrastructure, limited delivery options and poor supply chain analytics.

With e-commerce gaining momentum, retailers are finding ways to expand their distribution networks, build more fulfilment centres, and leverage more on third-party logistics (3PL) partners across Africa.

The increase in digital mobile money solutions that has given confidence to payment transactions and the development of last-mile locator apps and chatbots has unlocked much of the perceived challenges in the African E-commerce environment.



Overcoming the bottleneck of getting the product from the transportation hub to a customer's doorstep has traditionally been one of the hardest hurdles to address. Poor roads, lack of addressing and urbanisation (two-thirds of the African population still live in rural areas, significantly lower than other continents) are some of the major challenges.

The rise in 'Transport Urbanisation' is leading the charge to overcome these challenges.

The "urbanisation" of last-mile delivery was already taking shape in Africa before the surge in demand from Covid-19. Mobile apps are increasingly becoming more popular in Africa, connecting crowd-sourced transport solutions. The rise of urban delivery networks in Africa such as France's Kwik, Egypt's Sprint and new entrants based on 'Uber' crowd-sourced asset pooling apps like Senty, WumDrop, MAX, Rush, Glovo, Pick-it and Busy Bora are all enabling greater connectivity between sellers and buyers.

With a lack of addressing and postcodes, peer-to-peer courier services are allowing cross-border retailers systems to tap into the traditional way of transport collaboration, often used in open, local markets more effectively enabling e-retailing to offer wider services across the entire of Africa.

Coupled with investment in logistics, Africa's transport network is becoming a major development focus. Nigeria's Konga has invested more than US\$10m in logistics arm, K-Xpress to build a world-class delivery solutions network and Bwala Africa Group, a last-mile logistics marketplace launched last year to solve challenges facing fleet owners, rolled out 80 new trucks to meet the rising demand for last-mile fleet connectivity.

With three major partnerships with Kenya's top retail stores like Copia, Naivas and Jumia up Bwala is also looking to do payment collections through BwalaPay, its ESCROW system allowing customers to pay on delivery and the seller on the other will either get cash when the item is sold/return of the package, if not sold. Drawing on crowdsourcing logistics service providers and fleet owners enables an on-demand last-mile logistics solution for its B2B and B2C customers in e-commerce and distribution.

Traditional carriers and independent transporters still dominate the landscape, but mobile apps are increasingly becoming more popular — driven by high mobile internet penetration and a young growing population.

Customers are searching for mobile solutions that offer real-time visibility, security, easy payment and low-cost delivery — in an industry previously untouched by technology.

As Hennie Heymans, CEO, DHL Express Sub-Saharan Africa points out. “Even if you don't have a physical address, you can establish central points of collection. This is why local partnerships are so important”.

The role of logistics is changing in this new era. Three to four years ago, the traditional way of getting hold of someone for shipping was to ring a call centre, but that's all changed, and the ability to connect with people via their mobiles or apps opens up a channel to better service the last mile.

Enormous Upside

With Africa's population growing rapidly, especially its middle class (expected to make up 1.1 billion out of 2.5 billion Africans by 2050) and it's mushrooming demographic, comprising professionals and business people with increasing disposable income, the taste for Western goods is an obvious opportunity for e-commerce. McKinsey Global Institute projects e-commerce could be worth \$75 billion in Africa's leading economies by 2025.

More than 90 per cent of U.S. and E.U retailers do not sell in Africa according to Chris Folayan, CEO of Mall for Africa, an E-commerce platform that allows customers in 17 African countries to purchase directly from major international retailers that would otherwise be inaccessible.

eCommerce Is At An All-time High

Top 5 Trends to Expect

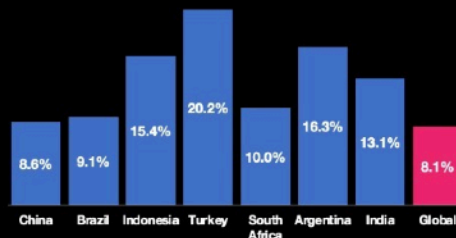
- 1 Brands will prioritize seamless omnichannel experience to win new customers.
- 2 Brands must build creative new digital experiences to unlock the future of retail.
- 3 Consumers will gravitate to brands offering fast, free, sustainable shipping.
- 4 New search and purchasing habits will cause brands to personalize with a human touch.
- 5 Brands will experiment with new channels as digital advertising uncertainty rises.

Demand for 3PLs is set to nearly double to **\$408_{Bn}** by 2025 as brands look to partner and gain access to fulfilment networks

Retail ecommerce sales growth worldwide, by region, 2020 (% change)



Retail ecommerce sales CAGR forecast, 2020-2024



In the US

10 years of ecommerce growth happened in just 90 days.

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SOURCES: Shopify eCommerce Trends 2021, McKinsey & Co 2021, Logistics Executive Group

The likelihood of widespread adoption of E-commerce is bolstered by the trend of 'leapfrogging' in Africa, whereby local innovation overcomes structural deficiencies – as seen with Kenyan mobile money service M-Pesa, which emerged in the absence of consumer banks to give millions of Africans access to digital finance.

Currently, Nigeria, Kenya and South Africa dominate e-commerce sales, but the opportunity is continent-wide, driven by the large structural gap between supply and demand. This coupled with Africa is well known as the world's most entrepreneurial continent, is fuelling Africa's digital entrepreneurs to launched new services for ordering and delivering supplies. Open markets are quickly becoming service hubs for direct to consumer sales and home delivery.

Little encouragement is needed to turn the entrepreneurial spirit into harnessing the power of real economic growth. According to the African Development Bank, more than 1 in 5 working-age Africans are starting businesses. For women, it's more than 1 in 4.

The lack of formal infrastructure means a smartphone is often the best gateway to access everyday services or finance or start a business and digital platform businesses sit at the top of the next wave of major start-ups. According to Alibaba's Jack Ma expect that Africa will boom in sectors like e-commerce, logistics, fintech, big data and tourism.

There is already strong evidence to suggest Ma is again on the money. Jumia, Africa's answer to Amazon, was listed on the New York Stock Exchange in 2019, and just last October, Rwanda released the first smartphone, the Mara Phone, produced entirely in Africa and from African parts.

Hennie Heymans, CEO of DHL Express sums it well when he said, "The boom in e-commerce in Africa is here and now, and those who move first to embrace it will benefit by being here from the start"

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Darryl brings 30 years of executive leadership and consulting experience and is regular contributor on thought leadership across numerous industry publications and is a frequent speaker at international conferences and events on business leadership, strategy, extracting improved business performance and M&A. With a degree in Economics and rich business knowledge across Asia, Middle East and Africa, Darryl is considered to be an expert in the linkage of business strategy and supply chain best practices to business performance. Since 2001 he has been a principle partner in Logistics Executive Group, an internationally known corporate advisory firm with offices in 14 countries and currently serves as an Independent Board Director for a range of regional companies including LogiSYM Hong Kong, Taya Group and EGL.

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