McKinsey&Company

Africa – an opportunity for Pharma and Patients

UNIDO

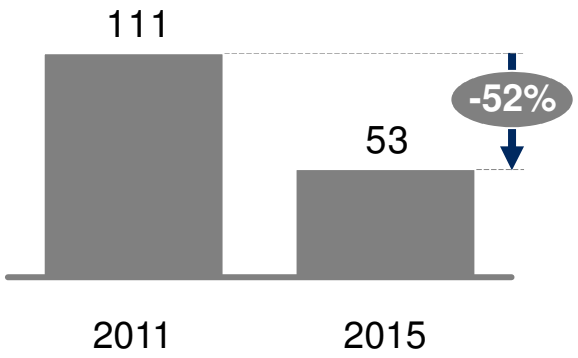
2018

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited

Africa has experienced a slowdown in growth over the past 5 years, precipitated by four, largely external, headwinds

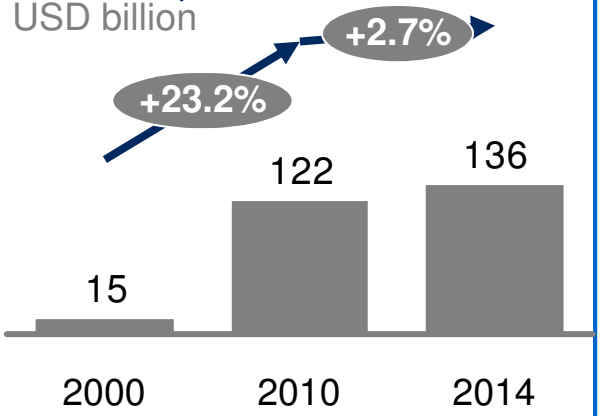
1 Falling commodity prices

Average oil price
USD per barrel



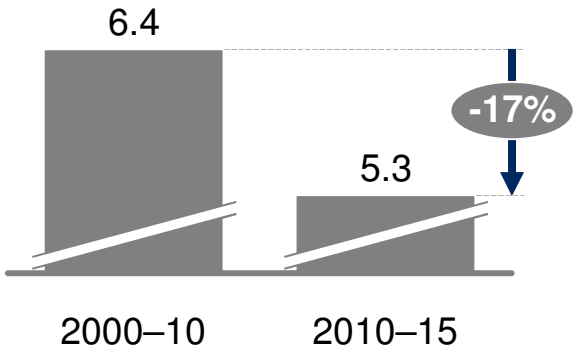
2 Flattening international capital flows

African capital inflows
USD billion



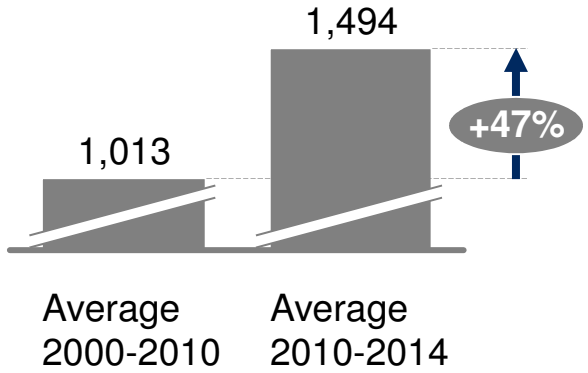
3 Slower emerging market[1] growth

Measured real GDP growth
Compound annual growth rate, %



4 Increased insecurity

Number of violent conflicts, Africa
Number of incidences[2]



1 Includes the following regions: emerging Asia including China, Latin America, North Africa, sub Saharan Africa, Central and Eastern Europe, Middle East
2 Includes all incidents/ events leading to at least 1 death within the identified period

SOURCE: International Monetary Fund, World Economic Outlook database; MGI Financial assets database; Uppsala Conflict Data Program(UCDP) Georeferenced Event Data(GED)– Global instances of political violence; McKinsey Global Institute analysis

We believe Africa's long-term growth prospects are still positive

Growing workforce

- Working age population to be world's largest by 2034 at 1.1bn
- Stable jobs now growing faster than the labour force

A

Rapid urbanisation

B

- Africa is urbanizing faster than any other region: Another ~190 million moving to urban regions by 2025
- Urban areas have 2.5x higher productivity than rural areas

Technology

Technology creating opportunities to leapfrog in key sectors e.g.,

- Financial services
- Education
- Healthcare
- Retail/Wholesale

C

Natural resource endowments

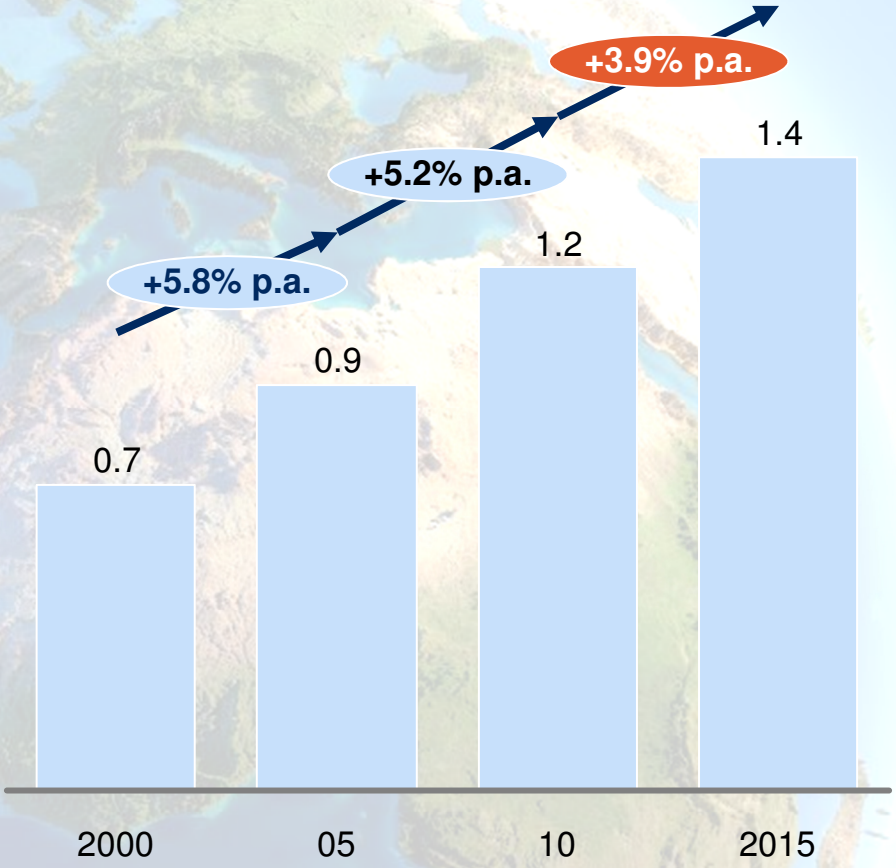
D

- Africa has a significant share of global resource reserves e.g. 10% of global oil exports
- These reserves can competitively meet continued global demand for these resources

SOURCE: Findex World Bank 2014; Euromonitor; press search; McKinsey Global Institute analysis

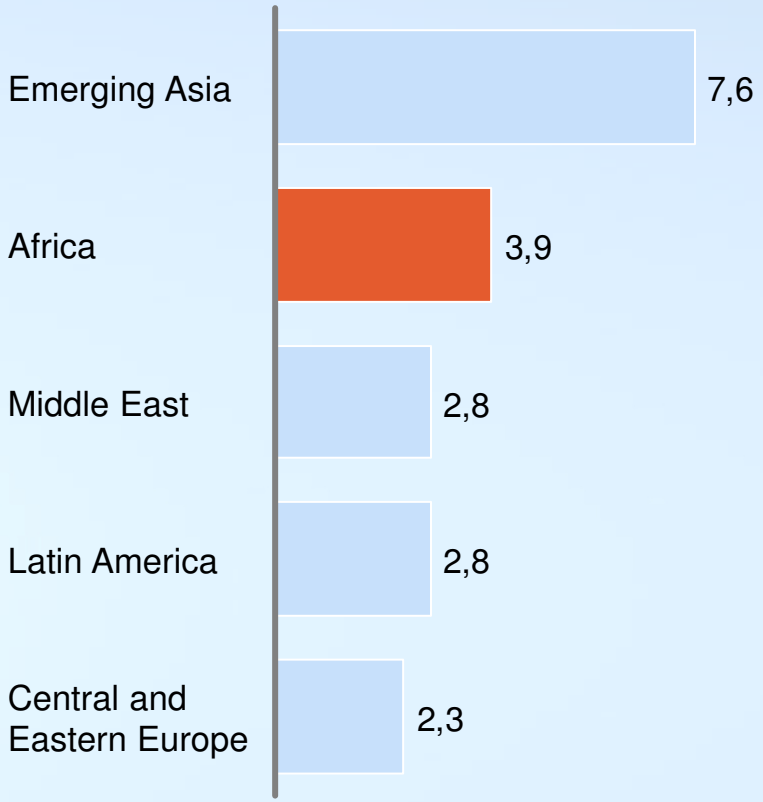
African household consumption reached $1.4tn in 2015, the second fastest growing region in the world

Household consumption growth 2000-2025
USD trillion (Real 2015)



1 Representative of household consumption in 39 African countries

Household consumption growth across regions 2010-2015
Compound annual growth rate, %

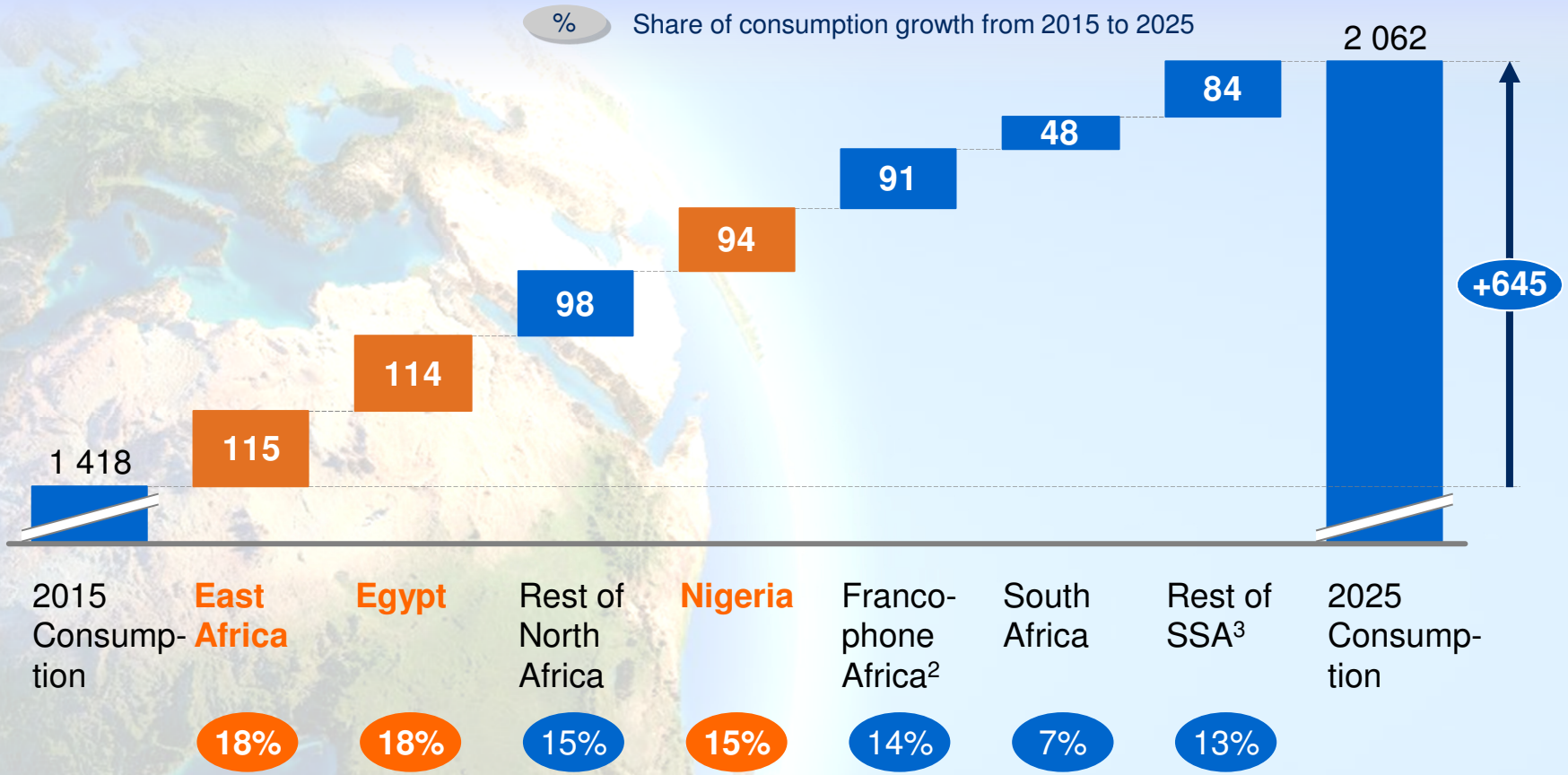


SOURCE: Oxford Economics; IHS Global Insights; McKinsey Global Institute analysis

Household consumption will grow by ~$650 billion by 2025, half coming from Egypt, Nigeria and East Africa

Country contribution to growth in household consumption 2015-2025[1]

USD billion , real 2015 prices



1 Breakdown is representative of 39 countries in Africa
2 Includes 14 countries in central and western Africa, excludes North Africa
3 SSA stands for sub Saharan Africa

SOURCE: Oxford Economics; IHS Global Insight; McKinsey Global Institute analysis

Higher incomes are shifting categories demand: since 2005 non basic categories grew fastest incl. medical products

Historical product growth[1] 2005-2015, real CAGR in %

Higher than both category and country total
Higher than either category total of country total
Lower than both country and category total

		South Africa	Tunisia	Algeria	Cameroon	Egypt	Kenya	Morocco	Nigeria	Average[1]
Food and beverages	Bread and cereals	2.7	1.5	5.3	4.2	0.3	6.4	2.7	3.7	3.3
	Meat	4.1	1.7	5.9	5.1	4.8	7.3	4.7	4.3	4.7
	Soft drinks	3.0	1.1	8.8	8.6	6.8	6.4	3.1	4.7	5.3
	Alcoholic drinks	3.6	6.4	5.4	3.5	11.9	1.7	9.2	10.6	5.1
Consumer goods	Clothing & Footwear	2.1	4.2	-1.7	2.1	0.1	1.5	0.9	2.5	1.7
	Furniture and homeware	-4.2	-0.8	4.7	4.6	12.8	5.2	2.4	3.9	3.0
	Medical products	5.1	2.5	6.7	5.2	16.4	6.4	11.2	6.1	10.2
	Personal care	3.1	2.2	7.6	2.9	4.3	5.2	2.5	3.5	3.8
	Motor Vehicles	-1.5	0.9	7.9	7.3	32.6	4.3	3.5	5.2	4.5
Services	Transport services	4.6	2.2	7.1	7.2	9.4	4.2	5.2	5.1	5.8
	Telecoms services	2.8	9.5	7.0	7.9	8.0	6.3	8.1	8.4	6.6
	Financial services	1.8	8.5	8.7	4.1	6.5	6.5	9.2	4.8	4.6
	Utilities	4.9	3.0	6.7	4.6	4.4	4.1	2.6	5.7	5.0
	Average[1]	**2.5**	**3.0**	**6.1**	**4.4**	**5.5**	**5.3**	**4.2**	**4.0**	

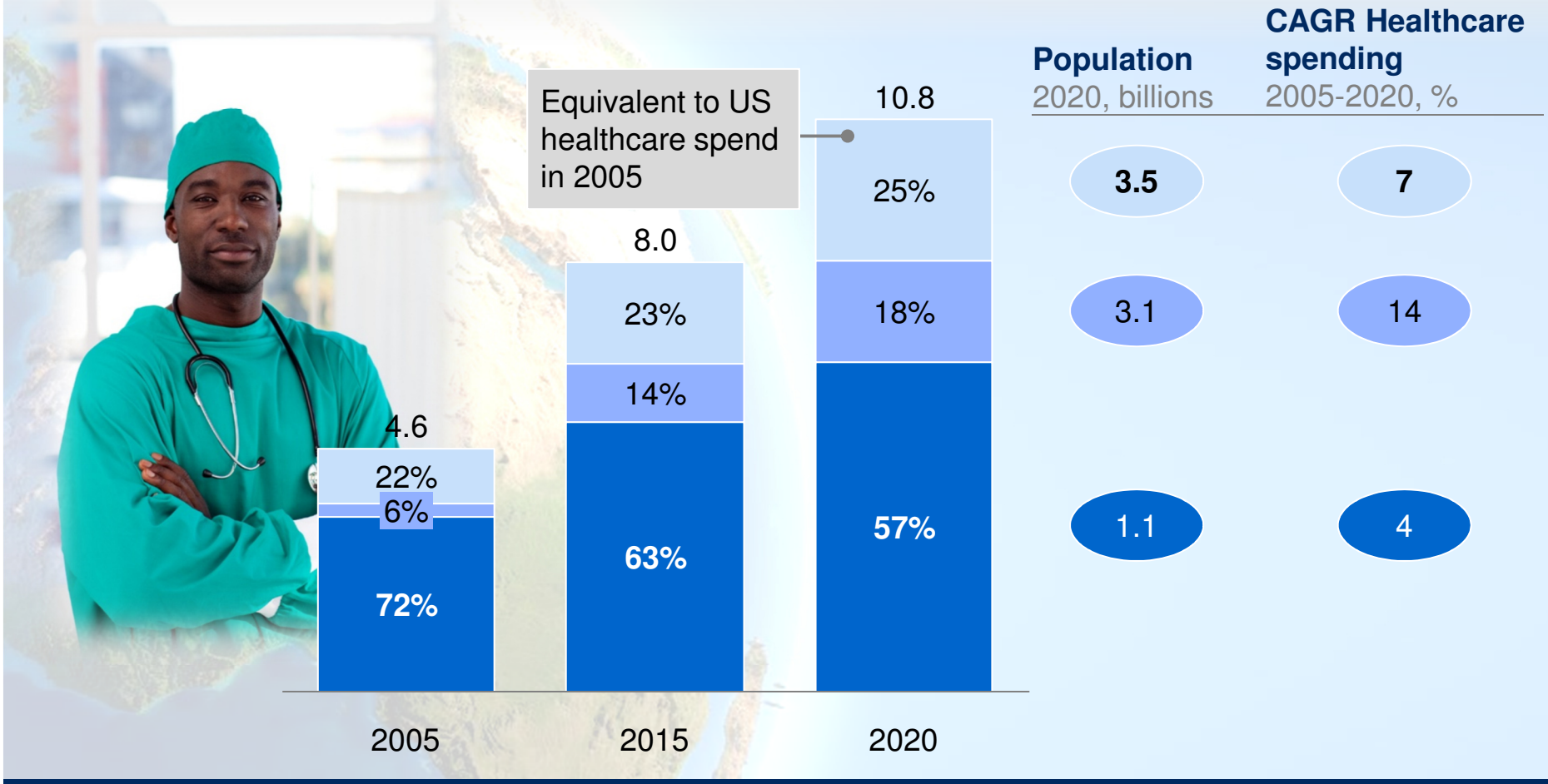
1 Weighted average growth rates

Source: Euromonitor Passport ; Global McKinsey Institute

GLOBAL TRENDS

$8.0 trillion spent globally on healthcare in 2015, with the rising share of emerging markets

Global healthcare spend breakdown by region
US $ trillions



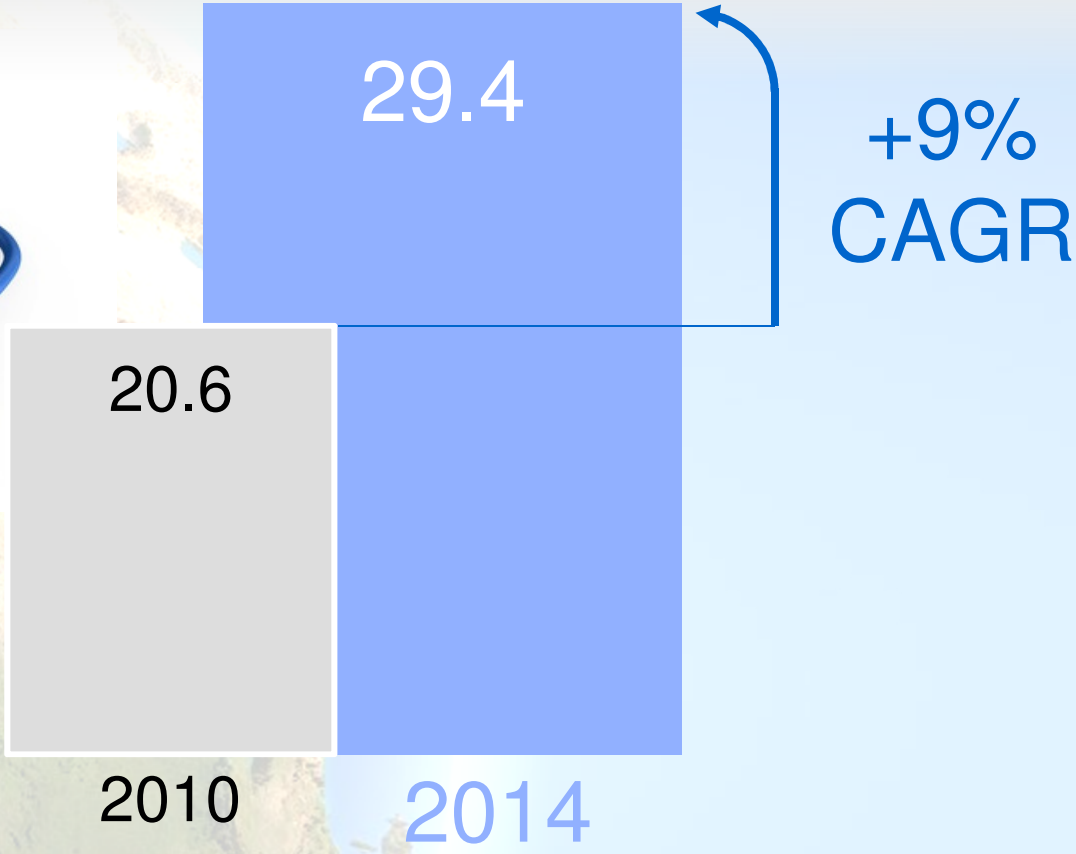
SOURCE: BMI

AFRICA OPPORTUNITY

The pharmaceutical and medical products market experienced strong growth in recent years

African pharmaceutical and medical products market

USD billions[1]



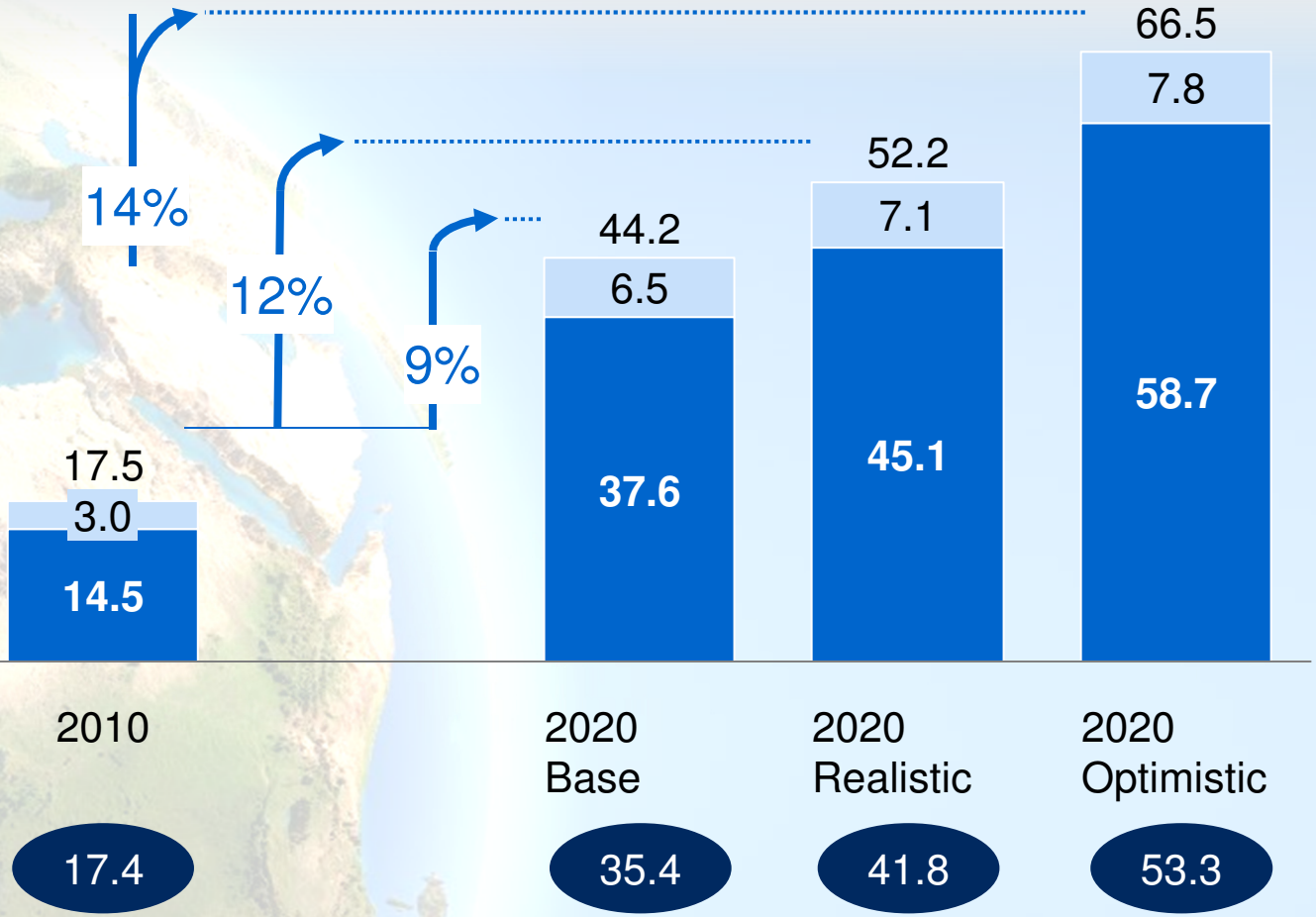
1 OTC, Patented, Generics split extrapolated from data available for 60% of pharmaceutical sales

SOURCE: BMI; World Bank; McKinsey analysis

Fast growth expected for Africa in the next years

Africa pharmaceutical market forecast

USD billions



Africa sales per capita

USD

2010	2020 Base	2020 Realistic	2020 Optimistic
17.4	35.4	41.8	53.3

1 South Africa, Egypt, Algeria, Nigeria, Morocco, Angola, Tunisia, Libya, Ethiopia, Sudan, Ghana, Kenya, Cameroon, Tanzania, Uganda

SOURCE: WHO; World Bank; IMF; African Development Bank; BMI; McKinsey Africa Pharma 2020 Model

GROWTH DRIVERS

4 main factors underpin the future growth of Africa's market, with different impact depending on the country

1 Increased expenditure

- Increasing health investment
- Rising consumerism –population, urbanization, middle class
- Increased burden of disease

2 Expanded provision

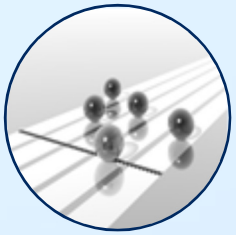
- Expanded HRH and prescriber base
- Evolving provider models
- Increasing private sector provision

3 Maturing business environment

- Maturing regulatory environment
- Improving investment climate
- Reduced counterfeits

4 Increased "genericisation"

- Increased confidence in generic products
- Ongoing pricing pressure
- Increasing push for local manufacturing



SOURCE: McKinsey analysis

What does it take to win?

1 Focus on where the growth is	More than two-thirds of the continent's GDP and cumulative growth over the past decade came from just 10 of its 54 countries and 37 percent of all consumers in Africa are concentrated in 30 key cities
2 Invest in building a strong and local sales and marketing team	Real talent is key. In shaping sales teams, leading companies build in a high degree of flexibility to ensure local organizations are responsive to the needs of local markets.
3 Forge local partnerships in private and public sector	Global pharmaceutical companies need local business partners to help them navigate Africa's many markets, which vary widely in consumer preferences, pricing, manufacturing and distribution infrastructure
4 Address supply and distribution challenges	Establishing reliable supply and distribution mechanisms is still a major challenge in parts of Africa. Consumer companies such as Nestlé and Unilever offer helpful lessons in the importance of using route-to-market as a strategic lever.

SOURCE: The Economist; Afrinvest Nigeria banking report; McKinsey

1 Focus – Focusing on additional cities1 can be more powerful and rewarding than focusing on opening new countries

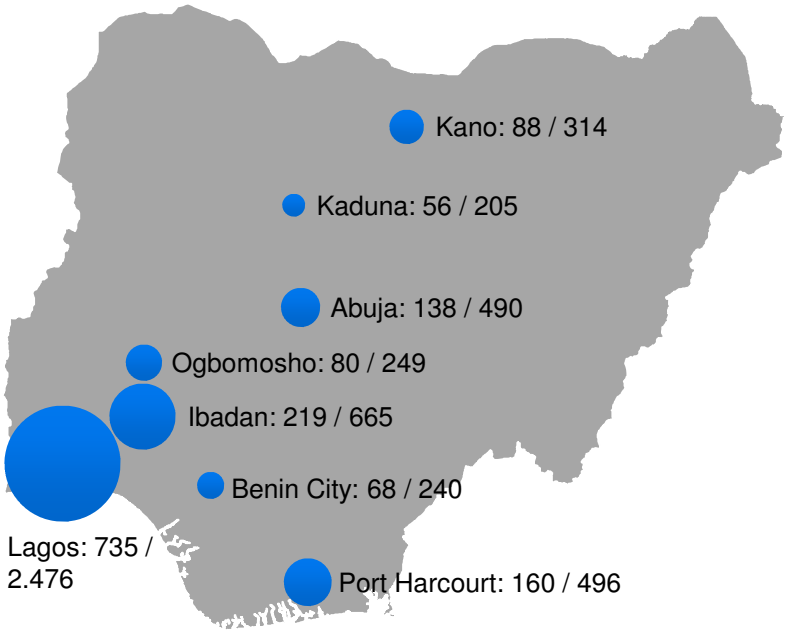
Number of households with an income superior to 7.5K USD, '000

City: XX / XX

2010 2025

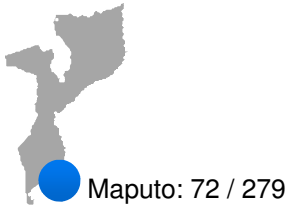
Nigeria

- Total population: 158m (2010) / 230m (2025)
- Total number of households: 34m / 61m
- Number of households > 7,5k income: 3.3m / 9.7m



Mozambique

- Total population: 23m (2010) / 32m (2025)
- Total number of households: 6m / 10m
- Number of households > 7,5k income: 0.4m / 1.6m



Rwanda

- Total population: 11m (2010) / 16m (2025)
- Total number of households: 2m / 4m
- Number of households > 7,5k income: 0.8m / 2.6m

Focus on cities: penetrate large countries (e.g., Nigeria) city-by-city and be clear on trade-off when entering smaller markets

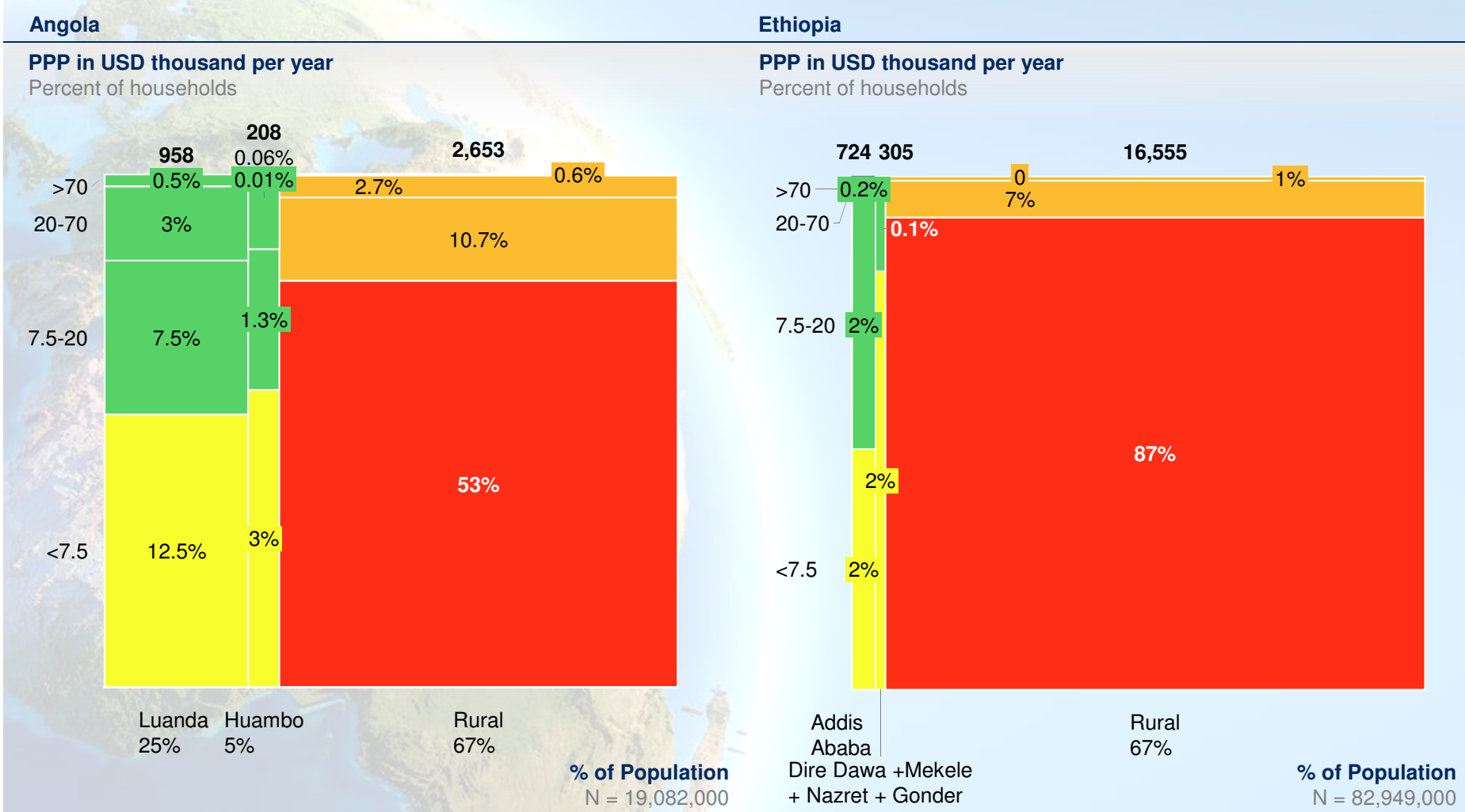
1 Only cities with more than 1 million inhabitants are shown on the maps

SOURCE: McKinsey CityScope; team analysis

1 Focus – Approx. 47% (9 million) of Angola's population is easily accessed vs. only 13% (11 million) in Ethopia's

Percentage of households in PPP income bracket per city, number of households

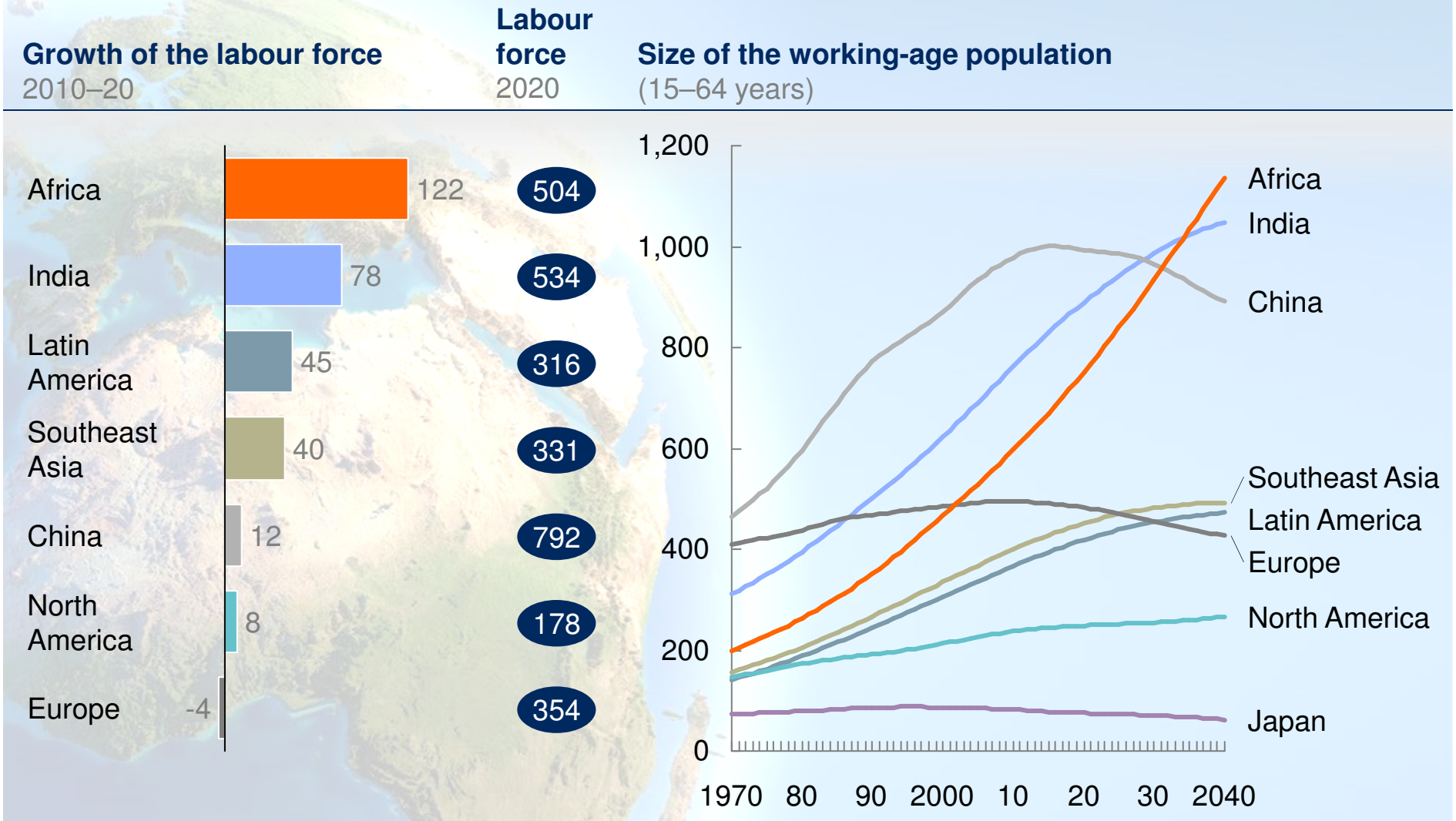
Easy access, large income | Easy access, low income | Poor access, large income | Poor access, low income



SOURCE: MGI City Scope

2 Africa's labour force will grow by 122 million during this decade, and will be the largest in the world by 2035

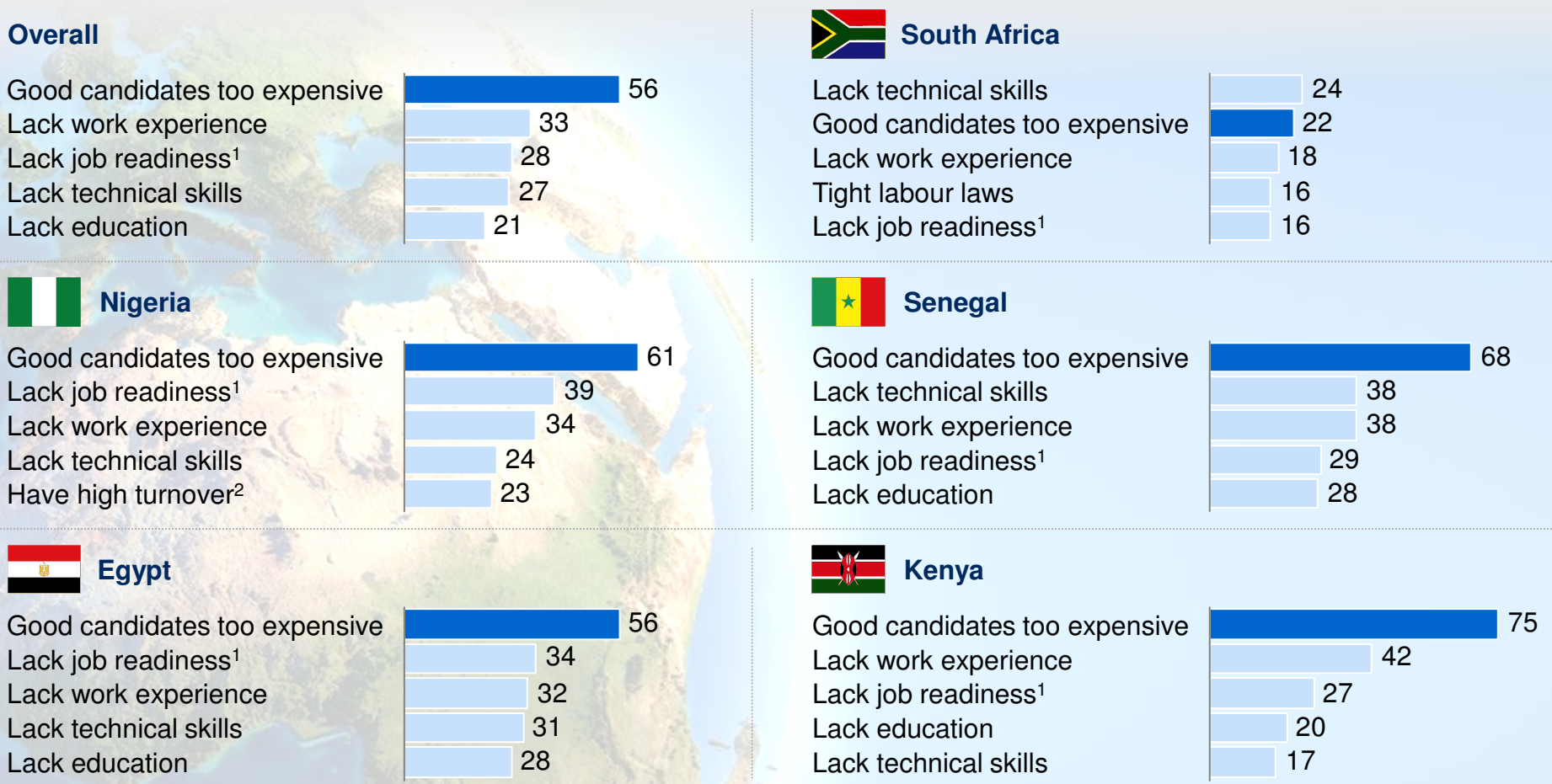
Million people



SOURCE: International Labour Organization; United Nations World Population Prospects; McKinsey Global Institute analysis

2 African companies say that good candidates are too expensive and lack technical skills and job experience

Q: What are the main obstacles for your company when trying to hire new employees?
% of enterprises citing factor in their top 3 obstacles to further hiring (n = 1,373 employers)



1 For example, punctuality and dependability.
2 Reduces employer willingness to invest in hiring/training new employees.

SOURCE: McKinsey Survey of African Businesses, 2011

3 Multiple barriers for NCDs at healthcare system level

SUB-SAHARAN AFRICA

NON-COMMUNICABLE DISEASES

Infrastructure gap

- **Poor quantity and quality** of diagnostic and treatment centers (e.g., no radiotherapy machines in Côte d'Ivoire)

Human resources scarcity

- **Limited number of specialists** (e.g., no medical oncologist in Nigeria)

Supply chain challenges

- Complex supply chain leading to **high mark-ups, availability issues** and **poor cold chain** quality assurance

Absence of data

- **Limited epidemiology data:** few registries for NCDs (e.g. no registries of cancer in Gabon)

Policy, regulation and stakeholders inefficiencies

- **Limited knowledge** of NCDs, hence low political priority given to them (e.g. policy development)
- Limited **knowledge of regulation of Biologics**

Funding issues

- **Limited coverage of NCDs by public and private health insurance**

3 Unlock private sector through partnerships in funding and infrastructure

3 types of partnerships

Partnerships with private insurers

- **Design Private Health insurance package** to cover NCDs and related products (incl. innovative micro-insurance)
- **Provide regional risk pooling** through deals with Re-insurance companies (to improve economics)

Swiss Re

UnitedHealthcare

Partnerships for infrastructure

- **Develop centers of excellence** with international hospital chains (to reduce medical tourism)
- **Partner with medical device makers** to bridge infrastructure gaps

JOHNS HOPKINS MEDICINE SCHOOL OF MEDICIN

GE

Partnerships with banks for patient credit funding

- **Develop innovative patient credit products** with banks

BARCLAYS

Ecobank The Pan African Bank

DISGUISED CLIENT EXAMPLE

4 In >20% of the visits products were not available

✓ Always available[1]
✓ Partly available
✗ Not available

Product 1	✓	✓	✓	✓	✗
Product 2	✓	✓	✓	✓	✓
Product 3	✓	✓	✓	✗	✓
Product 4	✓	✗	✓	✓	✗
Product 5	✓	✓	✓	✓	✓
Product 6	✓	✓	✓	✗	✓
Product 7	✓	✓	✓	✓	✓
Product 8	✓	✓	✓	✗	✓
Product 9	✓	✓	✗	✓	✓

1 Available in all pharmacies visited in city
2 No availability in at least 1 pharmacy
3 No availability in any visited pharmacy

SOURCE: McKinsey in-store visits

4 FMCG companies are shaping their distribution models using deep customer understanding

Criteria	Questions with which to assess the potential distribution models for each customer segment
Reach	▪ Which customer segments will the model serve? ▪ What proportion of that segment/ the total population will the model reach?
Control	▪ How much control over the distribution will the model offer? ▪ Is there sufficient transparency and quality control to satisfy our needs in the target customer segment?
Operational cost	▪ What are the economics of this model? ▪ Is the model feasible given the costs, size of the customer segment served and expected margins?
Customer price	▪ What will the end patient price be? ▪ Will margins added at each point in the distribution make the product unaffordable?
Reputational risk	▪ What are the risks of using this model? (e.g. third party distributor vs. in-house) ▪ How can these be mitigated?

DIAGEO SAB MILLER

Differentiated distribution models for each segment

- Clarity on what they want to control, with segmented routes to market, e.g.
  - Own network right to high-value customers (and all the data)
  - Second tier customers with dedicated distributor run sales-force; strict quality measures
  - Lower-value customers entirely distributor owned

SOURCE: Team analysis