Growth and Development in the Cosmetics, Soaps and Detergents Regional Value Chains: South Africa and Zambia

African Industrial Development and Integration Research Programme

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1. Introduction

The member states of SADC have placed industrial development at the core of the region's integrated development agenda. In pursuit of this, a series of studies of regional value chains is being undertaken by the Department of Trade and Industry (DTI), coordinated by TIPS, in order to assess the regional competitiveness and opportunities in selected value chains. These studies largely build on previous work undertaken on regional integration.[1] The research studies are undertaken on a collaborative basis by research institutions across the countries being studied to build a common understanding. With the intended outcome being concrete cross-country policy initiatives based on a shared understanding of industrial development challenges, at a regional level.

This research assesses the soaps and detergents and cosmetics value chains in South Africa and Zambia. The research was undertaken by the Centre for Competition, Regulation and Economic Development (CCRED) based at the University of Johannesburg, and the Zambia Institute for Policy Analysis and Research (ZIPAR).

The research is informed by several factors. First, rapid urbanisation, increasing populations and incomes are driving demand for consumer goods in the region. Though the region recorded an average GDP growth rate of 3.3% (2011-2015) there are a few countries in the region that are growing at GDP rates above 5%. There is a collective interest for the SADC countries to support growth in the region as the main source of demand for manufactured exports for all the member states. Light manufacturing (including that of consumer goods) is an important stepping stone toward economic transformation and development of production capabilities in the region. Capabilities are developed through a process of learning-by-doing and light manufacturing presents an opportunity for the accumulation of these capabilities that can then be used to springboard into new areas. Cosmetics and soaps also fall outside of the traditional exports of the region in minerals and agriculture.

Second, there is a trade deficit of $536m for cosmetics and $667m for soaps and detergents in the SADC region presenting an opportunity for the region to meet this demand internally rather than imports from elsewhere. Intraregional trade in soaps and other surfactants and cosmetics has grown significantly between 2011 and 2015. Intra-regional regional imports were only 36% of total SADC imports of soaps and detergents in 2014 (having declined from 40% in 2011). While, the share of intra-regional imports of cosmetics increased from 44% in 2011 to 47% in 2014. The relatively low share of intraregional imports in the SADC region presents an opportunity for regional production to replace the inter-regional imports.

[1] This includes three pilot studies by CCRED, CSID, AIAS and UNZA on: inputs to infrastructure in Mozambique (Baloyi and Zengeni, 2015), mining machinery in South Africa and Zambia (Fessehaie, 2015); soy value chain in South Africa, Zimbabwe and Zambia (Takala-Greenish et al., 2015). It also draws on lessons from four UNU-Wider studies on regional integration and growth: supermarkets (Das Nair and Chisoro, 2015), (Chisoro and das Nair, 2016) and (Ziba and Phiri, 2017): animal feed and poultry (Ncube, Roberts and Zengeni, 2016); mining policy (Fessehaie, Rustomjee and Kaziboni, 2015); regional transport (Paelo and Vilakazi, 2016).

Third, cosmetics industry has significant export potential: in 2015, West Africa's cosmetics industry exports totalled almost US$ 500 million to diversified markets in the region and the US. In Ghana and Togo, it was the fifth largest source of exports.

Fourth, the consumer chemicals sector is important because it has relatively low entry barriers, so policy-makers can support domestic firms. These are product lines where Zambia is competing successfully (Fessehaie et al, 2015). Sixth, the growth in demand for these consumer goods is further fuelled by their increased availability through modern retail outlets. Given the multinational nature of many supermarket chains in the region, supermarkets open up a much larger regional market for suppliers to attain the necessary scale to become competitive in national, regional and potentially even international markets.

Drawing on Fessehaie, Roberts and Takala-Greenish (2015), we locate the assessment of the dynamics in soaps and detergents and cosmetics industries in value chain literature in order to evaluate:

- The structure of industry within and across national borders, with the view to exploring existing and potential regional linkages (up and downstream value chain integration, within or across borders), policy impact and industry development.
- The nature, drivers and challenges in production, processing and trading between firms to create domestic and regional value added;
- Scope for and the different forms of value chain development through production upgrading, transfer of skills/capabilities, resolution of bottlenecks, increased market access and nature of competition; and
- Policy implications at national and bilateral level.

The research sought to understand industrial development of the soaps and detergents and cosmetics value chains in South Africa and Zambia. It also seeks to highlight the potential for mutually beneficial industrial growth and employment opportunities for both countries. The main research questions addressed by the report are:

- How is the production and distribution of the cosmetics and soaps organised, in terms of inter-firm linkages, governance and regional logistics?
- What role do packaging capabilities play in achieving competitiveness?
- What is the role of retailers in driving cosmetics and soaps value chains in the region?
- What are the key factors (including opportunities and constraints) in producers supplying to regional supermarket chains?
- What levers of industrial policy are most effective in deepening and expanding linkages in South Africa and Zambia?

To ground the assessment of the opportunities for regional industrial development, we briefly review debates about global and regional value chains and set out the methodology to be applied. Section 2, maps out the cosmetics and soaps and detergents value chain. Section 3

considers the competitiveness of the industries in South Africa and Zambia as well as the factors that promote and hinder competitiveness. Section 4 looks at the role of packaging for the competitiveness of these industries and section 5 considers the routes to market. Section 6 outlines the industrial policy and regulatory instruments that are currently used by policy makers and section 8 concludes and makes recommendations in section.

1.1. Global and regional value chains as a means of industrialisation

Global Value Chain (GVC) literature, adapted for regional dynamics, is useful to understand the selected value chains as well as the international trade and production networks. A value chain can be defined as a complete range of activities that firms and workers engage in to bring a product from its conception to its end use by final consumers (Gereffi and Fernandez-Stark, 2011). The value chain framework emphasises linkages between the different activities, highlighting how they are coordinated, how economic value is distributed along the chain, and the dynamic processes they undergo (Kaplinsky and Morris, 2000).

Global Value Chains are valuable in capturing the interconnectedness of economies, particularly illustrating how export competitiveness relies on the sourcing of efficient inputs, as well as access to final producers and consumers abroad (Backer and Miroudot, 2013). All these, including trade policy reforms, technological progress and cost, have eased the geographical fragmentation of production processes across the globe according to the comparative advantage of the locations. This international fragmentation of production underpins the increased efficiency and firm competitiveness, such that as recent as 2013 more than half of world manufactured imports were intermediate goods, while more than 70% of world services imports were intermediate services (Backer and Miroudot, 2013).

An integral driver of any value chain lies in its governance structure. “Governance refers to the inter-firm relationships and institutional mechanisms through which non-market coordination of activities in the chain is achieved” (Humphrey and Schmitz, 2002). This concept is used to highlight that some firms in the value chain set and/or enforce the parameters under which others in the chain operate. The power in the supply chain is directly related to the dependency of the several members on a specific partner. The bigger the dependency (technical, commercial, strategic), the greater is the influence and the power of this partner over the others. In this context, governance in the value chain has a close relationship with the control along the chain (Pollice et al, 2007). Therefore, governance is central to the global value chain approach. In fact, “a chain without governance would just be a string of market relations” (Humphrey and Schmitz, 2002).

Understanding governance structures is therefore important for policymaking, particularly in assessing the impact of policies on firms and the location of activities (Backer and Miroudot, 2013). Governance in value chains is also important in understanding the dynamics of market access, the distribution of gains along the chain and the acquisition of production capabilities (Humphrey and Schmitz, 2002). In GVCs, lead firms tend to be very demanding with regard to reducing cost, raising quality and increasing speed, so producers that gain access to chains’ lead firms tend to acquire production capabilities quickly albeit under immense pressure. Highly governed chains therefore embody a combination of high challenge and high capability rewards.

The consideration of regional value chains (RVCs) is particularly important because these chains may be more amenable to upgrading than GVCs as all the players in the value chain in the former are located within the region (Keane 2015). RVCs have important dynamics which are not generally taken into account in the GVC literature. These dynamics consist of the coexistence of regional trade, regional investment and regional corporate ownership. There are at least three reasons why research in this area is important: 1) the region is the main economic space where regional firms are exporting manufactured products, hence it is of strategic importance to support structural transformation processes; 2) regional value chains are controlled by regional players in terms of ownership, production and investment, hence there are more opportunities to upgrade into high-rents value chain links such as product design, branding, and distribution; and 3) there is policy space to intervene given the existing regional economic integration agreements and the political commitment at SADC and SACU levels towards a regional industrialisation agenda.

However, there is limited literature on RVCs, particularly in Africa. The evidence that exists suggests that there are production networks in operation within the region as part of GVCs, particularly in the metal products, textiles and clothing industries as well as regional value chain development in relation to consumer orientated products (Keane, (2015).

Development of RVCs in Africa is however faced with many challenges that can undermine the efforts to improve regional industrialisation and integration. These include limited scale due to small populations of SACU members with the exception of South Africa (Farole, 2015), geographic remoteness (of the region from the global markets), high transport costs, uncomplimentary trade policy (Fessehaie, et al., 2015 and Keane, 2015) and low levels of skilled labour within the region as some of these challenges.

Supermarkets are becoming an increasingly important route to market for many consumer goods in southern Africa, providing opportunities for suppliers to participate in lucrative retail value chains (Das Nair and Chisoro, 2015; Boselie, Henson and Weatherspoon, 2003). This is largely attributed to the expansion of South African supermarket chains both within South Africa and in the southern African region, and the surge in construction of shopping malls in southern Africa, providing retailers with the space to carry out their operations. So, using supermarkets, suppliers can attain the necessary scale to become competitive in national, regional and international markets. It can also minimize transport and distribution costs since many of these supermarkets are multinational in nature and already have established distribution and logistics channels.

FMCG global value chains

In the past, manufacturing companies such as Nestlé, Unilever, Procter & Gamble, and L'Oreal controlled their supply chains via their brand power over the fragmented trade and their bargaining power over the supplier base (Pollice et al, 2007). This leadership allowed the FMCG companies to exert control over raw material costs and finished goods sales price. However, the internationalization of trade, the restructuring process in global markets (influenced by mergers and acquisitions) and the growth of customers' bargaining power led to a strategic fight for the leadership of the global value chain, with a strong pressure emerging

trying to transform producer-driven value chains (led by manufacturing companies) into buyer-driven value chains (led by trade companies). This restructuring process in global markets enabled several segments to organize themselves in powerful groups, controlling supply and international prices. The characterisation of GVCs as supplier- or buyer-driven is somewhat outdated (Fessehaie, 2015), and has evolved to the broad configurations that take into consideration aspects such as supplier-based capabilities, level of standardization of products and processes, and a broader view of asset specificity (Gereffi et al, 2005).

The choice of classification depends on three main variables: complexity of transactions (related to the complexity of information and knowledge transfer requested between companies), ability to codify transactions (the extent to which information and knowledge can be codified and transmitted without the need of specific investments), and capabilities of the suppliers (related to the capabilities of the current and potential suppliers to meet transactions requirements). However, this classification is theoretical and needs to be empirically tested. Pollice et. al (2007) analysed this governance model using fast moving consumer goods (FMCG) companies in Brazil clustered into chemical commodities, chemical specialities and packaging materials. They found that packaging materials and chemical specialities clusters indicated modular governance (suppliers have skills for the de-codification of complex products specifications and develop process technology competencies), while chemicals commodities indicated a relational value chain (complex relationships between buyers and sellers, with high mutual dependence, high level of asset specificity, regulated through reputation, and geographic proximity).[2]

1.2. Approach and Methodology

Value chain selection

This study limited the choice of products to cover manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations as per the International Standard Industrial Classification (ISIC) Revision 3 Harmonised System (HS) four-digit classification. According to this nomenclature, this broadly includes products such as detergent pastes, powders and liquids, soaps, shampoos, hair conditioners and oils, toilet cleaners, dishwashing detergents, beauty products such as lotions and oils etc. This selection was premised on the 3 observations: one, Zambia's trade deficit in these products suggests potential for import substitution; two, South Africa has a trade surplus (albeit one which has been declining) in these products which suggestions a flourishing industry; and three, imports of these products in southern Africa suggests regional demand for these goods that can be met in part with exports from the region.

Data and Data Sources

The study employed both qualitative and quantitative methods for data collection, following the global value chain framework of analysis as a method of understanding the linkages between the firms along the soaps and detergents/hair preparations value chains. Both

[2] Other classifications are market, defined by arms-length relationships based on price; captive value chain, whereby small suppliers are dependent on big buyers which establish a high degree of control and monitoring; and hierarchy value chains, characterised by vertical integrations, with domination of headquarters over subsidiaries.

secondary and primary data were collected using primary and secondary source. A small scoping exercise of the various players in the soaps, detergents and cosmetic value chain was undertaken in both countries. Primary data/information was collected at each stage of the value chain using semi-structured questionnaires. These were administered interactively. Data was collected from chemical input suppliers, soaps and detergent manufacturers, importers, wholesaler, retailers (both formal supermarkets and independent retailers), key stakeholders such as the relevant industry associations, government departments and development funding agencies.

Players in the soaps, detergents and cosmetic value chain, input suppliers, manufacturing firms and retailers in Zambia were selected purposively. A total of 31 interviews were conducted (Annexure 1). 12 Zambian firms manufacturing soaps, detergents or cosmetic products operating in Lusaka and Copperbelt provinces as well as stakeholders were interviewed. These two areas were selected owing to the concentration of industrial activities in the two provinces. A total of 19 South African interviews were conducted. Key Informant Interviews were also held with relevant industry associations, government departments and development and investment agencies to gather their perceptions of local capabilities in the soaps, detergents and cosmetic value chains (Annexure 1).

To the extent possible, quantitative data was collected from secondary sources, namely government central statistical offices, and international organisations such as the United Nations Statistical database (Comtrade, Trade Map etc.).

Data Analysis

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

2. Background and the soaps, detergents and cosmetics value chains

2.1. Stimulating Regional industrialisation

Historically, growth in the SADC region has largely been driven by mining and other resource related activities. To maintain and improve on these growth rates there is a need to diversify towards manufacturing activities and this has become pertinent given the impact of the fall in commodity prices on these economies. To achieve this, the different governments need to invest in the accumulation of productive capabilities, which are the essence of modern economic growth (Teece, 2000). Light manufacturing is an important stepping stone toward economic transformation as accumulation of capabilities is a result of learning processes in production. Light manufacturing tends to have lower barriers to entry which makes establishing industries easier through policy support. For example, there is a wide array of firms in consumer chemicals that range in size and there is a role for industrial policy to understand

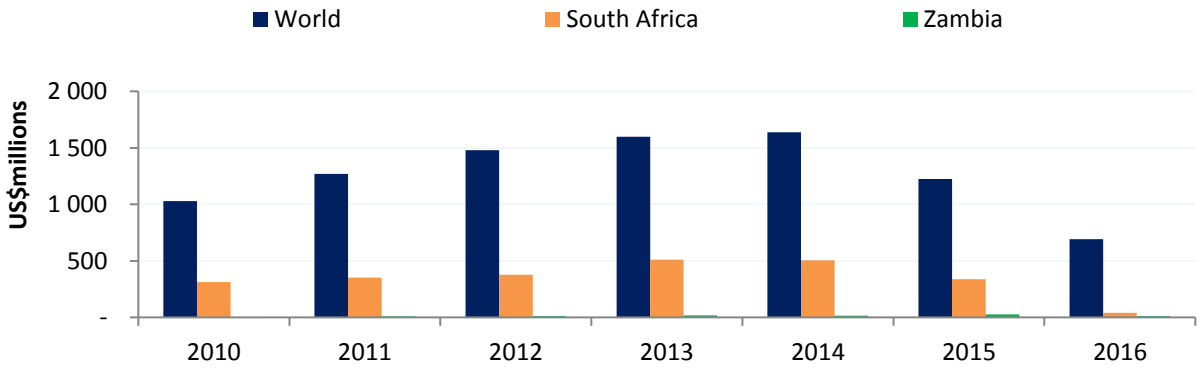
the challenges faced by firms and put in place measure to support firms. Once firms have built these capabilities, they can be leveraged to enter other industries. Further, light manufacturing is an important source of growth and productive employment in economies that are characterised with less-skilled labour such as South Africa and Zambia.

Given the importance of growing light manufacturing industries for economies with a relatively less skilled labour force; the importance of the chemicals sector for South Africa and Zambia's export baskets (second only to food); and the opportunities presented by the growing urbanisation for consumer goods the research sought to identify an industry that could leverage all these trends. Within consumer chemicals, the biggest contributor to the south African export basket has been soaps and detergents and cosmetics, together accounting for 35% (2014) of the total consumer chemicals exports.[3] In the following subsections we explore the potential for improving intra-regional trade and building capabilities.

2.1.1. Potential for intra-regional trade

South Africa has stronger production and export capabilities as evidenced by its deeper traction in southern Africa compared to Zambia (figure 1). However, the large share of imports from the rest of the world, present an opportunity of more intra-regional trade.

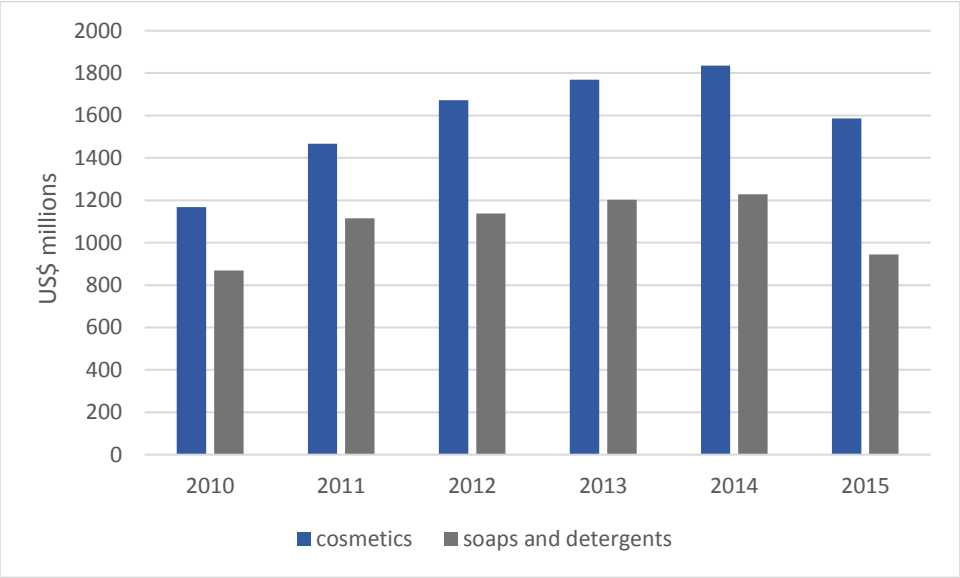
Figure 1: Southern Africa's imports of manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations, 2010-2016, $millions



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

[3] Authors calculations from Quantec data.

Figure 2: SADC imports of soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations,



Source: Trade Map

To capitalise on this opportunity however, there is a need to grow production capabilities and focus on products in which it can acquire a competitive edge. The soaps and detergents product categories with the greatest trade deficits are soap, organic surface-active agents (such as cleaning products), and lubricant preparations (Table 1). These are the same product categories that have exhibited the highest growth of imports. While in cosmetics these are odoriferous substances, perfumes and toilet waters, and beauty and make up (Table 1).

Table 1: SADC Trade balance by product category, US $' millions

Cosmetics (HS 33)	**2014**	**2015**	**2016**
Essential oils	39	28	45
Mixtures of odoriferous substances	-152	-180	-228
Perfumes and toilet waters	-118	-103	-99
Beauty or make-up preparations and skin care	-106	-92	-92
Preparations for use on the hair	-61	-45	-55
Preparations for oral or dental hygiene**.**	-48	-37	-49
Shaving preparations	-87	-70	-60
Total cosmetics (HS 33)	**-533**	**-499**	**-538**
Total cosmetics excluding odoriferous substances			
Soaps etc HS 34	2014	2015	2016
Soap; organic surface-active products and preparations	-199	-157	-102
Organic surface-active agents (excluding soap)	-352	-280	-210
Lubricant preparations,	-92	-68	-66
Artificial waxes and prepared waxes	-12	-9	-9

Polishes and waxes	-12	-8	-8
Candles	-9	-25	-18
Modelling pastes	-3	-3	-3
Total soaps and detergents	**-551**	**-438**	**-312**
Total soaps etc (HS 34)	**-679**	**-552**	**-417**

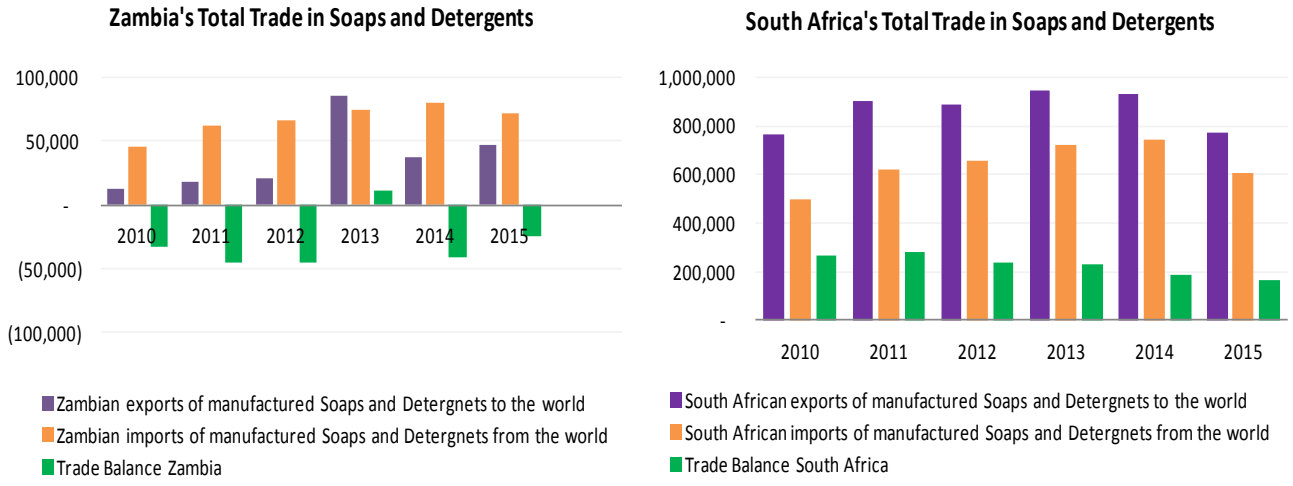
Source: Trade map

We note that 82% of odoriferous substances are mixtures for the beverages industry and as a result we exclude this subcategory in the analysis going forward. Within the soaps HS code 34 category, products such as candls, polishes and waxes, lubricant preparations; modelling pastes and artificial waxes and prepared waxes are included. These products are not strictly soaps and detergents and the study excludes them. So the definition of soaps and detergents adopted in the report includes soap and organic surfactants. This is consistent with

Zambia

The soaps, detergents and cosmetics industry presents opportunities for expanding and broadening Zambia's non-traditional exports. Trade data shows that Zambia's exports of manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations has been growing over the past 6 years (figure 3) although the country still faces a trade deficit in the same products. Trade Kings has not only been successful in dominating the Zambian market but in driving Zambia's exports of soaps, detergents etc. as well. The firm has grown its footprint across the region and has established an export base in Bujumbura, Burundi for exports to the great lakes region (DRC, Rwanda, Tanzania, Uganda, Kenya including Burundi). Excluding Trade Kings, the firms interviewed exhibit the same behaviour towards exports. Despite exhibiting longevity, the firms do not export their products. This is mainly on account of their low production capabilities. Consequently, firms tend to focus on expanding their market share within Zambia.

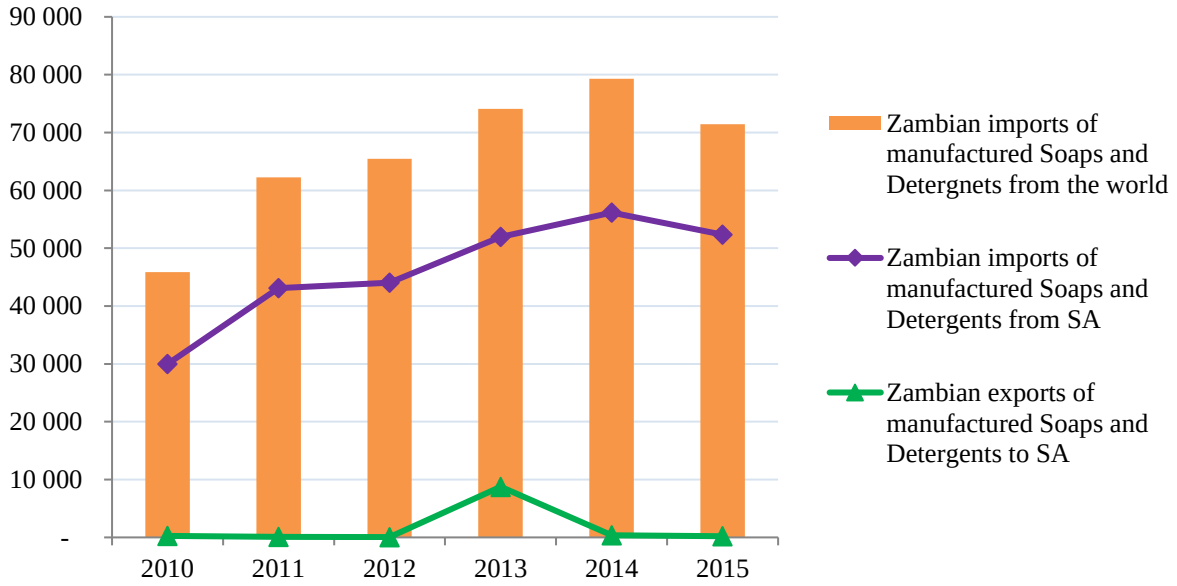
Figure 3 :Trade in Manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations, Zambia and South Africa 2010-2015 ($'000)



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

Notwithstanding the limited production capabilities, opportunities exist for growing capabilities for import substitution within Zambia and the southern Africa region. Figure 3 above reaffirms this observation and depicts the vast differences between Zambia and South Africa regarding the industry. The World Bank WITS data reveals that Zambia's exports of manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations averaged USD 36.8 million over the period 2010 to 2015 while imports averaged USD 66.4 million giving rise to an average trade deficit of USD 29.6 million over the same period. This trade deficit presents opportunities for import substitution in this industry. In contrast, South Africa's exports are 20 times the size of Zambia's exports averaging USD 865.8 million over the period 2010 to 2015. The country enjoys a trade surplus in these products that averaged USD 225.6 million over the reference period. Notably, the country's exports started declining in the year 2014. On average, exports reduced by 13% between the years 2010 and 2015. The trade between South Africa and Zambia is highly imbalanced with trade skewed in favour of South Africa (Figure 4).

Figure 4: Trade in Manufactured soaps and detergents, cleaning and polishing preparations, perfumes and toilet preparations between Zambia and South Africa 2010-2015 ($'000)



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

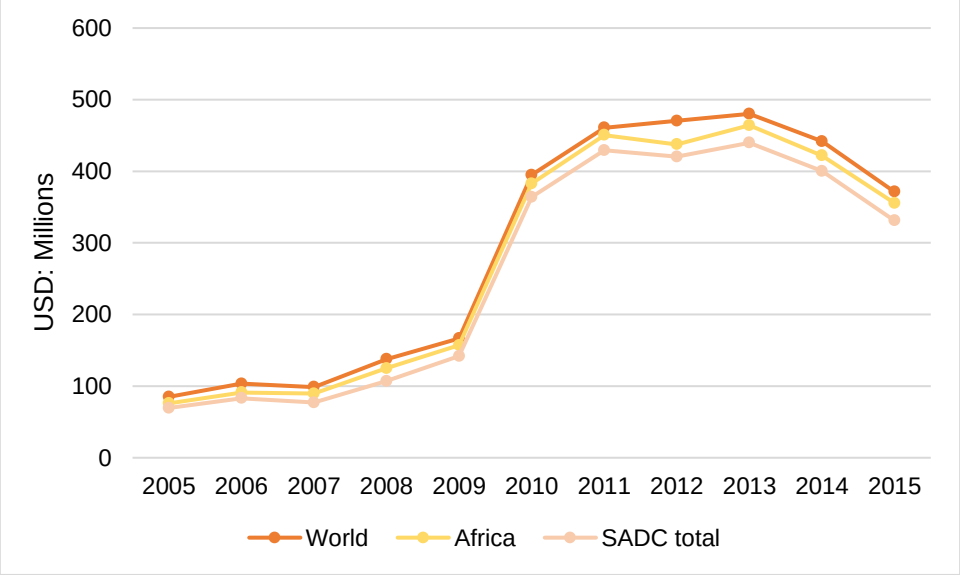
On average, South Africa accounted for 70% of Zambia's total imports of soaps, detergents, cleaning and polishing preparations, perfumes and toilet preparations over the period 2010 to 2015 whereas Zambia's exports of the same products averaged a paltry 0.3% of South Africa's total imports. Suffice to say, the polarity in trade simply underscores the differences in the size and maturity of the industries in the two countries.

South Africa

Soaps and detergents

South Africa's total exports of soaps to Africa have grown rapidly from $75.9m in 2005 to above $464.2m in 2013, with a compound annual growth of 25.4% (figure 5). However, exports declined by 22.7% between 2013 and 2015, and that may be attributed to the weak rand. Exports to Africa accounted for over 95% of the country's total exports of soaps, while SADC accounted for over 93% of total exports of soaps in 2013.

Figure 5 : SA export of soaps and detergents (2005 – 2015)



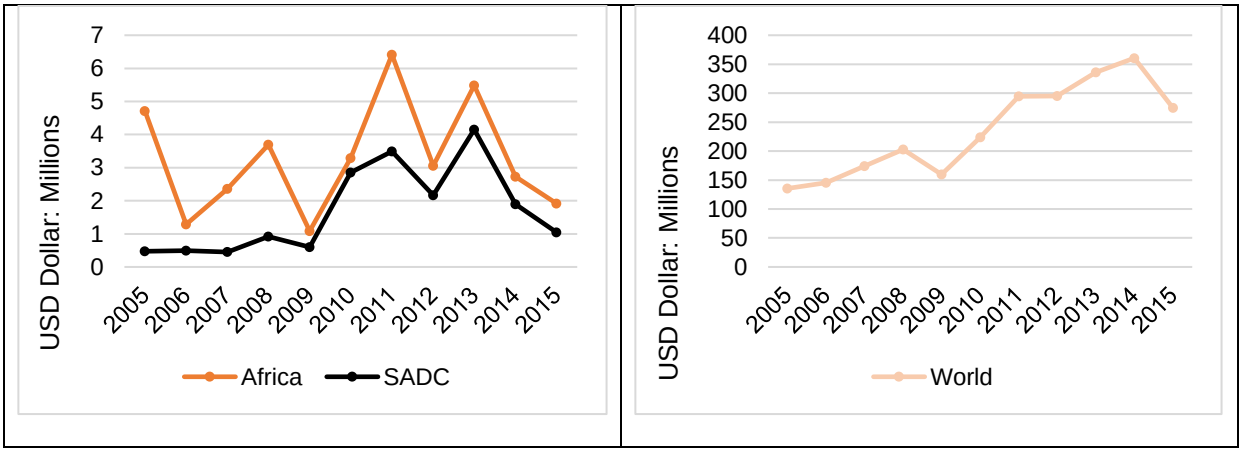
Source: Trade Map

On aggregate, the three leading export destinations in 2014 were Zimbabwe ($90m), Namibia ($60m) and Zambia ($50m).[4] Disaggregating the soaps and detergent subsectors shows that USA (70%) is the leading destination of artificial and prepared waxes, while Botswana is leading the soaps (21%).[5] Polishes and creams, cleaning products, and lubricating products' major destinations are Zimbabwe (25%), Mozambique (20%) and Namibia (25%) respectively.

South Africa's total imports of soaps and detergents were $360m in 2014 (figure 6). However total imports declined by 23.8% between 2014 and 2015. Imports from SADC have been increasing moderately at a CAGR of 8.1% between 2005 and 2015, while imports from the whole of Africa have been declining steadily (CAGR of -8.6%) from $4.7m in 2005 to $1.9m in 2015. Imports from SADC and Africa accounted for only 0.4% and 0.7%, respectively, of total imports in 2015.

[4] See Appendix 2 for more details on the remaining export destinations.
[5] See Appendix 2 for more details on the remaining export destinations.

Figure 6: SA imports of soaps and detergents (2005 – 2015)



Source: Trade Map

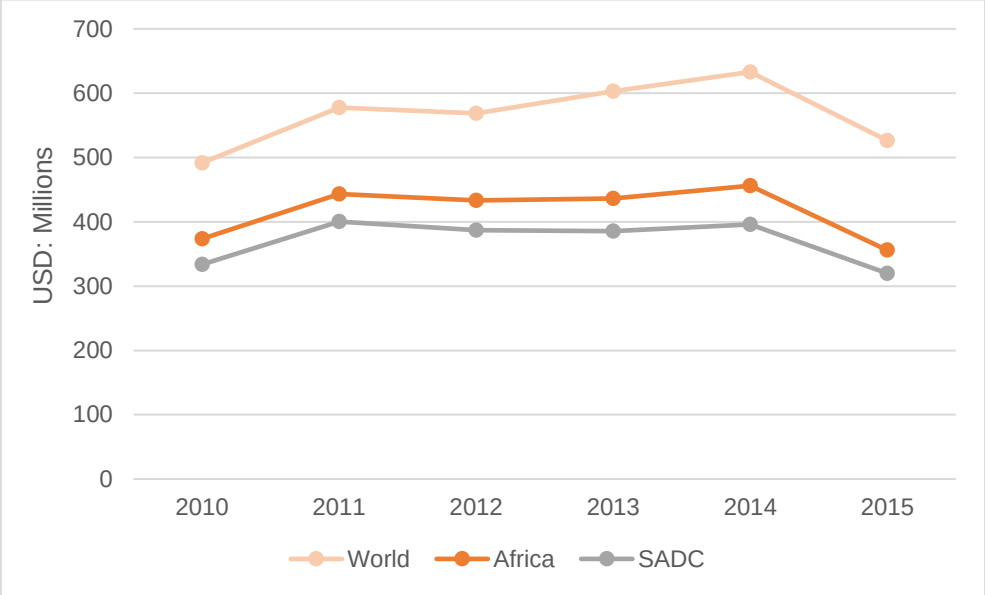
On aggregate, Germany was the leading source of soaps and detergents imports in 2015 with value of $43.9m, followed by USA ($42.6m), China ($21.3) and United Kingdom (20.4).[6] Disaggregating the soaps and detergents subsector further confirms that sources most the soaps and detergents products from Germany. That is, Germany is the leading source of soaps (17%), cleaning products (13%), lubricating products (22%) and, artificial and prepared waxes (43%) (figure 6). Candles and, polishes and cream are mainly supplied by China (72%) and United Kingdom (22%).

Cosmetics

South Africa's total exports of cosmetics have grown steadily to above $632.9m in 2014, with (figure 7). However, exports declined by 16.9% between 2014 and 2015. Exports to Africa accounted for over 72% of the country's total exports of cosmetics in 2014, while SADC accounted for over 62%.

[6] See Appendix 2 for further details.

Figure 7: SA export of cosmetics (2010 – 2015)



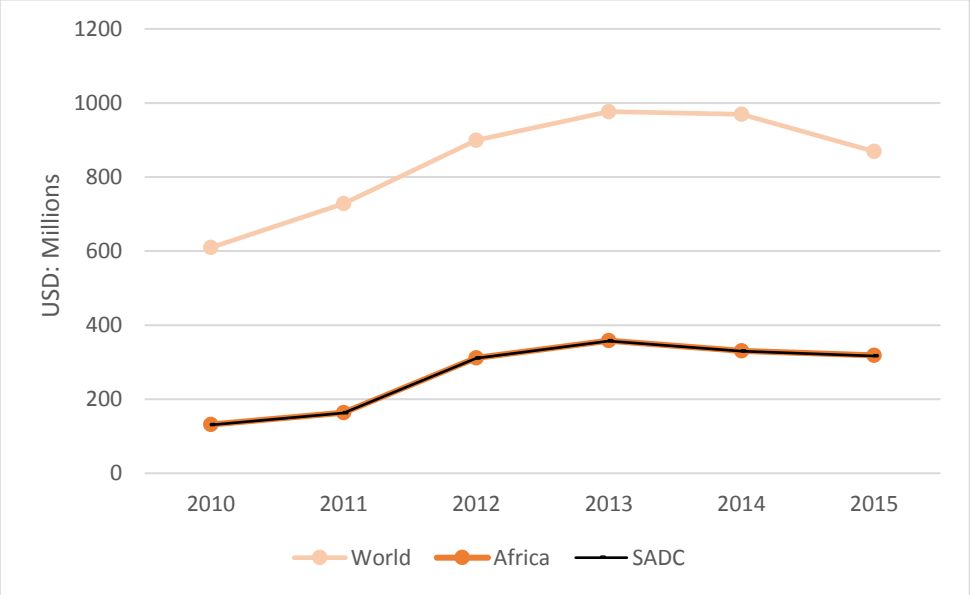
Source: Trade Map

The three major export destinations in 2014 were Namibia ($80m), Swaziland ($49m) and Botswana ($46m).[7] Zooming into the cosmetics subsector shows that Namibia is the leading destination of shaving products (23%), hair products (15%), perfumes and toilet waters (44%) and, beauty and makeup preparations (14%).[8] Swaziland is the leading destination for odoriferous substances (41%) and essential oils (27%). Dental hygiene products mostly go to Mozambique (11%) and United Kingdom (11%)

South Africa's total imports of cosmetics have grown steadily to above $976m in 2013, (figure 8). However total imports declined by 11% between 2013 and 2015. Imports from SADC and Africa accounted for 36.4% and 36.6%, respectively, of total imports in 2015.

[7] See Appendix 2.
[8] See appendix 2

Figure 8: **SA imports of soaps and detergents (2010 – 2015)**



Source: Trade Map

On aggregate, Swaziland was the leading source of imports in 2015 with value of $315m, followed by USA ($84.1m), France ($82.9) and Germany ($58.7).[9] Disaggregating the cosmetics subsector shows that France is the major source of hair products (15%) and, perfumes and toilet waters (46%). Shaving products, dental hygiene products, beauty or makeup products, odoriferous substances and essential oils are mainly sourced from Germany (35%), United Kingdom (26%), United States (20%), Swaziland (67%) and India (32%) respectively.

If we use export competitiveness as a proxy for capabilities, then South Africa has some capabilities in the manufacture of soaps, detergents and cosmetics. South Africa is a net exporter of cosmetics.

2.1.2. Potential for exporting cosmetics from natural products

- Rational for natural products in cosmetics
- World market for natural products
- What can be achieved? Box 1 Phyto trade; Box 2 Rooibos products
- Zambia-what natural products are available for development
- South Africa-what products are available.

2.2. Mapping the Cosmetics and Soaps and Detergents value chain industries

The following section is based on primary data collected through firm interviews of the chemical input suppliers, soaps and detergent manufacturers, importers, wholesalers and retailers, and key industry associations, government departments and development funding

[9] See appendix 2.

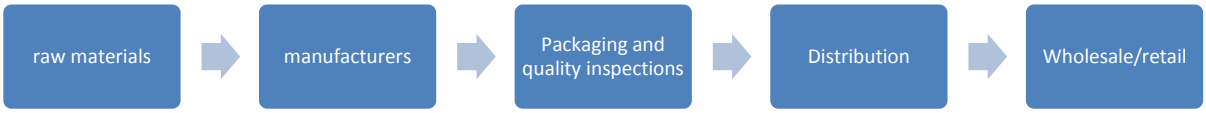
agencies in both South Africa and Zambia. This data is augmented with available secondary data. However, there are limitations with this data. In the ideal situation, industrial output and market share should be measured through regular censuses and surveys of firms. In terms of Zambia, these are quite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

In terms of the South African data, Statistics South Africa conducts a manufacturing survey every few years and reports some data at the level of cosmetics and soaps and detergents.

The cosmetics and soaps and detergents products are classified as consumer chemicals and form a subsector of the chemical industry. Products produced under the soaps and detergents subsector form part of a wide range of fast moving consumer goods and include soaps, facial cleansers, shower gels, hand washing soaps, surface cleaners, laundry soap, detergents, dishwashing liquids, wax and polishes. Products under cosmetics include hair products, lotions, perfumes, make-up products, dental hygiene and shaving products.

The typical value chain for cosmetics and soaps and detergents involves forward integration with distribution and packaging industry, to supply the finished products to the retailers and finally to the customers (figure 9).

Figure 9: Basic value chain

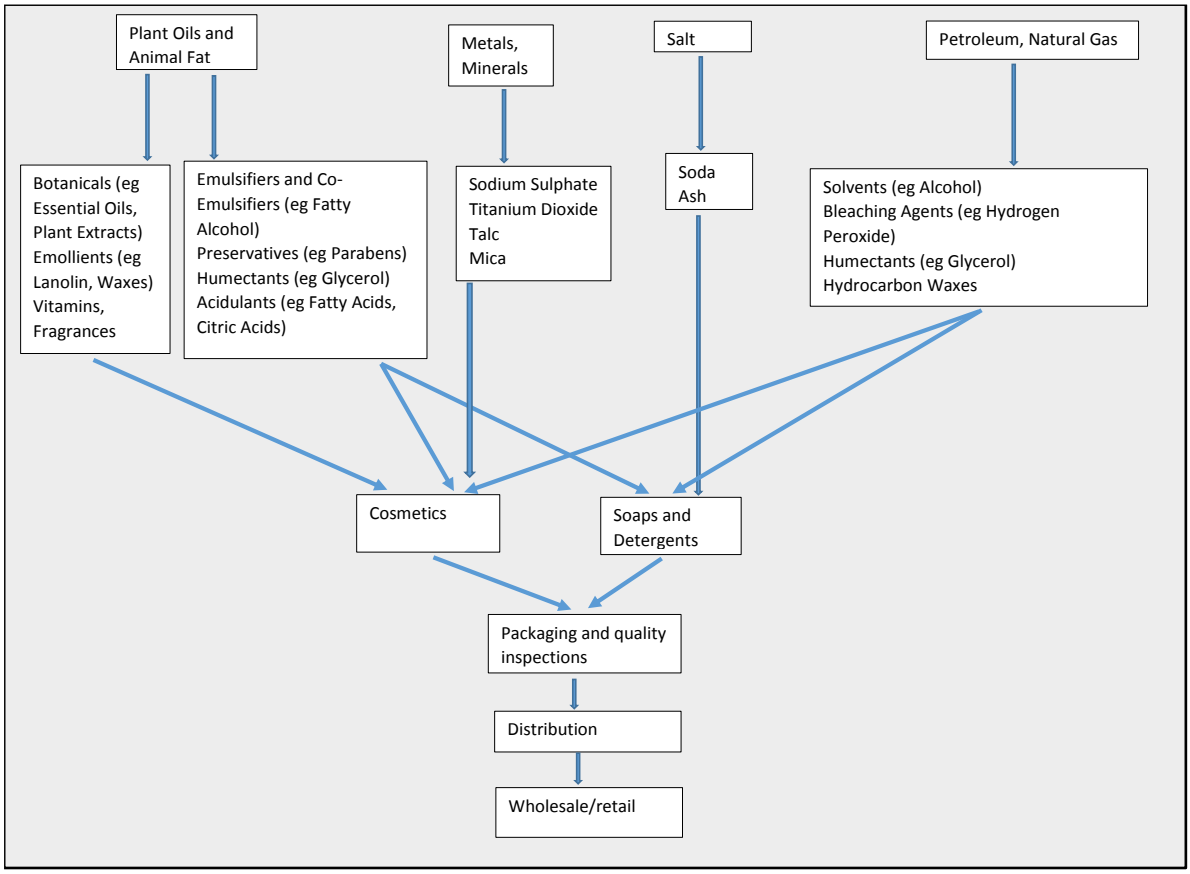


Source: Authors compilation based on interviews

The primary activities of the value chain are raw-materials production, manufacturing of the various cosmetics products, packaging, quality inspection, and distribution. Supporting activities include equipment and technology, administrative support and firm infrastructure. The soaps and detergents and cosmetics value chains may be made up of a large range of products but they require similar capabilities, including developing formulations, blending raw materials, production, packaging, distribution and marketing.

There are various ingredients that are used in the manufacture of these products including plant oils, animal fat, metals, minerals, salt and petrochemicals (figure 10).

Figure 10: Cosmetics and soaps value chain



Source:[*http://ukchemistrygrowth.com/Portals/3/Downloads/Importance%20of%20Chemicals.pdf*](http://ukchemistrygrowth.com/Portals/3/Downloads/Importance%20of%20Chemicals.pdf)

2.2.1. Upstream inputs

Various raw materials are used in the manufacture of soaps, detergents and cosmetic products as depicted in figure 2 above. These include sodium hydroxide, acids, caustic soda, antioxidants and other chemical compounds, fats and oils, fragrances, colour, wax, solvents, salts, thickeners, vitamins, preservatives, Sodium tripolyphsophate (water softeners), butters etc. (Centre for Competitive Analysis, 2000; Wansbrough, 2002) The breadth and complexity of the composition of the products vary according to firm development and advancement and these are sourced from various markets. In Zambia, the relatively small size of thr firms interviewed in the study (employing less than 50 employees) indicated that inputs used in the manufacture of soaps, detergents and cosmetic products are predominantly imported either through local agents (about 80%) or through international agents (about 20%). Imported raw materials include fragrances (mainly imported from Switzerland), sulphuric acid, wax, colour, sulphonic acid, hydrochloric acid, Sodium Lauryl Ether Sulfate (SLES), NP9, caustic soda, amongst others. The main source countries for these raw materials include Switzerland, India, the UK and South Africa.

These firms largely rely on agents owing to their lack of scale to import directly from input suppliers. Firms that had previously imported inputs directly from suppliers indicated import taxes levied on inputs as well as meeting the minimum import quota demanded by input

suppliers as challenges. According to the Zambian Customs and Excise Tariff Guide, imports of chemicals such as Sulphonic acid, hydrochloric acid, sulphates and other similar chemicals do not attract customs duty when imported in bulk, that is, more than 5 kilograms or 5 litres. Although a standard rated value added tax is applied. The role of agents in the value chain is therefore quite significant for small players. These agents are able to import large quantities of various inputs duty free (allowing for economies of scale) which are then sold in smaller quantities to various manufacturers of soaps, detergents and cosmetic products. This spreads the input costs and allows firms to circumvent the direct costs associated with input imports as well as having to meet the minimum import quota demanded by input suppliers. In addition, local chemical suppliers offer inputs to manufacturers on a credit basis (usually 30 days). This confers benefits such as continuity in production and offers a cash flow buffer for periods between production and receipt of monies for sales.

Industry leaders exhibit similar behaviour. Trade Kings, Zambia's dominant player in the Zambian soaps and detergents industry similarly procures some of its inputs locally. Its scale however, allows the firm to source some chemical inputs directly mainly from China, South Africa and South Korea. Because inputs are imported, all the firms in the industry are facing high input costs owing to the pass-through effects of the depreciation of the kwacha which has increased the cost of production. Table 2 below shows the average volume of key inputs used in the production of selected soaps, detergents and cosmetic products.

Table 2: Ingredients by product, % of volume

Products by Ingredient	Bath and Shower	Beauty and Personal Care	Colour Cosmetics	Hair Care	Laundry Care	Skin Care
Surfactant Cleansers and Adjuvants	59,3	22,4	0,3	6,9	22,2	1,7
Commodities	29,9	43,6	19,1	81,9	24,7	70,8
pH Control/salts	1,1	0,6	0,6	0,6	32,9	0,2
Solvents	0	2,2	31,9	1,7	0,3	0,2
Other	8,8	25,4	36,7	8,9	19,9	24,2
Total ingredients	99,1	94,2	88,6	100	100	97,1

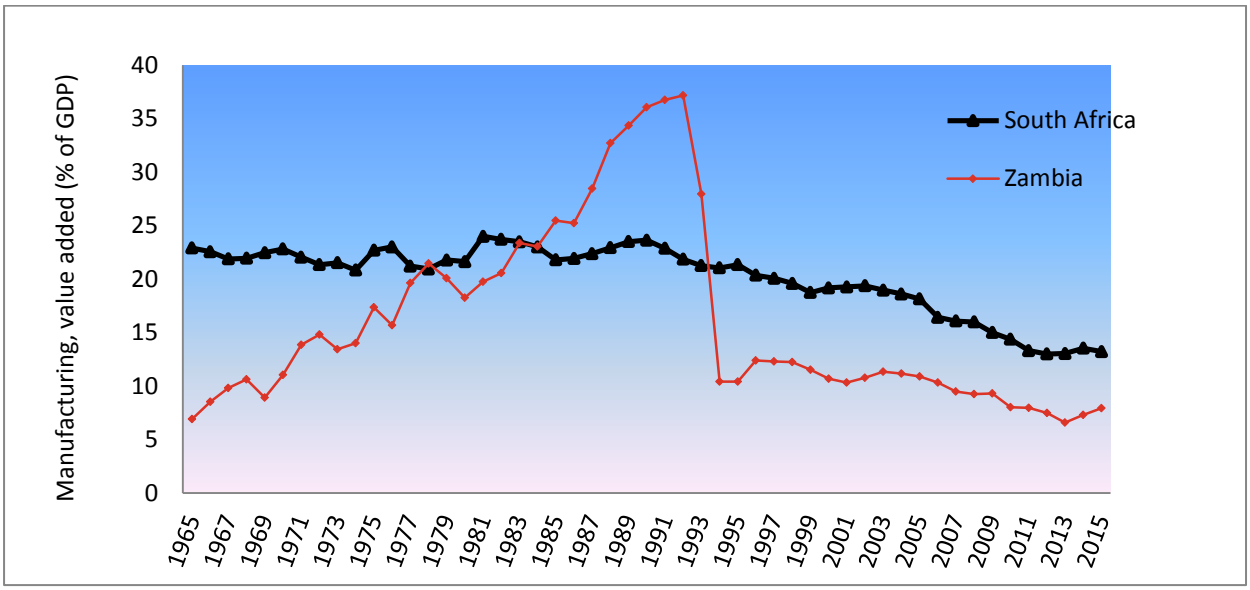
Source: Euromonitor, 2015

2.2.2. Overview of the downstream soaps and detergents and cosmetics industries

In mapping the soaps, detergents and cosmetics industries, it is critical to understand the differences in the size and maturity of the manufacturing industries between the two countries as this provides the context for the differences and similarities observed across the two countries. South Africa's manufacturing industry is more sophisticated and advanced relative to Zambia. As evidenced in figure 11 below, Zambia's once thriving manufacturing industry collapsed between 1992 and 1994 following the liberalisation of the economy and privatisation of many state-owned enterprises that soon ensued. The contribution of the manufacturing industry to GDP dropped sharply from a peak of 37.2% in 1992 to 10.4% in 1994 denoting a structural break as the country moved from a closed to an open economy (World Bank, 2017). Since then, the sector's contribution to GDP has fallen and remained flat averaging 8.4% per annum over the period 2006 and 2015. Similarly, the contribution of South Africa's

manufacturing industry to the country's GDP has been falling since the year 1990 albeit less dramatically. The industry's share reduced from 23.6% in 1990 to 13.2% in 2015 suggesting early deindustrialisation.

Figure 11: Manufacturing Share of GDP, Zambia and South Africa 1965-2015



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

Consequently, South Africa's industries for soaps, detergents and cosmetic products are more developed and present competition to Zambian soaps, detergents and cosmetic products. The industry is particularly important in terms of employment in South Africa and exports (Table 3).

Table 3: Size and contribution of soaps and cosmetics industry, 2014

2014	RSA	Zambia
Retail value (2015)	$4.6 billion	*
Contribution to Manufacturing output	2.1%	7%
Employment	16540	*
Employment Share of Manufacturing	1.4%	
Value added share of manufacturing (2011)	2.7%	
Exports	$523 million	$48.9 million
Imports	$685 million	$85.9 million

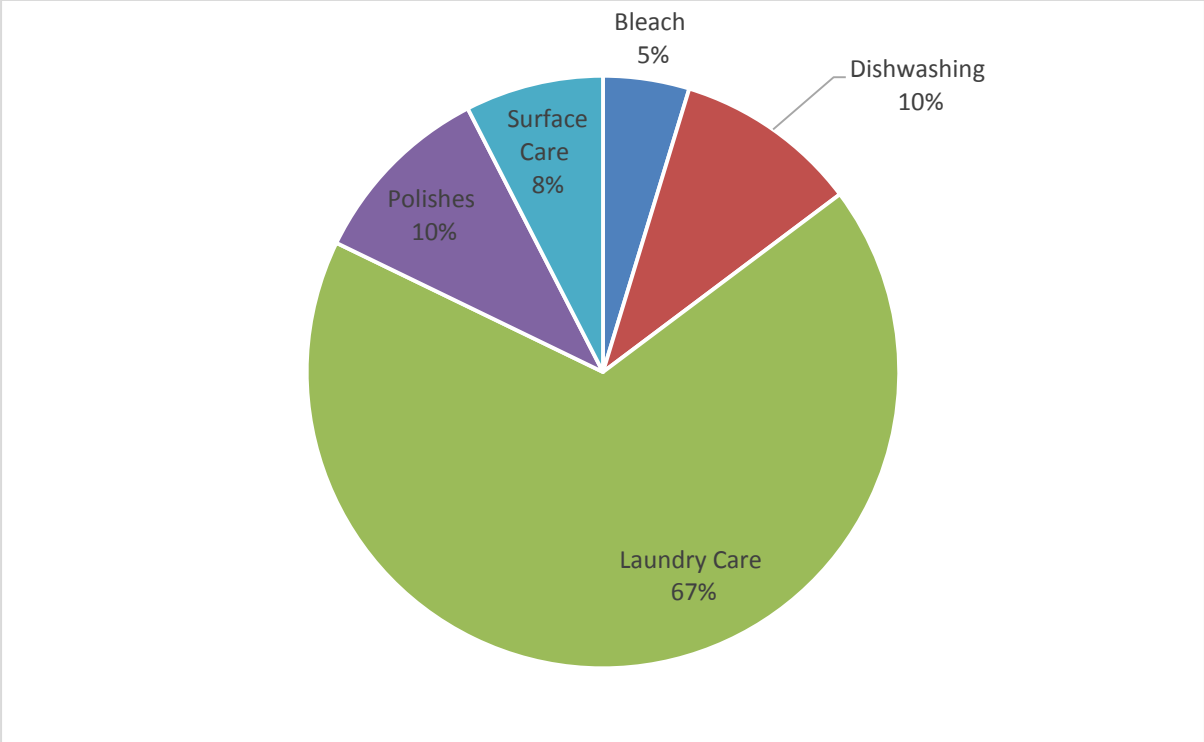
Sources: StatsSA and Zambian Central Statistics Office
**Data not available*

The Soaps and Detergents Markets in South Africa and Zambia

The soaps and detergents industry broadly includes the manufacturing of soap, synthetic organic detergents, inorganic alkaline detergents, and crude and refined glycerine from vegetable and animal fats. Important raw materials include argon and palm oils, surfactants and caustic soda. The capabilities that are required in the value chain include developing formulations, blending, production, packaging, distribution and marketing. Figure 12 below

shows the share of sales of selected product categories of soaps and detergents in South Africa in the year 2015. The major products sold in South Africa is laundry care. The soaps, detergents and cosmetic industry is very competitive owing to globalisation. Particularly, local firms in Zambia face competition from imported products from the far east as well as products that are smuggled into the country or whose value is under declared.[10]

Figure 12: South African soaps and detergents sales values by product category, 2015



Source: Euromonitor

The South African soaps and detergents subsector consists of approximately 250 companies, 49 of these being major players (FRIDGE, 2011 and Who Owns Whom, 2016), and there are about 81 major cosmetics manufacturers (Who Owns Whom, 2016). The Cosmetics Toiletries and Fragrances Association of South Africa has a membership of 153. There is also a big presence of contract manufacturers and a large number of small and medium producers. Most of the 130 major manufacturers in both cosmetics and soaps and detergents are clustered in Gauteng (76), Western Cape (30) and KwaZulu Natal (19), while the rest are spread across North West and Eastern Cape.

The soaps and detergents segment of the market is highly concentrated with an **Herfindahl-Hirschman index** (HHI) of 2919.[11] The soaps and detergents (exl. Cosmetics) industry is dominated by large international manufacturers, namely Unilever; Procter and Gamble; Johnson and Johnson; and Colgate Palmolive. Unilever continues to lead the South African

[10] Based on data obtained from ZAM
[11] As a rule of thumb, an HHI below 1500 is indicative of a competitive market place, an HHI between 1500 and 2500 is moderately concentrated and HHI above 2500 is regarded as highly concentrated.

detergents segment with a value market share of 51%; followed by Colgate-Palmolive (Pty) Ltd, Procter & Gamble and Bliss Chemicals (Pty) Ltd with shares of 13%, 8% and 7% respectively (Table 3).

Table 4: Laundry care market shares in South Africa

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

Source: Euromonitor (2015)

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

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

Over the same period, the company has become increasingly vertically integrated by expanding its business operations to include a packaging manufacturing plant that produces plastic containers, inner plastic film and other packaging materials; and a fleet of distribution trucks. The firm has also expanded its reach into the region by establishing one production centre in Zimbabwe and two in South Africa and 5 in Zambia.

Other notable local players in detergents include Epslon Industries who initially used to operate as a contract manufacturer for Colgate Palmolive in Zambia. However, following Colgate Palmolive's decision to exist the manufacturing industry in Zambia, the firm has remained manufacturing the same brand detergent paste – Dynamo – which directly competes

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

The Cosmetics Market in South Africa and Zambia

The cosmetics industry is made up of a number of personal care products ranging from skin, body and hair care. The cosmetics (exl. soaps and detergents) industry is not as dominated by large companies as the soaps and detergents. The four multi-nationals that hold the highest market shares together hold 28.8% and the remainder of the market is held by a range of other firms including domestic firms (Table 5).

Table 5: Retail Market shares in SA

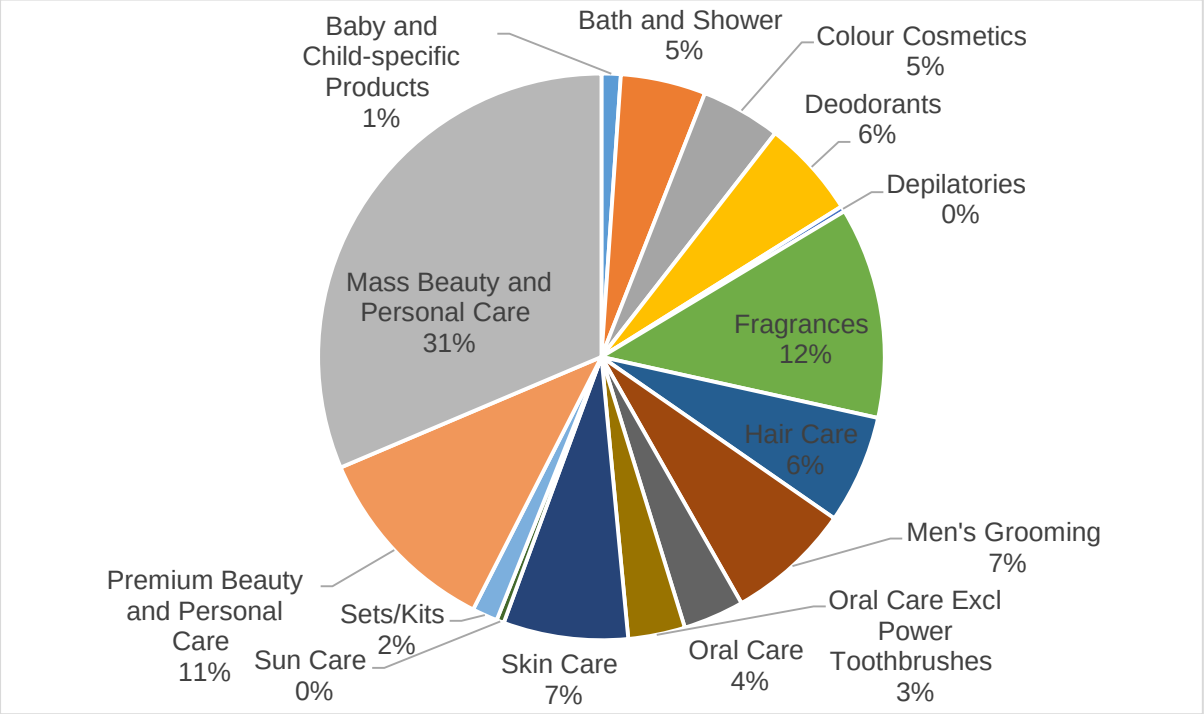
Cosmetics	2015 (%)
Unilever South Africa (Pty) Ltd	13.3
Procter & Gamble (Pty) Ltd	7.3
Colgate-Palmolive (Pty) Ltd	5.9
Johnson & Johnson (Pty) Ltd	2.3
Others	71.2
Total	100

Source: Euromonitor (2015)

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

Figure 13 below shows the South African cosmetics sales value by product in 201. Sales value $3.3 billion (10.7% CAGR, 2010-2015)

Figure 13: South African cosmetics sales value by product, 2015



Source: Euromonitor

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

A phenomenon in the use of organic products has taken root in the cosmetic industry globally and Zambia and South Africa have not been exempt from this wave. There is an emerging market for cosmetics and skin care products formulated using natural organic ingredients in cosmetic products such as coconut oil, tea tree oil, Rosemary oil, Grapefruit, Eucalyptus etc. that are entirely pure or free from synthetic ingredients. What started as a niche market has now evolved into a mainstream trend. This trend has grown as more consumers have become increasingly aware of the potential side effects of many artificial substances used in cosmetic products that damage the skin or are not environmentally friendly. The growing interest in wellness products, particularly herbal and other natural items traditionally sold through health-

food stores, has spilled over into consumer preferences for personal care products (Center for Competitive Analysis, 2000). This line of products has been growing in Zambia led by Umoyo, a health-wellness centre and retailer shop of locally manufactured and imported herbal and natural cosmetic products. The availability of natural trees such as the Baobab tree, Moringa Tree, Devil's Claw, Mongogo, Kalahari Melon seed, Ximeina, Marula in Zambia that can be used in the manufacture of natural cosmetic products provides readily available inputs for production.

Development of the cosmetics and soaps and detergents value chains would also be aligned with South Africa's Industrial Policy Action Plan (2016/17), which has identified the need to develop a natural products to cosmetics value chain and increase investment, upgrade capital equipment and processes. As part of the development of the natural products to cosmetics value chains the DTI has noted that the domestics industry needs assistance with certification for exports, building testing facilities, develop new products from local inputs. While the intervention on increasing investment, and upgrading includes upgrading equipment to meet good manufacturing practice requirements, facilitating engagement between industry and publicly funded research, and market development to increase demand for local and third-party manufacturing. This has been recognised by the IDC and is part of the priority sectors for development funding.[12]

2.3. Performance of cosmetics and soaps and detergents in South Africa[13]

The cosmetics and soaps and detergents industries were collectively worth above $4.6 billion in sales revenue in the year 2015 (Table 3). The soaps and detergents component was worth $1.3 billion in sales revenue in the year 2015[14]. It has been growing at a compound annual growth rate of 8.9% between the years 2010 and 2015. Zooming into soaps, dishwashing products increased at a higher rate (CAGR of 10.1%) than other products, followed by surface care (CAGR of 9.7%) and laundry care (CAGR of 9.1%). The cosmetics component was worth above $3.3 billion in terms of sales value in 2015[15], and has experienced a compound annual growth rate (CAGR) of 10.7% between the years 2010 and 2015. Within the cosmetics subsector, fragrances grew faster than any other product at CAGR of 16.8% in the same period, followed by premium beauty and personal care (13.8%), colour cosmetics (12.3%) and men's grooming (10.4%) (Table 6). All the growth rates have been above inflation, signifying that there is real growth in the industry.

[12] https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=7&cad=rja&uact=8&ved=0ahUKEwia1rqlpMvOAhWJA8AKHVlkCg0QFgg6MAY&url=https%3A%2F%2Fwww.environment.gov.za%2Fsites%2Fdefault%2Ffiles%2Fdocs%2Fpublications%2Fidcsprioritisation_naturalproducts_industry.pdf&usg=AFQjCNFQc9DLnywuWIL9XuSmeD1afgJHAA&sig2=EsatyNyvtRERg-0DQWHGzA

[13] Industry level secondary data not available for Zambia

[14] Due to data limitations, this includes laundry care, dishwashing, bleach, polishes and surface care only.

[15] In this case cosmetics are defined as beauty and personal care products

Table 6: Sales of Cosmetics and Soaps and detergents - Value 2015

Soaps and detergents	Sales value (dollars)	CAGR (2010 - 2015)
Bleach	$61 847 752.43	8.4%
Dishwashing	$132 060 838.79	10.1%
Laundry Care	$885 904 675.85	9.1%
Polishes	$134 997 364.66	5.8%
Surface Care	$99 171 749.12	9.7%
Total soaps	**$1 313 982 380.84**	**8.9%**
Cosmetics	**Sales value (dollars)**	**CAGR (2010 - 2015)**
Baby and Child-specific Products	$78 841 954.67	10.0%
Bath and Shower	$349 175 513.89	9.6%
Colour Cosmetics	$327 640 990.89	12.3%
Deodorants	$401 121 903.47	7.8%
Depilatories	$22 596 190.05	10.2%
Fragrances	$866 282 659.44	16.8%
Hair Care	$445 154 732.32	6.7%
Men's Grooming	$511 791 280.78	13.4%
Oral Care	$249 604 698.44	8.5%
Oral Care Excl Power Toothbrushes	$233 280 626.46	8.5%
Skin Care	$511 587 982.83	9.8%
Sun Care	$30 517 280.33	9.1%
Sets/Kits	$104 367 141.03	9.7%
Premium Beauty and Personal Care	$800 429 184.55	13.8%
Mass Beauty and Personal Care	$2 255 839 168.74	10.1%
Beauty and Personal Care	**$3 392 666 214.89**	**10.7%**

Source: Euromonitor

The soaps and detergents subsector is expected to experience a growth between the years 2015 and 2020. The entire home care subsector is expected to grow at a compound annual growth rate (CAGR) of 2.1% (Euromonitor, 2015). Zooming in shows that dishwashing products and laundry care are expected to grow at 3.8% and 2.1% respectively. Cosmetics sector is expected to grow at a compound annual growth rate of 4.6% between the years 2015 and 2020.

Employment

A review of the industry's employment numbers largely indicates growth in employment contribution (table 7). Employment grew by 24.5% from 14410 in 2008 to 17973 in 2011, however it then declined by 7.8% to 16540 in 2014. Overall, employment increased by 14.8% between 2008 and 2014.[16]

[16] The StatsSA manufacturing industry financials are based on the manufacturing survey conducted every 3 years, as a result the data is not available in time series format.

Table 7: Employment in soaps and detergents and cosmetics (2008 – 2014)

Year	2008	2011	2014
Male	8 244	10 695	10540
Female	6 166	7 242	6000
Total	**14 410**	**17 937**	**16 540**

Source: Stats SA manufacturing industry, financials reports.

Investment

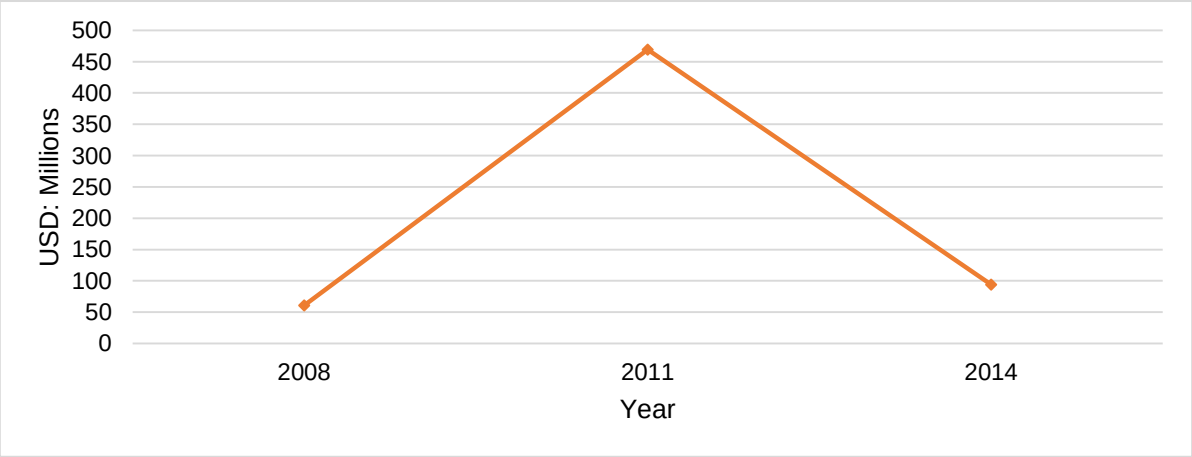
The soaps and detergents and, perfumes and toilet preparations have seen investments over the past years in new assets such as land, building and construction, plant and machinery, computers and motor vehicles. In 2014 total capital expenditure by the industry on new assets amounted to $94m (Table 8). In particular, $20.2m was spent on land, buildings and construction, $62.8m on plant and equipment, $3.9m on motor vehicles, and $4.2m on other assets. Total investment on new assets increased by more than 600% between 2008 and 2011, and declined by more than 300% thereafter (Figure 14).

Table 8: Capital expenditure on new assets (2008 – 2014)

Year	2008	2011	2014
Total investment on new assets	**$60.6m**	**$469m**	**$94m**
Land, buildings and construction	$6.2m	$327.9m	$20.2m
Plant and equipment	$47.1m	$95.3m	$62.8m
Motor vehicles	$3.5m	$8.91m	$3.9m
Other assets	$3.9m	$36.8m	$4.2m

Source: Stats SA manufacturing industry, financials reports.

Figure 14: Total capital expenditure on new assets (2008 – 2014)



Source: Stats SA manufacturing industry, financials reports.

Penetration of private labels into cosmetics

Private label penetration varies across the segments. Private labels have been particularly successful in “baby and child specific products” and the “sets/kits”. In the mass beauty and personal care products, 3.1% are private labels (Table 9). Baby and Child-specific Products have the highest level of private label penetration (13%). Bath and shower products have 6.9% of private labels in them while the rest of the subcategories have less than 3%. This demonstrates that there is some level of penetration in the cosmetics industry, particularly by private labels, even though there is generally a formidable competition faced by new entrants. In the facial care market, some of the factors influencing the likelihood of new entrants include market growth, accessibility of suppliers, little regulation and low switching costs (Marketline, 2014).

Table 9 : Penetration of Private Label in Cosmetics - % Retail value 2015

Beauty and Personal Care	**2.4**		**Fragrances**	**0.9**
Baby and Child-specific Products	13		Hair Care	-
Bath and Shower	6.9		Men's Grooming	1.9
Colour Cosmetics	0.4		Oral Care	0.4
Deodorants	2.4		Skin Care	1.9
Depilatories	2.7		Sun Care	0.9
Mass Beauty and Personal Care	3.1		Sets/Kits	10.1

Source: Euromonitor

3. Competitiveness

Firm competitiveness can be understood as the ability to provide products and services as or more effectively and efficiently than the relevant competitors. In the traded sector, this means sustained success in international markets. As a result, firm competitiveness is often measured by exports as a proportion of total output, profitability, and domestic, regional or global market shares.[17] In the non-traded sectors, competitiveness is the ability to match or beat the world's best firms in cost and quality of goods or services. Measuring competitiveness in the non-traded sector is often difficult, since there is no direct market performance test. Measures of competitiveness in this part of the economy include firm profitability and measures of cost and quality.

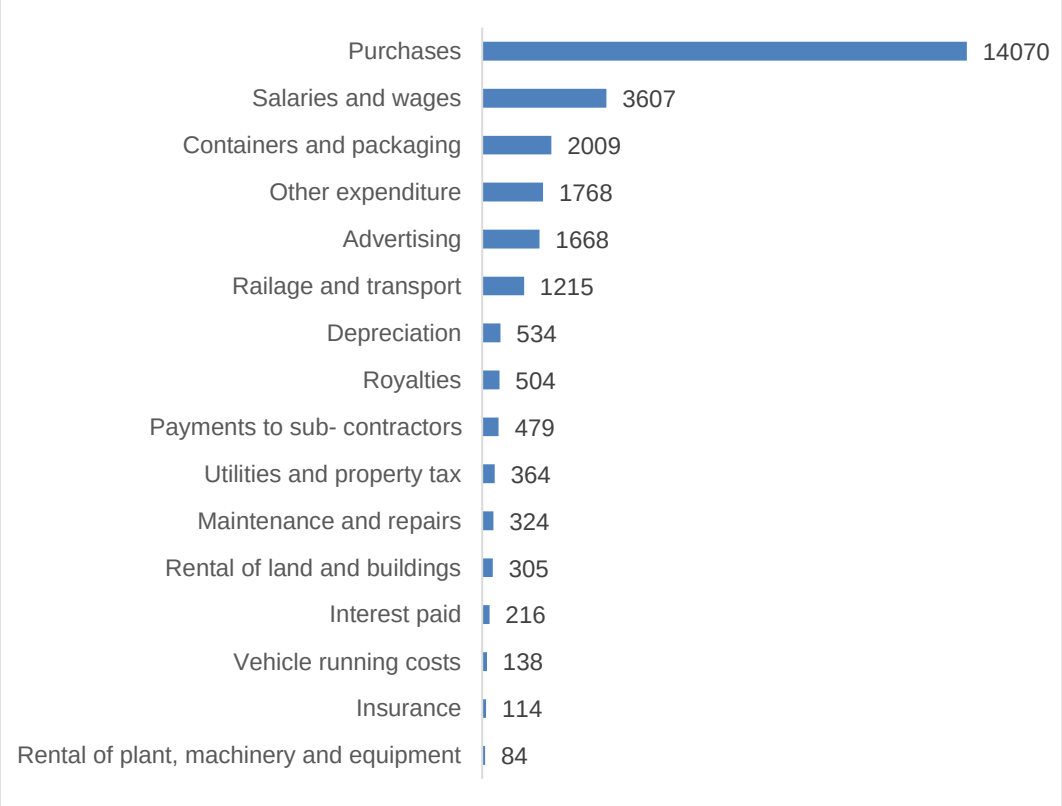
At the industry level, competitiveness is the ability of the nation's firms to achieve sustained success against foreign competitors. Measures of competitiveness at the industry level include overall profitability of the country’s firms in the industry, the nation's trade balance in the industry, the balance of outbound and inbound foreign direct investment, and direct measures of cost and quality at the industry level. Competitiveness at the industry level is often a better indicator of the economic health of the nation than competitiveness at the firm level. The success of a single firm from the nation might be due to company specific factors that are difficult or impossible to reproduce. The success of several firms from the nation in an industry,

[17] TCI-Network (2014)

on the other hand, is often evidence of nation specific factors that might be extended and improved.

The research sought to measure the competitiveness of the soaps, detergents and cosmetics industries in Zambia and South Africa at the industry level, however, there is limited data available at the industry level in Zambia and the primary research comprising of firm interviews is used as a proxy for industry level data. In the subsections that follow we evaluate trade performance, cost and quality. Though the discussion focuses on the aggregated responses from the firm questionnaires, individual firm experiences are also referred to highlight particular and dominant issues. The section also considers the factors that promote competitiveness (3.2) as well as those that hinder it (3.3). To get a sense of the importance of the issues that arise, we provide a breakdown of expenditure by the South African soaps, detergents and cosmetics firms (Figure 15).

Figure 15: Breakdown of Expenditure by soaps, detergents and cosmetics firms, 2011



Source: StatsSA manufacturing industry, financial

Purchases, which include raw materials, materials for maintenance, fuel and finished goods for resale is by far the largest component. Raw materials make up 94% of total purchases so factor that are related to raw materials are very important for the competitiveness of the sector.

A number of similarities exist across small firms in the soaps, detergents and cosmetic industry in Zambia. To start with, the small firms all only have one production plant which seemly operates below its full production capacity. The reported capacity utilization ranges between

30% and 80% for their main product lines but in some instances, is lower than 30% for some product lines. This indicates that the firms' production is less than optimal. The skills set are quite similar across the board for small firms in detergents, soaps and cosmetics – highly concentrated in low skilled labour. For most firms, 50% or more of their total work force have low skills i.e. with only a grade 12 certificate. Less than 30% are semi-skilled with some form of craft certificate and a few are highly skilled with a university degree or diploma. This confirms the assertion that the industry is not skills intensive and has relatively lower barriers to entry. Most of the firms simply invest in one or two chemists who develop the formulations and in a larger number of lowly skilled workers to carry out other tasks such as mixing, packaging and distribution. The low proportion of highly skilled workers however, is an indication of little or no investment in research and development.

The performance of the firms over the 5 years has varied to a small degree. For most small firms producing shampoos, body lotions and creams, petroleum jelly, glycerine and detergents, their revenue increased substantially by 80% and for a few select, doubled. This indicates growth potential in the industry. It should be noted however, that other industrial-use producers of detergents are struggling owing to competition from international cleaning companies and delayed payments for products sold to government institutions. Particularly, the reduction in revenue for these firms has been attributed to the recent slowdown in Zambia's economy.

There is no consensus regarding the production cost structure of the firms. For some firms, the costs are concentrated in raw materials, while for others in packaging and labour. What is common across the board though is the little or non-existent spending on marketing and advertising by the firms which plays a huge factor in influencing the sales of their products.

Trade Kings, the industry leader competes on price and has expanded its production into South Africa and Zimbabwe where the cost of production is lower owing to access to cheaper inputs in these countries. The firm has 20,000 sq. m. wholly owned factories in Zambia, South Africa and Zimbabwe and is estimated to be manufacturing 5,500 tons of market-leading branded Soaps, Detergents (Powders, Pastes & Liquids), Sweets, Lollipops and Soya Nuggets per month (Trade Kings, 2016). The firm has employed an intensive consumer-focused marketing strategy that includes award-winning television and radio commercials and five dedicated promotional vehicles focused on maximizing mass market distribution and mass market brand visibility countrywide (Trade Kings, 2013). In the soaps and detergents subsector, Trade Kinds is the local firm to beat for domestic-use soaps and detergents. Nemchem Zambia, a subsidiary of Nemchem International is the largest competitor in industry-use liquid and other cleaning agents. Notably, all the firms interviewed in this industry reportedly face competition from imports of soaps and detergents. Similarly, firms manufacturing cosmetic products equally face competition from imported products.

For firms to be competitive, it is critical to undertake upgrading functions. An improvement in economic rents requires that firms build on the capacity to upgrade their production capabilities. These rents arise from distinct core competences and firm level dynamic capabilities. Kaplinsky and Morris (2006) highlight four different pathways for upgrading and that are important for industrialization. These include: process upgrading which entails firms increasing the efficiency of internal processes such that these are significantly better than those of rivals, both within individual links in the chain (for example, lower inventories), and

between the links in the chain (for example, more frequent, smaller and on-time deliveries); product upgrading which is the introduction of new products or improvement of old products faster than rivals; functional upgrading refers to increasing value added by changing the mix of activities conducted within the firm (for example, taking responsibility for, or outsourcing accounting, logistics and quality functions) or moving the locus of activities to different links in the value chain (for example from manufacturing to design); and chain upgrading which refers to moving to a new value chain (for example, Taiwanese firms moved from the manufacture of transistor radios to calculators, to TVs, to computer monitors, to laptops and now to WAP phones).

The majority of firms in the industry have undertaken various investments over the last 5 years using that have been aimed at improving the quality of their existing products, reducing delivery time of the product, improving customer service, spreading fixed costs and expanding the business. New products (hand wash gel, hair conditioner) and line extensions have been introduced, packaging and labelling have been changed (self-adhesive labels), new machinery has been acquired (for packaging), marketing is being undertaken, and worker's skills have been improved. In addition, many of the firms have plans to undertake further investments. Namely, to invest in new machinery, change packaging and labelling and introduce new products.

3.1. Standards and regulations

For any manufacturing firm, the production process has to take into consideration adherence to existing quality standards. Quality standards are aimed at ensuring consumer safety and ensuring that producers of goods meet the expectations of consumers. Standards convey information to consumers regarding the safety and quality of a product sold and is thus critical for instilling consumer confidence and loyalty. But meeting quality standards come at a cost to firms (albeit a necessary cost) and is often a regulatory barrier to entry for firms that cannot meet the cost of acquiring the standards. Notwithstanding, while standards have a cost implication, firms that exceed quality standards stand out above their competitors and further their potential for profit and consumer loyalty (Cebos, 2017). In addition, product certification is quite critical for accessing export markets. It is therefore in the best interest of a manufacturing company to adhere to domestic and international quality standards.

South Africa

The general self-regulatory nature of the industry makes it vulnerable to low quality products as well as illegal imports. Notwithstanding that, companies are still required to comply with certain standards such as Good Manufacturing Practice (GMP), which they find to be expensive. On the other hand, firms which want to export to the European Union (EU), need to acquire EU certification which is also expensive. This is in spite of the fact that firms can claim up to 50% of costs incurred in getting EU certification from the DTI.

The challenges that firms face include import duties on raw materials, ad-valorem tax on finished goods, product testing and biodiversity permits. Many firms are of the view that import duties on raw materials cost too much, and that ad-valorem tax of 5% to 7% is just too high. However, the DTI has submitted that ad-valorem tax is only applied to selected products that are generally considered to be luxury products, whether imported or manufactured locally.

These include selected products of HS Code 33 such as perfumes and toilet waters; skincare preparations; lip and eye make-up preparations; manicures and pedicures; and skincare powders. While it is common practice to impose tax on luxury products to generate national revenues, this may be costly for small manufacturers, particularly because they already face competition from well-established multinationals that are able to spread their costs over large volumes.

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

Zambia

The Zambia Bureau of Standards (ZABS) is one of the key regulatory institutions responsible for promoting product quality assurance, setting Zambian standards and promoting their use as prescribed by the Standards (Amendment) Act, Cap. 416 of 1997.

ZABS provides two types of product accreditation: permit to supply and certification. A permit to supply is required for all mandatory products whereas certification is a voluntary accreditation that can be used to add a quality mark to any product to signal to consumers that it meets the standards set by ZABS (Ziba and Phiri, 2017). Under the current catalogue of Zambian Standards, there are in existence compulsory standards for selected cosmetic products namely glycerine, hair oils and creams and petroleum jelly); for toilet soap; household hand dishwashing liquid; and laundry soap. ZABS also has in existence, standards for synthetic detergents (powder, liquids and pastes) and all purpose and household disinfectants albeit these are voluntary.

The acquisition of product accreditation presents additional costs for firms in the form of inspection and testing fees. For instance, to acquire a permit to supply for the first time, a company has to be inspected four times within one year. These four inspections comprise an initial inspection followed by three surveillance inspections. A fifth inspection is made the following year to renew the accreditation (Ziba and Phiri, 2017). For a firm to acquire certification, ZABS has to carry out two intensive inspections. According to ZABS, the cost of acquiring certification is estimated to average between K20,000 and K25, 000 and is premised on the turnover of the firm.

The majorities of firms interviewed in the study possess certification for their products and are among the firms either supplying supermarkets or exporting as is the case for Trade Kings. However, one of the firms manufacturing hair shampoo and liquid hand wash which can be classified as a micro business (its number of employees which is less than 10) indicated that they did not possess any certification because the current standards are not compulsory. The lack of standard accreditation by this firm is potentially a constraint to the firm's ability to access supermarkets and regional markets.

Notwithstanding the attainment of standards by the majority of firms in the soaps, detergents and cosmetic industry, there are challenges with the current Zambian standards. There

appears to be a mismatch between Zambian standards and those imposed in export markets. While Zambian standards are based on international standards and has international accreditation for its laboratory testing services, ZABS is yet to be accredited to an international body for its inspections. This presents challenges of recognition of the Zambian standards in export markets and is therefore a barrier to exporting. In addition, this compels firms to seek accreditation by other internationally recognized standard organizations.

Although efforts have been undertaken by ZABS to adopt the International Standards Organization (ISO), International Electrotechnical Commission (IEC) and European Standard (EN) standards, and harmonise standards with COMESA and SADC countries, these do not include standards for soaps, detergents and cosmetic products. This presents potential constraints to accessing regional export markets. To counter some of these challenges, ZABS has entered into a few bilateral arrangements with two countries regarding standards and the export of selected products. Particularly, ZABS has an MOU with Botswana on the export of groundnuts and an MOU with Namibia for various products.

3.2. Enablers

Majority of the firms interviewed have managed to penetrate the regional exports markets, with a fair number of them exporting to the rest of the world as well. However, some firms experience challenges with regional markets regarding payments due to governments' restrictions on funds moving out of their countries. Other common factors that firms consider important for their competitiveness include price, quality and marketing. That is, a significant proportion of firms interviewed state that they are forced to produce high-quality, low-priced products in order to remain competitive. The rest of the factors influencing competitiveness of firms are organized below according to enablers and constraints faced by the firms.

Contract manufacturing

The difficulties associated with access to retailers limit the growth and competitiveness of smaller firms. However, contract manufacturing has enabled many small players to access these markets indirectly through some of their clients. That is, some of the big multinationals that already have access to retailers tend to contract smaller firms to manufacture some of their products. This eliminates the need, on the part of contract manufacturers, for own brand development that would otherwise have to compete with the established brands of such multinationals. Furthermore, some small firms do not have manufacturing capabilities so they contract other companies.

Packaging

Even though packaging is more of a hindrance, other firms stated that standard packaging for majority of products that go into jars and bottles is available locally. Furthermore, given the high cost of moulds, 3D printing technology used for prototyping is now available at relatively low prices. One of the companies acquired a 3D printer for around R15000. This makes the process of mould design and production more efficient and less costly.

Natural and ethnic products

A significant proportion of firms compete through diversification into markets such as the ethnic market. On the other hand, due to high content of chemicals in normal cosmetics products, firms are generally shifting to natural products because consumers tend to prefer those. South Africa has abundance of natural raw materials. However, there is currently a problem regarding the ownership of these natural resources. Furthermore, companies are required to have biodiversity permits. DTI is already working with IDC to develop the natural products to cosmetics value chain in general. Moreover, Baobab growers, CTFA, formulators and manufacturers in South Africa are already setting up a forum in order to implement an online integrated system for Biodiversity permit applications.

Workshops & tradeshows

DTI is conducting workshops for SMEs to create opportunities for networking. But this initiative has apparently stopped due to cost containment measures. On the other hand, the export council takes companies to tradeshows. In Zambia, the Zambia Development Agency under the

Barriers

Zambia-Other barriers to exporting include non-tariff barriers imposed by export destination markets, lack of recognition of the Zambia Bureau of Standards certification and challenges in obtaining relevant documentation i.e. for input VAT.[18]

3.3. Constraints faced by cosmetics and soaps and detergents firms

South Africa

Packaging

Packaging companies often impose minimum order quantity restrictions on their products to as high as 5000 units. This is a challenge to smaller firms who in most cases are not able to meet such volume requirements. Some of the packaging inputs such as glass and aerosol cans are still fully imported. There is generally limited production of aerosol cans locally, with Nampak being the only producer. However, some firms opt for imported products simply because they consider the quality of local packaging to be low.

Retailers normally set their own packaging requirements to manufacturers in order to stock their products, however smaller firms are normally restricted to standard packaging only. This is because moulds are expensive, and can cost as high as R2 million to R10 million. So once a design has been agreed upon and a mould purchased, it becomes difficult to change the design however the manufacturer may deem fit. This is different for big multinational companies who can afford to invest in these moulds since their huge market sizes justify such costly investments. This enables them access to specialized packaging.

[18] Based on formation gathered from ZAM

Raw materials

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

Unfavourable exchange rates

Most of the raw materials consumed by the industry are imported, exposing the companies to exchange rate volatility. This impacts on the competitiveness of small firms that may not have funds to use financial instruments to hedge against exchange rate volatility. Not only importers are exposed, but exporters as well. One firm stopped exporting to Zambia and Mozambique due to exchange rate.

Access to finance

It is expensive for small entrants to manufacture their own products due to the high costs of purchasing equipment, compliance costs, and setting up factories among other costs. This is particularly the case for small entrants that need to meet certain minimum scale requirements for them to compete effectively with the big incumbents. Firms also have limited access to working capital that may be needed, for instance, to pay contract manufacturers. Normally funders require bankable business plans that small firms struggle to provide. Furthermore, in most cases small firms do not have collateral and cannot measure the potential of growth of their products in order to get funding. These imply that small firms cannot benefit from economies of scale due to small quantities produced. The DTI has tried to assist through its incentives programmes. For instance, some of its success stories include AMKA and several other small firms that mainly operate in niche markets. However, these incentives are usually limited, leaving a great number of firms unfunded.

Skills shortage

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

Dependence of contract manufacturers on the performance of clients

The competitiveness of contract manufactures is dependent on the performance of their clients. For instance, large clients may produce in-house if the industry is not performing well, which negatively impacts the competitiveness of contract manufacturers. However, this is limited to clients that have manufacturing facilities. Furthermore, supermarkets tend to contract other firms to manufacture their private labels products because they generally do not have manufacturing capabilities. If private labels are not performing well, supermarkets could easily drop them and focus strictly on retailing, therefore impacting negatively on contract manufacturers. On the other hand, some firms use contract manufacturers as an entry strategy. i.e., they first test out the market without investing in production facilities. This could impact negatively on contract manufacturers if such clients decide to invest in production facilities at the later stage.

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

Zambia

Raw materials

Similarly in Zambia, inputs used in the manufacture of soaps, detergents and cosmetic products are imported through local agents or international agents. While most chemicals imported are exempt from customs duty, a standard value added tax is levied on imports which make inputs relatively more expensive. Further, because inputs are imported, their cost is determined by the exchange rate. In 2015 and 2016, the Zambian kwacha depreciated by more than 50% against major currencies effectively increasing the cost of inputs and consequently, the cost of production for firms.

Local firms in Zambia are purported to face high compliance fees related to inspections of inputs carried out by ZABS and ZEMA. There is also fragmentation in payment of fees on inputs which sometimes result in the duplicity of fees paid to both ZEMA and ZABS. In addition, local firms face transactional costs arising from inefficiency by the Zambia Bureau of Standards such as poor records of accounts which results in delays in clearing inputs and potentially exposes goods to damages. Further, the cost of clearing inputs at the border is considered to be high by firms[19]

Packaging

Packaging is a one of the critical factors affecting the competitiveness of Zambia's soaps, detergents and cosmetic industry and the ability of local firms to access shelf space in supermarkets. Local packaging in Zambia is considered to be expensive and of poor quality. As similarly noted under South Africa, packaging companies often impose minimum order

[19] Based on data obtained from ZAM

quantity restrictions on a particular mould to justify investment in that mould which can be as high as 5, 000 units. But because firms in Zambia have limited production capabilities, they lack the scale to purchase unique packaging moulds locally or to import the packaging from other markets. As a result, many of the firms use very generic bottle designs sold by the packaging companies to various firms which are not very appealing.

Access to Finance

Access to finance remains one of the major constraints faced by firms. In particular, firms cite the cost of finance as the main hindrance to acquiring and servicing loans. For instance, interest rates on loans by commercial banks averaged 40%for the month of February, 2017. The inability to access finance in turn impacts the ability of firms to develop and grow their capabilities. Investment in new machinery and technology, research and development, skills for instance require an outlay of finances. Therefore, the ability of firms to access affordable finance becomes very critical to their competitiveness.

Competition from Imports

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

Barriers to Accessing Supermarkets and Export Markets

Retail trading plays a huge role in the sale of soaps, detergents and cosmetic products. Retailers acts as "channel captains" in the value chain by linking producers and consumers. and are therefore important routes to markets for soaps, detergents and cosmetic manufacturers. However, firms face challenges in accessing these markets owing to the increasing private demands imposed by supermarkets that often cannot be met by local firms. These include rebates on prices of goods supplied, good quality packaging, barcodes, own-logistic arrangements, merchandisers in some instances, advertising budgets and the ability to supply consistently the volumes demanded.

Export capabilities are to a large extent limited by the production capabilities of the firms. Notwithstanding firms' capabilities being a limiting factor, firms face technical barriers in some export markets. Further, the lack of recognition of the Zambia Bureau of Standards certification is a challenge in accessing export markets.[20]

Other constraints

Other challenges cited are not uniform across the board and were reported by a micro firm. These include challenges in accessing land and the high cost of electricity. The latter

[20] Based on data obtained from ZAM

constraint is shared by Trade Kings, the industry leader in soaps and detergents. The new taxation system that was introduced in 2017 which imposes a specific amount flat in addition to a flat rate of 3% levied on firms' turnover also presents challenges for firms, particularly for micro and small firms. For firms whose business is cyclical, the specific tax implies that firms are paying tax even in months in which they may not have recorded and sales.

4. Role of packaging

Innovation in the fast-moving consumer chemicals is driven by either trends or cost competitiveness. Firms are always looking to reduce costs per unit but maintain quality and as a result, most innovations are on packaging which can contributes up to 50% of costs of production. Firms, try to use thinner packaging which reduces the cost of production but also use packaging for promotions and changing consumer needs. The detergent refill packs have reduced packaging material by 70% over time.[21]The innovation for packaging products is often done as collaboration between consumer chemicals firms and the packaging industry which have the capabilities for design of products, mould design (from plastics packaging side) and development.

Packaging plays two important roles: Firstly, packaging is a key strategy to ensuring all products are fully secure and reach the consumer without any damages. Certainly, if care is not taking to have innovative packaging, the cost of production to the firm will increase exponentially. Related to this, good packaging increases the serviceable life of the products. Secondly, packaging plays a huge role in brand identification, conveying useful label information and in determining the appeal of a product. Details such as the ingredients in a product, directions for use, manufacture and expiry date provide valuable information needed by customers. For instance, for consumers allergic to nuts, it is imperative for products containing nuts to indicate this information on the label in order to avoid fatalities. But equally important, the quality of packaging, the texture of the packaging material, the visual impact of packaging, the size of the package, all have a direct impact on the demand for a product and its competitiveness (Gopal and George, 2014). In order to stay competitive in FMCG industry, it is therefore for firms to attach the same level of importance attached to the product to packaging and to invest in good quality and innovative packaging.

This observation is not lost on Zambian firms in the soaps, detergents and cosmetic industries. Packaging has been noted to be quite critical in the competitiveness of soaps, detergents and cosmetic products to the extent that it has shaped the market strategy for firms. For instance, small firms are alive to the realization that their packaging for domestic use is not of very good quality and cannot measure up to the packaging of big firms such as Trade Kings or to the packaging quality of competing imported products. Interviews with supermarkets regarding packaging for particularly cosmetic products corroborated this observation. While the packaging has improved for major players like Trade kings, it still remains poor for smaller players and particularly, for cosmetic products. The packaging quality of a product is also very critical for supplying supermarkets. Good packaging is one of the key criteria for supplying supermarkets. It is for this reason that the small firms manufacturing detergents have focused

[21] http://www.fpmseta.org.za/downloads/FPM_sub-sector_packaging_final.pdf

on industrial-use cleaning detergents, a market segment in which they can compete favourably owing to the low packaging demands.

Further, while firms may express desire to improve their bottle designs, their lack of scale limits the changes that can be made to the packaging design. Unless a firm can order sufficient volumes in a month to justify the packaging company's investment in particular mould, the packaging company will not investment in the mould that is preferred. As a result, many of the firms use very generic bottle designs sold by the packaging companies to various firms. Although there are alternative packaging designs that can be imported, small firms procure their packaging locally due to the reported high cost of imported packaging. A few firms also noted the unavailability of good graphic designers.

Notably, a few select firms in cosmetics import some packaging materials and produce their own packaging material. Trade Kings, the industry leader in locally produced soaps and detergents has invested in a modern in-house packaging plant that produces plastic containers, lollipop sticks, and inner plastic film to synergies their costs.

Though there are several packaging materials, 66% of cosmetics packaging is made from plastics materials (Table 10).

Table 10: Packaging of cosmetics by packaging material

Packaging Product	Metal	Rigid Plastic	Glass	Paper-based Containers	Flexible plastic Packaging
Baby and Child-specific Products Packaging		14.00		0.00	0.90
Bath and Shower Packaging		68.70	0.10	188.10	254.50
Colour Cosmetics Packaging		26.90	6.10	10.50	5.50
Deodorants Packaging	101.30	111.20	5.10	0.00	3.00
Depilatories Packaging	0.60	1.60		1.70	2.70
Fragrances Packaging	0.00		27.90	4.40	2.80
Hair Care Packaging	3.90	105.40		8.50	1.90
Men's Grooming Packaging	54.80	34.80	6.10	0.40	9.80
Oral Care Packaging	0.00	188.20	0.70	79.70	50.10
Skin Care Packaging	0.90	137.90	3.60	12.70	2.20
Sun Care Packaging	0.10	2.00		0.00	
Total	**161.6**	**690.7**	**49.6**	**306**	**333.4**

Source: Euromonitor

The South African packaging firms have subsidiaries in other SADC countries including Zambia. Major players in the packaging industry include Nampak, Astrapak, Mondi, Mpact, Polyoak and Boxmore. Of these, Boxmore (plastic), and Nampak (paper and metal) also have manufacturing facilities in Zambia. The South African packaging firms have developed capabilities in terms of design and application of packaging. The firms compete in the

WorldStar Packaging Awards every year, and often win in many categories.[22] The firms have submitted that domestic demand has not grown, while demand from SADC has grown on average by approximately 10%.

Minimum requirement starts at about 10 000 units for a standard product and 50 000 units for a unique design for a particular customer. The South African firms have the capabilities to design and produce moulds and where the complexity of the mould is higher than the capabilities of the firm then the mould is imported from Europe or Asia. The cost of the new mould is recovered in one of three ways. If the mould is for a standard product then then mould investment cost is borne by the packaging firm. If the mould is for a unique product for exclusive use for a customer then either the customer pays for the mould or it is amortised over a contract by adding a charge to each unit sold.

Exporting packaging products

The commercial viability of exporting packaging products depends on the type or product. Closures are small and you can get a few million units on a truck and as such firms can supply closures across South Africa and into neighbouring countries. Similarly, pre-forms also transport fairly efficiently and can be exported to countries that may not have local production. However, bottles are more difficult to transport even within South Africa as one is effectively transporting air. The markets for bottles are generally close to the bottle blowing factory. Transport costs also play a role in determining the geographic market to be serviced by a production plant. Typically, the bigger the product the higher the cost of transport, and the further the delivery the higher the cost. On closures, transport cost can be as little as 2% of the cost of a unit, whilst on a bottle it could be 25%. The implication is that the shortage of packaging in Zambia cannot commercially be serviced from South Africa unless it is for pre-forms that are then blown in Zambia. However, the scale of demand may mean that it is not viable for packaging firms to invest in moulds for unique products.

There are challenges in accessing export markets, particularly when exporting from South African ports. The costs associated with moving stock through the ports is significant and as such generally firms can't compete from South Africa. Firms state that it is easier to win business from neighbouring states because although the borders are inefficient the playing field is level and as such they can be competitive. There is also a payment risk when dealing with export customers.

The only real challenge with SADC exports ex MRT relates to the "added value" requirements. In plastic products, unfortunately the value of the raw materials is high and can mean that local content addition as a % may not be high enough on some products to qualify for SADC certification. This doesn't really make sense because there is significant transformation from raw material to finished product, but currently the rules are set in %. Further the % changes depending on the raw material cost which is a commodity. As such you may qualify when the raw material price is low, but then not qualify when the raw material price increases, even if you sell the product for more, because the value add % decreases below the threshold.

[22] http://www.engineeringnews.co.za/article/packaging-industry-holds-many-opportunities-amid-challenges-2012-07-06/rep_id:4136

COMESA have reviewed this and agreed that change in form is more important than % value add.

5. Routes to markets

The question of access to markets has been cited as a barrier to entry and or expansion by the manufacturers of cosmetics and soaps and detergents producers.[23] Retailers and supermarkets in particular, are becoming an increasing important route to market for many consumer goods in southern Africa, providing an opportunity for suppliers to participate in lucrative retail value chains (Boselie, Henson and Weatherspoon, 2003). Supermarkets provide a one stop shop for various fast moving consumer goods by facilitating the linkage between producers and end consumers. In addition to providing access to domestic markets, the multinational nature of many supermarket chains in the region open up firms to a much larger regional market for suppliers.

Previous research has highlighted the difficulties with accessing supermarkets (Das Nair and Chisoro, 2016; Ziba and Phiri, 2017), however, there are alternative routes to market for cosmetics and soaps and detergents. This section assesses the importance of each of the routes to market are for cosmetics and soaps and detergents separately in each country. The extent of accessibility of each route is also assessed. First, the discussion focuses on the role of supermarkets in growing the footprint of firms. Second, we explore regional export markets and the potential for intra-regional trade by Zambian and South African firms. Third, we look at alternatives to these traditional routes to market.

South Africa

Several of the concerns that have emerged in the Zambian context described above also apply to the South African context. This is expected given that it is the same key retailers and supermarkets that operate in both countries. For a detailed discussion of general concerns around supplying supermarkets in South Africa, see das Nair and Chisoro (2015, 2016 and 2017).

With respect to cosmetics, switching costs are not particularly high, which allows retailers to be more selective, increasing their buyer power (Marketline, 2014). Furthermore, skincare products do not constitute a major part of the business of large retailers as they offer diverse range of products.

Like in Zambia, retail chains including supermarkets possess considerable buyer power in South Africa, even though there are alternative routes to market for cosmetics (see Table 11 below). In addition to this, in the cosmetics sector, branding is a major factor that contributes to the market power of a handful of large, powerful incumbent suppliers (e.g. Nivea, Johnson and Johnson, Proctor and Gamble etc.). Therefore, new suppliers in the cosmetics sector are faced with difficulties arising both from buyer power from a vertical perspective and market power from a horizontal perspective.

[23] Firm interviews.

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

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

Another cost that suppliers typically incur (for all products, and not just cosmetics) in South Africa are listing fees. From the supermarkets' perspective, charging listing fees is standard practice, especially in the cosmetics, health and beauty sector, given the constant launching of new products. Reconfigurations of shelf space and product ranges are allegedly hard, and this forms part of the motivation to charge listing fees. Previous studies have also suggested that from a retailer's perspective, listing fee payments indicate how serious suppliers are in consistently supplying supermarkets (das Nair and Chisoro, 2017). It however appears that supermarkets make higher margins in the cosmetics category relative to other products, with one supermarket estimating that it makes at least 20% on cosmetics products sold. Previous studies and the supermarket estimate that margins on food products are typically under 10% (das Nair and Chisoro, 2017). Of this margin on cosmetics products, the listing fee itself is only a small component for that supermarket suggesting that there is a range of other costs that it charges suppliers or that the product is marked up significantly to the end consumer.

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

Suppliers further noted other trading terms that make it difficult to deal with retailers and that trading terms are often skewed to the benefit of the retailers. These include rebates payable off the list price (which for one supplier was 13.5% for one supermarket and 17.5% for another supermarket), marketing fees in certain cases (for instance, one supplier used to pay a 3% marketing fee at one supermarket while another had to commit to a marketing budget and advertise in a certain supermarket brochures in an effort to increase market share) and transport costs to deliver to individual stores or distribution centres. In certain instances,

suppliers are also required to participate and contribute to costs of advertising and promotional activities of the retailer.

Another concern, especially with smaller players, is long payment periods (30 – 60 days). This creates cash flow crunches for smaller suppliers who in turn have to pay their suppliers. There are examples of deliberate delays in payment where retailers buy from suppliers after the 25th of the month, which is that suppliers' cut-off date for month-end, forcing payment out to 60 days. Retailers allegedly push payments out for as long as possible (sometimes to up to 90 days) and there have even been suggestions that these payments owed to suppliers are invested by the retailers to earn interest.

As noted above, there are nonetheless opportunities for smaller suppliers to participate in retail value chains through producing private labels or house brands for retailers such as Woolworths, Clicks, DisChem and Foschini. Private labels require less branding, marketing and merchandising expenditure by the supplier, with the retailer being responsible for these costs. However, it appears that suppliers prefer to manufacture their own branded products for which they get higher margins. Concerns around the negotiating power of retailers around private labels have also been raised (see also das Nair and Chisoro, 2015, 2016 & 2017). Some cosmetics suppliers interviewed stated that they only continued to manufacture private labels to maintain relationships with retailers as well as to keep an eye on the market in terms of what rivals are producing. Retailers are also accused of sometimes copying branded products to produce their own private label. One company used to produce private labels for SPAR, Clicks, Woolworths and Sorbet in the past, but no longer do so. This company noted that these retailers often had onerous requirements and these were lines not profitable for the contract manufacturer.

As noted in South Africa, although Supermarkets are an important route to market for cosmetics there are alternative retail channels. The major routes to market for cosmetics products are split across grocery retail (37.6%), non-grocery retailers (33.3%), mixed retailers (16.3%) and non-store retailing (10.8%) (Table 11). Supermarkets account for 31.1% of all beauty and personal care sales, pharmacies account for 20.9% and department stores for 16.2%. These statistics show that cosmetics manufacturers have more alternative routes to market; however, supermarkets remain the single largest route to market.

Table 11: Routes to market for cosmetics products, % value 2015

Grocery Retailers:		**37.6**
	Convenience Stores	1.9
	Discounters	0.3
	Hypermarkets	3.7
	Supermarkets	31.1
	Independent Small Grocers	0.7
Non-Grocery Specialists:		**33.3**
Health and Beauty Specialist Retailers		**31.3**
	Beauty Specialist Retailers	6.7
	Chemists/Pharmacies	2.7

	Drugstores/pharmacies	20.9
	Other Health and Beauty Specialist retailers	0.9
Other Non-Grocery Specialists		2
	Outdoor Markets	0.9
	Other BPC Non-Grocery Specialists	1.1
Mixed Retailers:		16.3
	Department Stores	16.2
	Mass Merchandisers	0.1
Non-Store Retailing:		10.8
	Direct Selling	8.7
	Home shopping	0.5
	Internet Retailing	1.6
Non-retail channels		2
	Hair Salons	2

Source: Euromonitor

Some small players have chosen the Cash and Carry route to market as opposed to selling through supermarkets given the less stringent requirements. In the above table, this can be categorised under 'Discounters' under Grocery Retailers. Cash and Carrys do not require listing fees or history of sales from suppliers, making it less onerous for new players to get a foothold in the retail space and to start to build scale. For a detailed assessment of the alternative routes to market listed in Table 11 above, please see section 7.3.

With regards to detergents, grocery retail is very important in South Africa, significantly more so than in cosmetics. The main routes to markets for soaps and detergents are grocery retailers, representing between 96% and 99.7% of all sales value of the different home care product categories in 2015 (Table 12). Within grocery retails, supermarkets represent the most important route to market at between 70.9% and 74.8% of total sales value, followed by independent grocers ranging between 12% and 15.1%.

Table 12: Routes to Market for soaps and detergents, % value 2015

		Bleach	Dishwashing	Laundry care	Surface care
Grocery Retailers		98.5	99.3	96	98.3
	Convenience Stores	1.2	0.8	0.9	1.1
	Discounters	0.9	1	1	1
	Forecourt Retailers	0.2	0.3	0.5	0.3
	Hypermarkets	9.4	9.3	8.8	9
	Supermarkets	74.8	73.9	70.9	71.8
	Independent Small Grocers	12	14	14	15.1
Non-Grocery Specialists		0.5	0	0	0
	Health and Beauty Specialist Retailers	0.5	0	0	0
	Department Stores	1	0.6	0.6	0.3

	Mass Merchandisers	0	0.1	0.3	0.2
	Warehouse Clubs	0	0	0.2	0
Non-Store Retailing		0	0	3	1.3
	Home shopping	0	0	2.3	0
	Internet Retailing	0	0	0	0.1
	Direct Selling	0	0	0.7	1.2

Source: Euromonitor

The implication is that any challenges faced in accessing this particular route to market may deny a firm access to the consumer. Thus, it is important that any barriers to accessing supermarkets is understood as any policy seeking to develop detergent producers necessarily has to take into account policy recommendations for accessing supermarkets.

The barriers to accessing supermarket shelf space for detergent suppliers are similar to those experienced by cosmetics suppliers highlighted above and are not repeated here. Brand awareness is particularly important in detergents and expenditure on advertising, marketing and merchandising is substantial.

In Zambia, the dynamics are slightly different from those observed in South Africa. The main channel for distribution of cosmetics and soaps and detergents is to some degree determined by whether or not firms supply supermarket and whether the products are for domestic or industrial use. For firms supplying supermarkets, 50% of their output is channelled through the supermarkets. Wholesalers play an important role, distributing 20% of retail sales and other retailers including independent stores constitute 30% of retail sales. Firms manufacturing cosmetic products not supplying supermarkets predominantly channel their products through wholesale shops at 90% of total sales value while the remainder is distributed through hair salons. The main market for industrial-use detergents and cleaning agents include hospitals, schools, parastatals; independent companies; informal traders. Here again supermarkets are an important route to market, however, less than 50% of total sales are distributed via this channel. The implication is that firms can target alternative markets, however, we note that for the detergents market, where economies of scale in production matter for cost competitiveness, firms may have to distribute using all channels including supermarkets.[24]

5.1. Retailing: Role of supermarkets

Past research has shown that 80%of processed food stocks in supermarkets operating in Zambia were estimated to be imports from South Africa (Emongor and Kirsten, 2009). This suggests that similarly, there are opportunities for Zambian products, particularly soaps, detergents and cosmetic products to be sold in other countries through regional supermarkets. Southern African countries, including Zambia, have experienced strong growth in a number and spreads of supermarkets over the past two decades. This has largely been driven by the expansion of South African supermarket chains both within South Africa and Zambia and the rest of the in the southern African region. Increasing regional foreign direct investment and demand-side factors such as rapid urbanization have been attributed to this growth (Tschirley,

[24] Boisu et al, 2016

2010; Humphery, 2007). Improved and modern infrastructure is also a key factor driving the expansion of supermarkets. The surge in the construction of shopping malls in southern Africa provides retailers with the space to carry out their operations. Ziba and Phiri (2017) attribute the wave of retail modernisation in Zambia to a number of factors namely: increased urbanisation; economic growth; emergence of a middle class; and changes in food consumption patterns as a result of globalisation, food marketing and advertisements.

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

Further, the multinational nature of many supermarket chains in the region open up firms to a much larger regional market for FMCGs. The opportunities therefore exist for firms to attain the necessary scale to become competitive in national, regional and potentially even international markets. Notwithstanding these potential benefits, there is growing concern that the participation of local suppliers in supermarket value chains remains limited. This low participation of local suppliers in supermarket value chain potentially deprives Zambia the opportunity to fully harness the potential for industrial development that can be derived from linkages to supermarket value chains.

Typically, in most developing countries such as Zambia and South Africa, local processing firms tend to face both structural and strategic barriers to entry, and lack capabilities to compete against foreign firms in both domestic and export markets (Ziba and Phiri, 2017; das Nair and Chisoro, 2015, 2016 and 2017). This not only limits the participation of local processing firms in domestic markets, but also hampers their participation in regional trade. This implies that processing firms with low productivity and minimum capacity have to diversify the markets they sell to.

The soaps, detergents and cosmetics industry firm interviews revealed that only a few select firms use supermarkets as their main route to market. These firms that have successfully integrated into supermarket value chains didn't report any challenges with regard to supplying supermarkets. For firms not supplying supermarkets, the major reasons cited included high packaging demands by supermarkets and the inability to meet the volumes demanded by supermarkets as a result of the firms limited production capabilities. In many cases, suppliers require substantial investments in capital, technological, managerial, organizational, logistical and financial upgrades to meet cost and quality requirements of supermarkets.

Recent works by Ziba and Phiri, 2017 reveal that in Zambia, firms face structural and strategic barriers to entry. Structural barriers to entry include the costs associated with acquiring necessary domestic standards which pose regulatory barriers. Strategic barriers relate to supermarkets' procurement strategies such as the level at which decisions are made regarding suppliers. For most foreign supermarkets, the selection of suppliers is often the discretion of the store head office which does not leave room for store managers in various towns for instance, to select local suppliers within their vicinity. Supermarkets' procurement criteria also impose constraints particularly for micro and small businesses. The increasingly higher private standards demanded in addition to mandatory legal standards are often times, barriers to entry owing to the costs associated with meeting these standards. Private demands such as bar-coding, labelling and packaging requirements, merchandising, advertising, rebates and nation-wide distribution all have cost implications for local firms trying to enter and compete with incumbent suppliers or with global suppliers. The payment period for goods supplied to supermarkets which averages between 30-60 days is also a constraint due to the cash flow challenges the long period poses for small financially constrained businesses.

Supermarkets' perceptions of local production capabilities in the soaps, detergents and cosmetic value chain corroborate some of these findings. On the basis of interviews held with two dominant South African supermarkets operating in Zambia, soaps, detergents and cosmetic products are predominately imported due to limited production capabilities in Zambia. On this basis, the reported proportion of locally sourced soaps, detergents and cosmetics products versus imported products for Game Stores were estimated at 40%, 40% and 5% respectively. In comparison, the proportion of cosmetic products is very low owing to the lack of brand awareness of locally produced goods which is very critical to the successful sale of cosmetic products. Locally manufactured soaps and detergents have been more successful in both supermarkets, increasing exponentially over the last 5 years and this has largely been attributed to the success of Trade Kings, the industry lead manufacturer of soaps and detergents in Zambia. Notably, Vitafro and Vita Life successfully supply cosmetic products to one of the major supermarkets in Zambia. While a few local firms have successfully integrated into supermarket value chains, a number are still excluded. Supermarkets reportedly face a number of challenges with local suppliers that prohibit local suppliers' integration into supermarket value chains. Local suppliers often fail to meet the volumes demanded by supermarkets and are not consistent with supply. This is largely as a result of firms limited production capabilities and the lack of logistical support. Firms further lack good quality packaging which renders most of their products unattractive. Related to this is the inability of some firms to meet ZABS standards. Local products are also reportedly relatively more expensive than imports rendering them uncompetitive.

For firms to successfully integrate into supermarket value chains, they need meet supermarkets' procurement criteria. Above and beyond meeting the Zambian standards, supermarkets' criterion for the procurement of soaps, detergents and cosmetic products is premised on the cost and quality of the product and the ability of the local firm to consistently supply the volumes ordered. The ability of the firm to offer a rebate on the unit price of their products is also very critical for a few select supermarkets. Brand awareness is very critical in driving the sales of soaps, detergents and cosmetic products. In this regard, earmarking funds towards marketing and advertising becomes essential and is often demanded by supermarkets However, the majority of firms interviewed revealed that they did not allocate

funds towards marketing and advertising due to financial constraints Supermarkets also expect firms to have barcodes for soaps, detergents and cosmetic products and to meet the distribution costs associated with supplying the stores. Other additional criteria although not binding, include having merchandisers who play a critical role in ensuring that the shelves are well stocked and to push for orders when stocks are running low. Supermarkets also expect product packaging to clearly indicate key information such as the manufacturing and expiry date.

Supermarkets are increasingly becoming vertically integrated by extending their operations to include the manufacture and packaging of house brands that have grown exponentially over the past 5 years. This growth has been fuelled by customer loyalty, brand awareness and trust. Products include disinfectants, cleaning agents, toilet paper, tooth pastes and other private brands of manufactured foods and household products. These products are predominately manufactured in South Africa owing to the relatively lower cost of production and existing production capabilities in South Africa. This suggests opportunities for local manufacturing of supermarkets in-house brands through Contract Manufacturers in Zambia which remains relatively unexploited. Shoprite's RiteBrand toilet paper for instance is manufactured by a contract manufacturer in Zambia. The crux becomes how to address the relatively higher cost of production in Zambia and promote the manufacture of house brands and private brands that fall in the soaps, detergents and cosmetics industry.

5.2. Accessing export markets

A total of 16 respondents were interviewed, including 8 manufacturing firms and 8 stakeholders, in order to understand the challenges facing firms operating in South Africa to export. Of the 16 respondents, only 4 firms directly export their products, whereas 6 firms indirectly export. Of notable interest is 1 manufacturing firm that exports directly all over Africa, while some of the firms export to Angola, Botswana, Kenya, Lesotho, Namibia, Swaziland, Nigeria and Zimbabwe to name a few. Reasons behind the subdued ability to export particularly for SMEs identified by key stakeholders and manufacturing firms interviewed include lack of information on export markets, certification, testing, exchange rate, scale economies and foreign government restrictions.

Lack of information on exports markets

An interview with 1 out of the 16 interviewees, revealed that SMEs in the cosmetics sector of South Africa lack sufficient information on exports markets. Different export markets are likely to have varying consumer needs and requirements, thus it is important to conduct adequate research into a chosen export market before exporting. For instance, west African consumers generally have coarser hair than southern African consumers and hence hair relaxers prepared for the west African markets should be stronger than hair relaxers prepared for the southern African markets. There are also different trends and cultures across countries that need to be taken into consideration when formulating products for different markets. For instance, it seems as though a larger proportion of South African women in urban areas generally wear lipstick, whereas a larger proportion of Zimbabwean women in urban areas appear to generally not wear lipstick. Additionally, SMEs lack knowledge on the different approaches to business across countries which makes it difficult to export. For example, direct marketing may be the preferred and most effective method of selling a product in a developing

country where the general population has limited access to the internet. However, this may not necessarily apply in more advanced countries where several people have access to the internet.

Furthermore, in order to carry out adequate research into prospective export markets which is a prerequisite for the products to succeed in foreign markets, firms require sufficient capital to conduct the research. SMEs are likely to have limited access to finance as commercial banks deem them to have high risk profiles since they are still growing.

Certification

The data collected also reveals that certification is a major concern in the cosmetics industry. A growing number of countries require exporting firms to produce a certificate of free sale. A certificate of free sale provides assurance that products exported are safe for consumer use and are sold freely in their countries of origin[25]. In South Africa, the Cosmetic Toiletry and Fragrance Association of South Africa (CTFA) provides this certificate exclusively to its members. Therefore, exporting firms are forced to register with the CTFA in order to access the certificate of free sale although their interests may not be well represented. The interests of the smaller organisations may not be well represented as the CTFA board members are mainly from large cosmetics organisations, and are likely to pursue their own interests as large firms to a greater extent than the smaller organisations' interests. 1 stakeholder out of the 16 respondents, confirmed that the CTFA appears to promote the interests of larger organisations as compared to those of the smaller organisations.

In order to be able to export, firms need to be Good Manufacturing Practice (GMP) compliant. The cost of becoming GMP compliant is costly making it difficult for the smaller firms to export. GMP guidelines for cosmetics are stipulated by the ISO 22716:2007 standard which is internationally recognised. The standard focuses on a quality assurance concept giving guidelines on production, control, storage and shipment of cosmetic products[26]. 5 out of the 16 respondents confirmed that it is expensive to be GMP compliant. However, the CTFA aims to assist its members with maintaining high quality and safe products as members are required to comply with the CTFA Compendium which follows Good Manufacturing Practice (GMP) and Codes of Practice[27]. This also forces smaller firms to be part of the CTFA, even though their interests may not be well represented as explained in the previous paragraph.

Another challenge faced by cosmetics firms is complying with European Union (EU) regulations on cosmetics in order to export to EU markets. Out of the 16 interviewees, 4 firms highlighted that complying with EU regulations is very costly. However, sections of the CTFA Compendium comply with the European Cosmetic Directive which stipulates guidelines for cosmetics sold in the European Union[28]. Therefore, by registering with the CTFA firms operating in South Africa may have access to European markets.

Testing

[25] CTFA website
[26] International Standards Organisation website
[27] CTFA website
[28] CTFA website

Organisations with the intention of exporting their products also need to test their products, which is costly particularly for the SMEs. Moreover, the availability of testing facilities in South Africa. Interviews with 2 respondents out of the 16 interviewed revealed that there are only, two testing facilities, Le-Sel Research Private Limited and Council for Scientific and Industrial Research (CSIR), are able to fully test cosmetics products in South Africa. The aforementioned two firms are able to do a full product dossier. A product dossier is a product information file giving a detailed description of the cosmetic product; a cosmetic product safety report; a description of the method of manufacturing and a statement on compliance with good manufacturing practice; evidence of the effect claimed for the cosmetic product; data on animal testing; and product labelling[29]. Additionally, 1 respondent revealed that SGS, an international organisation operating in South Africa is also able to test products in order to conform to international standards but is also expensive.

The South African Bureau of Standards (SABS) is another testing facility where cosmetics manufacturers can have their products tested. However, while SABS certification is well recognised in South Africa, it does not cover all the testing required to be able to export to international markets. 2 respondents out of the 16 interviewed confirmed that SABS certification is inadequate in order to export. 1 of the respondents suggested that the SGS testing facility is more comprehensive than the SABS and highlighted that even though the SGS is an international organisation with testing facilities all over the world, it is cheaper than testing with SABS.

Exchange rate

1 manufacturing firm out of the 15 interviewed cited an unfavourable exchange rates as a hindrance to exporting. The firm previously exported to Mozambique and Zambia but had to stop due unfavourable exchange rates. A weaker domestic currency makes it more expensive to buy foreign currency used to purchase imported goods, whereas a stronger domestic currency makes it cheaper to buy foreign currency used to purchase imported goods. Based on the South African Rand (ZAR)/ Mozambique Metical (MZN) exchange rate, MZN depreciated against the ZAR from 3.16 as at 30 January 2015 to 5.21 as at 30 December 2016[30]. Therefore, South African products may have been less competitive in Mozambique, as they had become more expensive due to a weaker MZN. Similarly, the Zambian Kwacha (ZMK) also depreciated against the ZAR form 0.56 as at 30 Jan 2015 to 0.72 as at 30 December 2016[31]

Scale Economies

Out of the 15 firms interviewed, 1 mentioned the lack of scale economies as a factor which hinders the exportation of products. Scale economies refers to the advantage in cost that arises as a result of increased production. Without scale economies, small firms may not be able to offer competitive prices enough to attract sufficient demand and make profit.

Foreign government restrictions

[29] Cosmetics regulatory services website
[30] Standard Bank website
[31] Standard Bank website

Some countries are moving towards localising domestic production of goods in a bid to protect their domestic manufacturing industries through imposing restrictions on the importation of specific products. 1 firm out of the 15 firms interviewed stated that the firm could no longer export their products to Zimbabwe due to its import policy. In July 2016 Zimbabwe restricted the importation of 43 finished products which included washing soaps and beauty creams, through its Statutory Instrument 64 of 2016[32].

Existing interventions for alleviating exporting challenges

In addition to the government incentives which shall be described in section 6, the Centre for the Promotion of Imports from developing countries (CBI) programme (funded by the Netherlands Enterprise Agency) and the Durban Chemicals Clusters are examples of how firms can collaborate to overcome the challenges associated with exporting.

CIB programme

The CBI programme, is a programme offered by the CBI used to assist SMEs in developing countries to export their products to the European market at no cost, whilst fostering sustainable and inclusive economic development[33]. The programme is funded by the Netherlands Ministry of Foreign Affairs through the Netherlands Enterprise Agency. The programme provides export coaching programmes, develops market information on prospective export sectors in Europe, involves European importers when structuring and implementing the programme and provides technical support to organisations in developing countries that assist SMEs. In South Africa, the CBI programme is currently in the process of assisting 14 SMEs to export natural ingredients to European cosmetics manufacturers[34], and also enhance the quality of the natural ingredients[35]. The programme began in 2014, with the selected SMEs attending an orientation meeting in Europe to enable them to understand the European market and requirements of buyers of natural ingredients from Europe in 2015. Additionally, the programme is equipping the SMEs with the ability to add value to their products through processing and packaging. The programme ends in 2018, after the SMEs exhibit their products at one of the leading cosmetics trade fairs in Europe called In-Cosmetics in France[36]. However, in instances where the SMEs are too small and lack support in their domestic sectors as well as organisation it becomes a challenge for CBI to assist them to enter into the European market. This is because the SMEs may be unable to comply with European regulations such as testing and quality control may also not have sufficient capacity to provide adequate volumes sustainably to prospective buyers.

The Durban Chemicals Cluster

Through the Durban Chemicals Cluster (DCC), firms are able to access African export markets. The DCC is a Public-Private Partnership between the eThekwini Municipality and local chemicals firms in and around Durban. The purpose of the cluster is to support the local chemicals manufacturing industry to address common challenges and establish mutual

[32] eNCA website
[33] CBI website
[34] CBI website
[35] CBI website
[36] CBI website

competitive advantages in order to enhance competitiveness and industrial development[37]. In order to facilitate growth in the chemical sector of South Africa, the DCC facilitates meetings between local and international buyers and suppliers of products in Africa through a trade platform[38]. One such trade platform is the chemicals Imbizo. The Chemicals Imbizo aims to expand the local chemicals manufacturing through connecting chemical buyers and local suppliers creating business linkages. Buyers and suppliers are able to connect at individual buyer supplier meetings organised; and suppliers are able to showcase their capabilities at an exhibition.

However, the trade platform is limited to African export markets and cannot assist firms which need to export to international markets. The chemicals cluster is also exclusive to chemicals manufacturing companies in KwaZulu Natal only.

5.3. Alternative routes to market

There are other alternative markets open to manufacturers that have less onerous requirements for supply than supermarkets and exports. These include salons and spas; direct marketing; hotels and cleaning services.

Salons and spas

Though only 2% of cosmetics sales are distributed through salons and spas in South Africa, they are a viable alternative route to market in which products may be sold as. Conversely, in Zambia, hair salons account for nearly 10% of the total sales of firms manufacturing shampoos and hair conditioners. These are relatively low-end markets with fewer demands for product and packaging quality. Salons located in high end markets tend to sell professional brands. Professional brands are usually made from high quality ingredients resulting in higher quality products. Therefore, the products have higher profit margins as they are generally more expensive, as compared to retail products made from lower quality ingredients. Selling products to salons is also advantageous in that it has lower advertising costs since producers of professional brands sold in salons and spas are not required to commit to an advertising budget as imposed by some large supermarket retail stores on producers of retail products. Moreover, the market of salons and spas is smaller and therefore the volume of products sold to salons and spas are lower than retail products and can easily be met by small firms with limited production capabilities. Large retails stores may require supplies to supply specified large quantities at a given time, which may be challenging especially for SMEs that have limited capabilities. SMEs can also avoid the strict packaging guidelines of large retail stores such as bar coding their products, as spas and salons appear to be flexible in terms of packaging. An example of a successful professional brand sold exclusively to spas and salons in South Africa is the Ladine hair care range. Additionally, Ladine is also exported to a number of African countries including Angola, Botswana, Kenya, Lesotho, Mauritius, Nigeria, Swaziland and Zimbabwe. In Zambia, Elite conditioner is popularly sold to hair salons.

Direct marketing

[37] Durban Chemicals Cluster website
[38] Durban Chemicals Cluster website

Another useful alternative route to market is direct marketing. Direct marketing refers to the direct communication of a marketing message to a prospective consumer by the seller of a product or his agent without the use of indirect media or the involvement of a middleman[39]. It can be used by large global companies with strong brands such as Avon or smaller entrepreneurs such as Ruutos in South Africa, to market and sell their products. Direct marketing is beneficial in that it involves lower start-up costs and lower overheads costs as compared to mass media advertising campaigns. 1 respondent out of the 16 respondents interviewed confirmed that it is cheaper to sell directly rather than to list products in retail stores. Direct market marketing agents buy products in bulk at a discount from the supplier, the discount becomes the agent's retail profit. For example one respondent sells its products to agents at a 25% discount, and hence the 25% discount is the agent's retail profit. Agents can also get a commission through signing up more agents to sell products, which promotes sales for the supplier of the products. Direct marketing also fosters a relationship between the agent and client, whilst marketing the product at a low cost. It can be ideal for small businesses with limited access into supermarkets and capital seeking, to establish a brand and grow. However, products sold through the direct marketing channel cannot be sold in supermarkets, as the supermarkets would compete with the direct agents.

Hotels

Hotels are also an important route to market, particularly for contract manufacturers producing cosmetics, soaps and detergents. Hotels are likely to order products in bulk as they require consistent suppliers in line their requirements. Similar to salons and spas, hotels are not particular about packaging but high quality unique branded products are likely to interest them. In Zambia, international hotels such as Protea, Intercontinental and the Taj Pamodzi, Southern Sun use branded toiletries manufactured in other countries that can be substituted domestically manufactured toiletries by contract manufacturers. Selling products to hotels provides a cheaper since lower marketing costs are involved as compared to mass media advertising costs.

Cleaning services

Cleaning services firms may also be an effective route to market especially for the smaller firms as the barriers to entry in this market are generally lower. The lower barriers to entry include lesser packaging requirements required as cleaning services are likely to order products in bulk. For instance, 100 litres of liquid soap packaged in 20 litre containers may be ordered as opposed to 750ml bottles required by supermarkets. Marketing costs are also lower as there are likely to be no mass media advertising campaigns to create brand awareness. Start-up costs are also low and volumes required are smaller making it relatively viable for smaller firms to supply products to cleaning services. Zambian firms manufacturing industrial-use liquid detergents and other cleaning agents already cite this as one of their main routes to markets owing to the lower demand for quality packaging.

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

6. Industrial and trade policy and regulations

6.1. South Africa

The Industrial Policy Action Plan (IPAP) 2016/2017 – 2018/19 recognises the importance of the cosmetics sector in enhancing sustainable economic growth and has put forth key plans to enable firms to meet the ever changing consumer needs in order to maintain price competitiveness in the sector. The plans focus on promoting cosmetic products from nature to market; and on increasing investment, upgrading capital equipment and processes.

Being a biologically diverse country, South Africa has a vast amount of natural ingredients which manufacturers can leverage into developing products and export markets through crucial partnerships[40]. The Industrial Policy Action Plan highlights plans to expand export markets and enhance regulatory compliance through facilitating the establishment of a European Union (EU) Certification Programme permitting domestic firms to register their product on the EU market in partnership with IDC from the years 2016 and 2018. The programme will also be expanded to other markets over a period of three years beginning in 2016.

The Industrial Policy Action Plan reveals that increasing investment, upgrading capital equipment and processes is necessary to enable local manufacturing firms to enhance their competitiveness and also meet new standards and requirements in cosmetics sector. It highlights plans to assist 4 firms to access government incentives from the beginning of 2016 to the end of 2018. The plan will enable local manufacturing firm to become Global Manufacturing Practice compliant, increase production capacity and eventually achieve economies of scale. GMP for the cosmetics industry refers to the guidelines, operational rules and advice particularly on technical, human and administrative factors in order to ensue consumer safety and good quality products[41]. The ISO 22716 standard is a GMP internationally recognised regulatory standard with the European market requiring all participants to comply with the standard[42]. Core elements of the standard include: the cosmetics quality management system and organisation; premises and equipment; product realisation and materials management; deviations, complaints and recalls; and continuous improvement (De Boer, 2014). Currently, South African manufacturing firms in the cosmetics industry face challenges in meeting the aforementioned GMP standards[43]. Additionally, the majority of the South African Chemical industry comply with ISO standards. New ISO standards as well as amendments to a number of existing ISO standards released in 2015 are expected to have been implemented by the end of 2016[44].

In support of IPAP, the DTI and other organisations offer incentives available for the chemicals sectors. Incentives are necessary to foster economic growth and development as they facilitate the development of capabilities among local firms. Key incentives provided by the

[40] IPAP (2016). Available: http://www.gov.za/sites/www.gov.za/files/IPAP%202016_0.pdf (Accessed 19 September 2016).
[41] Bureau Veritas Group Website
[42] Bureau Veritas Group Website
[43] IPAP 2016/17 – 2018/19. Available: http://www.gov.za/sites/www.gov.za/files/IPAP%202016_0.pdf (Accessed 19 September 2016).
[44] Durban Chemical Cluster Newsletter Q1 (2015). Available: Available: https://issuu.com/bmanalysts/docs/dcc_newsletter__apr_-_jun_2015_ (Accessed 22 September 2016)

DTI in the form of investment support; export support; innovation support; preferential funding and project development support are described below.

Investment support

The DTI offers the chemicals sector with investment support under the Section 12I Tax incentive scheme, Manufacturing Competitiveness Enhancement Programme (MCEP) and Special Economic Zones (SEZ). Of notable positive impact in the sector are the Section 12I Tax incentive scheme and the MCEP which are described below.

Firms within the chemicals sector can access the Section 12I Tax incentive scheme. The incentive aims to enhance the manufacturing sector's productivity through increasing investment in training and manufacturing assets for Greenfields investments and Brownfield investments[45].The Section 12I Tax incentive scheme also provides financial assistance for employment generating projects. Five projects in chemicals sector received R3.6 billion, representing 39% of the total project investment by the scheme for the period 2013/14, as well the highest tax allowance of R1.7 billion in the same period[46]. Additionally, five projects received a training allowance of R27 million, constituting 38% of the training allowance approved in the same time period. In 2012/13, the four approved chemicals sector projects received the largest share of the training allowance of R21.8 million (44%). As a result, the chemicals sector created 500 direct jobs and 500 indirect jobs in 2013/14; and 716 direct jobs and 40033 indirect jobs in 2012/13[47].

Unilever is an example of a firm in the chemicals sector that benefited from the Section 12I Tax incentive scheme, receiving an investment allowance of R350 million as well as a training allowance of R7 million for the Khanyisa plant in Boksburg[48]. As a result, the firm expects its production capacity to increase from 90 000 to 150 000 tonnes annually in order to meet expected demand; and improve the quality of its products; increase skills development and reduce environment impact through its improved technology. Unilever also expects a reduction in costs due to improved efficiency[49]. The reduced costs, enhanced product quality and increased production capacity are likely to make Unilever products more competitive in the aforementioned industry.

Although the Manufacturing Competitiveness Enhancement Programme (MCEP) was suspended in October 2015 due to high volumes of applicants beyond the prescribed budget, firms in the chemicals sector can still access this incentive once new funds have been allocated towards it. MCEP can assist firms to promote enterprise competitiveness and job retention through productive incentives and industrial loan facilities. For the financial year 2013/14, the chemicals sector received grants to the value of R106 million with an investment value of R339 million. Consequently, the sector could retain 1, 395 jobs. AMKA Products

[45] Greenfield investments refer to new industrial projects that use only new and unused manufacturing assets whereas Brownfield investments are expansions or upgrades of existing industrial projects)
[46] Progress report on implementation of IPAP (2014). Available: https://www.thedti.gov.za/parliament/2014/IPAP_AR2014.pdf (Accessed 19 September 2016).
[47] Progress report on implementation of IPAP (2014). Available: https://www.thedti.gov.za/parliament/2014/IPAP_AR2014.pdf (Accessed 19 September 2016).
[48] IPAP (2016). Available: http://www.gov.za/sites/www.gov.za/files/IPAP%202016_0.pdf (Accessed 19 September 2016).
[49] Unilever Website

Company, a small firm producing cosmetics, personal care and household cleaning products is a good example of one of the beneficiaries of the incentive. Through an MCEP R900 million recapitalisation grant AMKA could purchase new plant and machinery which subsequently improved the quality of its products, increased its production capacity and enabled the firm to compete with international firms on equal footing[50].

Export Support

The DTI also provides South Africa firms in the chemicals sector with export support through the Export Marketing and Investment Assistance (EMIA) and Sector Specific Assistance Scheme (SSAS).The Export Marketing and Investment Assistance (EMIA) assists South African firms to develop export markets and also partially reimburses exporters for costs incurred for the purpose of developing export markets for South African products[51].Enterprises within the chemicals sector can take advantage of this incentive as it enables them to increases exports and tap into new international and regional markets at a subsidised cost and expand their operations. In the financial period of 2013/14, R7 million was approved for projects in the industry, whilst R5.6million and R4 million was approved for the period of 2012/13 and 2011/12 respectively[52]. Consequently, export sales in the industry increased from R36m in 2011/12 to R63 million in 2012/13[53]. SSAS provides financial support to firms which aim to develop industry sectors, stimulate employment, develop new export markets and promote Black owned SMMEs.

Innovation support

Incentives available to the chemicals sector for innovation support include the Support Programme for Industrial Innovation (SPII), Technology and Human Resource for Industry Programme (THRIP) and SEDA Technology Programme (STP). SPII is a government led initiative which provides financing for innovative products and/or processes with the aim of promoting technology development in South Africa's industry;[54] THRIP aims to advance the competitiveness in sector through research in advanced technologies[55]; and STP promotes the use of, and availability of technologies to small enterprises and provides management support[56].

Preferential funding

Preferential funding is also accessible to the chemicals sector through the Development Bank of Southern Africa Green Fund, the KZN Growth Fund, the Employment Tax Incentive (ETI) and the Chemical Industries Education and Training Authority (CHIETA). The Development

[50] IPAP (2016). Available: http://www.gov.za/sites/www.gov.za/files/IPAP%202016_0.pdf (Accessed 19 September 2016).
[51] DTI Website
[52] Industrial Development Incentive Administration Division (IDIAD) incentive performance report (2013). Available: http://www.thedti.gov.za/DownloadFileAction?id=816 (Accessed 22 September 2016).
[53] IDIAD incentive performance report (2013). Available: http://www.thedti.gov.za/DownloadFileAction?id=816 (Accessed 22 September 2016)
[54] DTI Website
[55] National Research Foundation Website
[56] DTI Website

Bank of Southern Africa Green Fund[57]; and the KZN Growth Fund [58]provide financial assistance to private projects with the potential to generate employment opportunities, promote economic success and the Broad-Based Black Economic Empowerment initiative to foster sustainable growth and reduce inequality in Kwazulu-Natal. The Employment Tax Incentive (ETI) decreases the costs of employing inexperienced young workers through a government cost mechanism without affecting the wages of an employee[59]. Its main objective is to promote the hiring of young inexperienced workers. The Chemical Industries Education and Training Authority (CHIETA) supports skills growth for the chemical industries sector[60].

6.2. Zambia

Zambia's industrial sector consist of eight sub-sectors which are significant for economic diversification and economic growth namely food, beverage and tobacco, textile and leather products, wood and wood products, chemicals, rubber and plastic products, non-metallic mineral products, basic metal products, fabricated metal products, paper and paper products (MCTI, 2006). The current industrial policy does not explicitly recognise the chemicals and cosmetic sector as one of the most viable sectors despite its average contribution to GDP in 2001-2006 with the manufacturing sector being 8.6 percent, third from the food sector.

The Government of Zambia through consultations with several partners only prioritise six main priority sectors which includes processed foods, textiles and garments, engineering products, gemstones, leather and leather products and wood and wood products. Policy framework in these areas is clear and properly outlined. With regards the chemicals sector, Zambia uses best practices that are recognised around the world.

Export Support

Furthermore, commercial and trade policy for the cosmetic industry in Zambia is absent. However, Zambia currently participates in various trade agreements at various levels including: multilateral, regional and bilateral. The country also benefits from various trade arrangements offered by many industrial countries. Specifically, Zambia is a member of the World Trade Organization (WTO) and a member of Least Developed Country (LDC). Within the region, Zambia currently participates in the common market for eastern and southern African (COMESA) and a signatory of the southern African development community (SADC). At EU level, EU-ACP Cotonou Trade Protocol and benefits from other preferential trade arrangements such as Everything-but-Arms, the African Growth and Opportunity Act (AGOA) and the Canadian Initiative.

7. Conclusions and Recommendations

The size and maturity of the soaps, detergents and cosmetic industries between Zambia and South Africa are very different with South Africa having the more sophisticated and developed industry. The South African market is dominated by few large multinationals that individually

[57] Department of Environmental Affairs Website
[58] KZN Growth Fund Website
[59] South African Revenue Service Website
[60] Chieta Website

enjoy significant market shares, and many small firms with insignificant market shares individually and/or collectively. Some of the small firms and all multinationals have high production capabilities that have enabled them to successfully penetrate the regional markets. The industry is also supported by the relatively established contract manufacturing, together with the new and cheap 3D printing technology in the packaging subsector.

Notwithstanding these successes, the South African industry operates below its production capacity and small firms generally struggle to compete effectively due to several factors: high inputs costs owing to high cost of raw and packaging materials; barriers to accessing supermarkets; limited access to finance, particularly for advertising; skills shortages; and unfavourable regulation and standards such as the compliance with Good Manufacturing Practices (GMP), failing bio-diversity permit system and expensive export certification requirements.

Zambia has a dominant firm in the soaps and detergents industry that has successfully penetrated the regional markets, however, the majority of firms in this industry and in the cosmetic industry have low production capabilities and operate below their production capabilities, lack good quality packaging and brand awareness and lack export capabilities. As a result, while many of the firms have demonstrated longevity, they have failed to expand and grow their businesses and achieve economies of scale. Trade Kings remains the outlier in the industry having demonstrated tremendous growth over the years. Many factors limit the growth of these industries: high input costs owing to the taxes and compliance fees levied on imports of key chemicals exacerbated by the depreciation of the kwacha against major foreign currencies; high cost of quality packaging; high cost of finance required for investment in machinery and technology and product upgrading; competition from cheaper imports from the East and South Africa; increasing supermarket supply demands and the lack of recognition of the Zambia of Bureau certification in export markets.

Notwithstanding these challenges, the trade deficit in the southern African region presents opportunities for increased industrial production and import substitution. The growing demand for natural cosmetic products also presents a niche market that can be harnessed by both Zambia and South Africa. This market presents opportunities for scaling up the production of beauty soaps and cosmetic products free of synthetic products. This is a relatively low hanging fruit owing to the availability of natural ingredients used cosmetics in both Zambia and South Africa that can provide inputs for the manufacture of natural products. Branded soaps, hair shampoos and conditioners and lotions used in international and local hotels and lodges in Zambia present opportunities for contract manufacturing at relatively lower costs. Because these products do not require investments in advertising and promoting brand awareness, they present relatively low entry barriers. The house brand and private labels of supermarkets also present opportunities for contract manufacturing in Zambia.

Certain inherent factors mentioned in preceding sections present strengths that can be leveraged on in the soaps, detergents and cosmetics industry in South Africa and Zambia. These are summarised in a SWOT analysis in tables 13 and 14 below. The weaknesses inherent in the industry and external threats facing the industry will need addressing if both Zambia and South Africa are to harness the opportunities for increased growth of the industry. These are similarly summarised in the table below.

Table 13: Swot Analysis Summary- Zambia

Strengths	Weaknesses
- Availability of natural ingredients used in cosmetics e.g. Baobab tree, crocodiles, Moringa, Devil's Claw, Mongogo, Kalahari Melon seed, Ximeina, Marula - Government support for the manufacturing industry (fiscal and non-fiscal incentives) - Low barriers to entry	- Poor local packaging capabilities - High cost of finance - Lack of economies of scale - Poor infrastructure (power outages) - Lack of investment in brand awareness - Lack of information about export markets
Opportunities	**Threats**
- Manufacture of organic products - Contract manufacture of cosmetic products for the tourism industry (hotels, lodges, B&Bs, etc.) and supermarkets - Intensifying alternative distribution markets for cosmetics (salons, spas, direct marketing - Regional demand and proximity to relatively untapped markets – DRC	- Currency volatility and depreciation - Competition from imports (e.g. from the East and South Africa - Barriers to accessing supermarkets and export markets - Lack of recognition of the ZAB standards in export markets

Table 14: Swot Analysis Summary- South Africa

Strengths	Weaknesses
- Established packaging capabilities - Availability of natural ingredients used in cosmetics e.g. Baobab tree, Marula, Devil's Claw, Trichilia, Ximenia, Kigelia Africana, Rooibos, Kalahari Melon Seed - Good footprint in the region - Strong contract manufacturing base including R&D capacity	- barriers to accessing supermarkets - Lack of funds for advertising - Limited investment in R&D by MNOs in SA - Lack of information about export markets
Opportunities	**Threats**
- Alternative distribution markets for cosmetics (salons, spas, direct marketing - SADC trade deficit - 3D printing for prototyping	- Exchange rate - Failing bio-diversity permit system - competition from imports - SABS' inability

Recommendations

This paper highlights new and existing opportunities for developing and growing the soaps, detergents and cosmetics industries in Zambia and South Africa in line with the countries' objectives to industrialise and create sustainable inclusive economic growth. To achieve this entails addressing inherent country-specific factors limiting the growth of firm capabilities and the ability to acquire scale and access lucrative markets.

Cross cutting recommendations

Cosmetics from natural products

Cosmetics from natural products to cosmetics present an opportunity for South Africa and Zambia to develop new products. This would take advantage of the current trend of using more organic ingredients in cosmetics and also lower South Africa's reliance on imported chemical inputs. This niche market products do well particularly in export markets, however the issues with the biodiversity permits needs to be resolved.

Engage Supermarkets

Supermarkets have proven to be important routes to market for consumer goods. Supermarkets are also already playing an important role in integrating the region. What is necessary is a regional content policy' consumer goods such as cosmetics to open up shelf-space to regionally produced product/offtake commitments. This can be accompanied by focused supplier development programmes to continue building the capabilities of the suppliers and ensure that they meet the supermarket requirements.

Operationalise Industrial Clusters for the Manufacture of Soaps, Detergents and Cosmetic Products

One of the challenges limiting the competitiveness of firms in the soaps, detergents and cosmetics industry is the lack of scale that can allow firms reduce their average unit costs. Firms' competitiveness can be nudged through the establishment of industrial clusters that aggregates small scale firms manufacturing soaps, detergents and cosmetic products. Through these clusters, firms can be incentivised to produce various soaps, detergents and cosmetic products for hotels, lodges and the house brands of supermarkets. Industrial clusters (cooperatives) can potentially allow cost sharing amongst firms. Costs relating to acquiring inputs and distribution can be spread amongst firms manufacturing similar products. Industrial clusters would also allow firms to acquire better quality and appealing packaging moulds.

Develop centres of excellence

Chemical innovation centre with 3D printing and testing facilities for new products. The challenge regarding testing facilities is prevalent in both Zambia and South Africa. These represent important capabilities in the cosmetics value chain and coordinated interventions are required to make these available. The testing facilities are critical particularly for penetrating the deep sea export markets with stringent regulations on the testing of products. The can be shared by the two countries or more countries in the region to share the costs of establishing state of the art facilities.

Packaging products tend to be expensive primarily due to high cost of moulds. So once a design has been agreed upon and a mould purchased, it becomes difficult to change the design however the manufacturer may deem fit. The introduction of easily accessible 3D printing technology for prototyping can increase the flexibility of manufacturers in selecting appropriate designs

Zambia

Providing Access to Affordable and Quality Packaging Materials

The soaps, detergents and cosmetic industry is a consumer-driven industry that heavily relies on brand awareness. Quality and packaging thus plays a crucial role in shaping consumer preferences and driving sales. For firms to be competitive and succeed, the firms need to invest in quality and appealing packaging. Acquiring this is a challenge for many small firms owing to scale challenges. To invest in a particular good mould, firms need to be able to absorb as many as 5, 000, 000 units for the packaging firm to provide a particular shape desired. Their lack of capacity to absorb this number of units implies that firms have to resort to more generic shapes which are of inferior quality and renders their products less competitive. Government needs to address the issue of packaging which plays a critical role in determining the competitiveness of products in this industry. This can be achieved by aggregating small firms and allowing them to collectively invest in moulds of good quality that can provide 5 or more different shapes that can be differentiated by the firms with labels and products. By sharing the packaging mould and shapes, firms can absorb the units required for packaging companies to provide better packaging materials.

Facilitating Domestic and Regional Market Access

The presence of South African supermarket chains in Zambia and the region as a whole offer both domestic and regional markets for processed products. The spread of supermarkets in the country and the multinational nature of supermarkets open up firms to wider and broader markets. Successful soaps, detergents and cosmetic products sold on the shelves of supermarkets in Zambia for instance, could stand a higher chance of being exported to other countries in the region through subsidiary supermarkets domiciled in those countries. For instance, Zambian grapes were sold through Shoprite in South Africa. Entry into regional markets can therefore be facilitated by a supermarket regional procurement strategy that facilitates the entry of local processed goods supplied in Zambian supermarkets into other subsidiary supermarkets in the region.

Access into domestic supermarket retail chains can be facilitated through the development of a local content policy that provides preferential market access to natural soaps and cosmetic products manufactured in Zambia conditional on a set of criteria. This includes local production capabilities, quality and packaging, consistency with supply and timely delivery.

Provide Access to Affordable Finance

Access to finance remains one of the major factors constraining the growth of the soaps, detergents and cosmetic industry. This is because finance facilitates the acquisition of other

factors of production such as machinery, technology and skilled labour. It also provides resources for marketing and advertising which is critical for firm success in an industry such as soaps, detergents and cosmetic that is heavily reliant on brand awareness. Empirical evidence shows that access to finance contributes to firm entry, growth, and innovation. The availability of finance therefore becomes a critical matter. Equally critical are the terms of acquiring finance and its cost. In Zambia, firms continue to face high interest rates and stringent collateral demands and other bureaucracies related to acquiring finance. If firms are to build capabilities and acquire scale, it is imperative that they have access to affordable. Financial products therefore have to be tailored to the needs of the industry and structured in a manner that allows for the acquisition of affordable finance that has less collateral demands, lower interest rates and less onerous application requirements.

Institute Protectionist Measures

In a globalised world, domestic firms are not only competing amongst each other but against foreign firms as well. This implies that for most locally manufactured FMCGs, there are imported substitutes. The firms that will succeed will then be the ones that have access to cheaper and available factors of production. Because firms in Zambia face competition from imported soaps, detergents and cosmetics products from the East and South Africa that have greater production capabilities and access to finance, local firms need a nudge to help them compete favourably. This requires instituting contingent trade protection measures with the least trade distorting effects. Levying surcharges on imports of soaps, detergents and cosmetic that offer the most potential for increased local production (natural cosmetic products and imported soaps, detergents and cosmetics used in hotels, lodges) for a specific period of time for instance, would stimulate domestic production. Surcharges will render these imported products more expensive and less competitive.

South Africa

Leverage IDC shareholding of Le-Sel Research to support entrants

Le-Sel research is a contract manufacturer that is 70% owned by the IDC. It provides the following services to the cosmetics and soaps and detergents industries includes research and development, testing for compiling product dossiers, packaging design, assistance with developing formulations for new products and production. These capabilities are those that are required for new firms that are entering the industry. At the moment, firms seeking to make use of Le-Sel's services have to do so at a fee. As part of a programme to support entry and expansion in the government could subsidise access to these services. The existing exports promotion desk and Le-Sel research could also collaborate in terms of researching the standards that are required in new export markets as well as assisting firms to comply in terms of the product dossiers.

More funding available for export missions

The opportunity for growth for the industry lies in the trade deficit by the region as well as the growing demand for consumer goods such as cosmetics and soaps and detergents. However, the research shown that at least the South African and Zambian markets do not operate in the same way. The firms that have accessed markets like the DRC have also not the different ways of doing business in the country. Firms require assistance in terms of penetrating

markets in the SADC region and abroad and these export missions become expensive for one firm to bear.

Engage input suppliers

Motivate for input suppliers such as Sasol to match government incentives by providing competitively priced inputs and purify petroleum jelly for domestic industry. There is an industry-wide cry about the uncompetitive pricing of input materials supplied by Sasol, and the unstable quality of its petroleum jelly. In other instances, manufacturers buy the same Sasol petroleum jelly from Germany. It appears Sasol exports unpurified petroleum jelly to Germany. If Sasol could purify its petroleum jelly for the domestic market, manufacturers could save on import costs.

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Annexure 1 List of interviewees

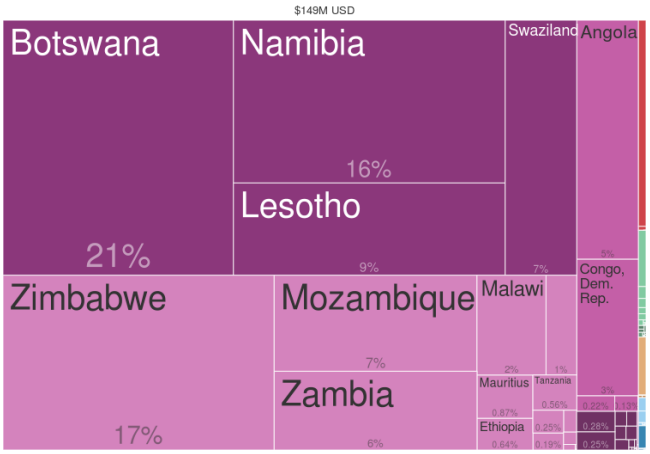
Table 15: **Completed Interviews**

South Africa	**Zambia**
Ruutos Consulting & Projects	Kleenline
Scent Pac	Broadline Chemicals
Bliss Brands	International Chemicals
Henkel	Vitafro
Amka Products (Pty) Ltd	Vita Life
Le-Sel Research	Trade Kings
Rolfe Industrial Holdings	Umoyo
Brunational (Pty) Ltd	Game Stores
D and A Cosmetics CC	Zambia Development Agency
Kalahari Spa (Pty) Ltd	Zambia Association of Manufacturers
Amka Products (Pty) Ltd	RDM Scientific Products
Boxmore	Epslon
Spar	
DTI cosmetics desk	
IDC	
CSIR	
CECOSA	
Phyto Trade	
SKAA	

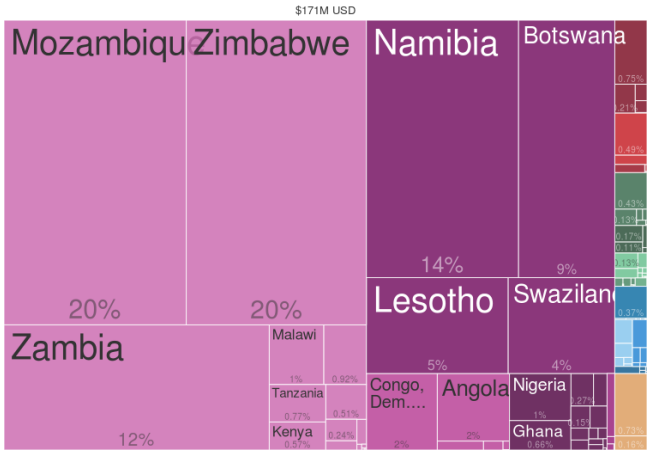
Annexure 2: Exports by destination

Figure 16: Soaps and detergents export destination - 2014

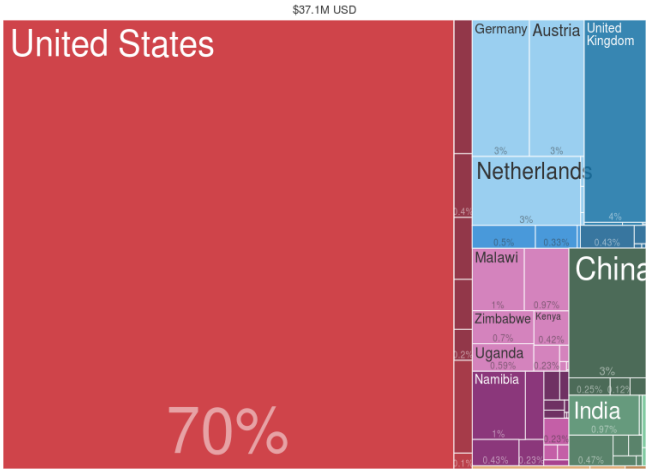
Soaps - $149m USD



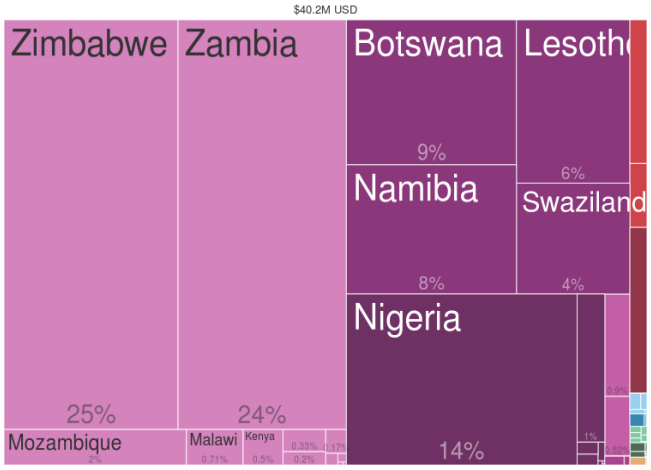
Cleaning products - $171m USD



Artificial and prepared waxes – $37.1m USD

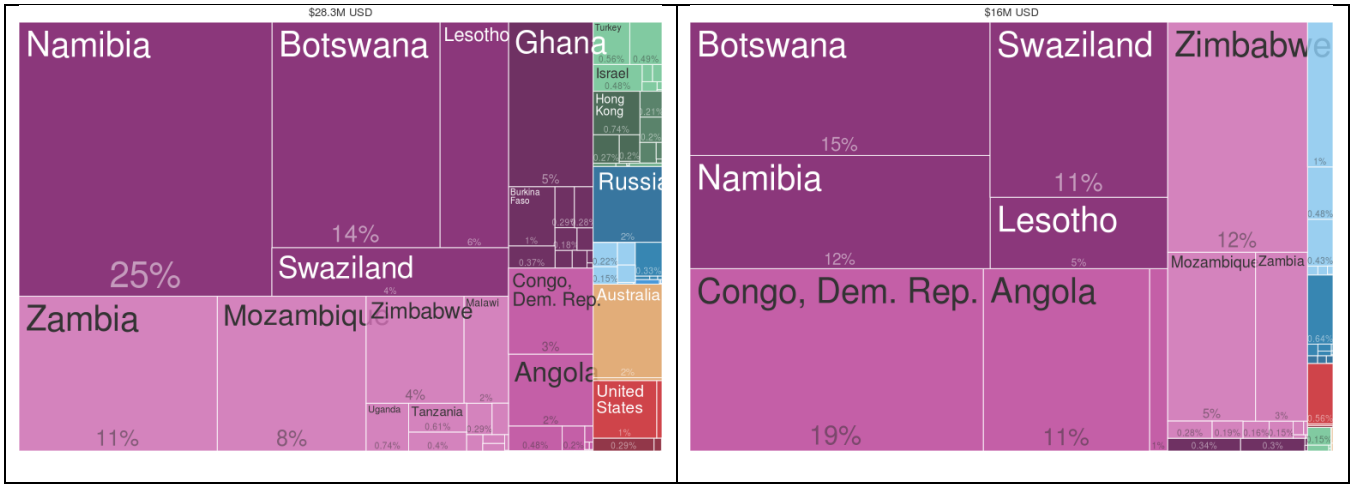


Polishes and Creams - $40.2m USD



Lubricating products - $28.3m USD

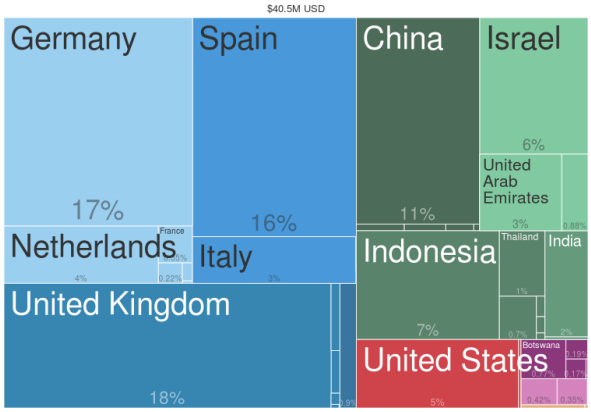
Candles - $16m USD



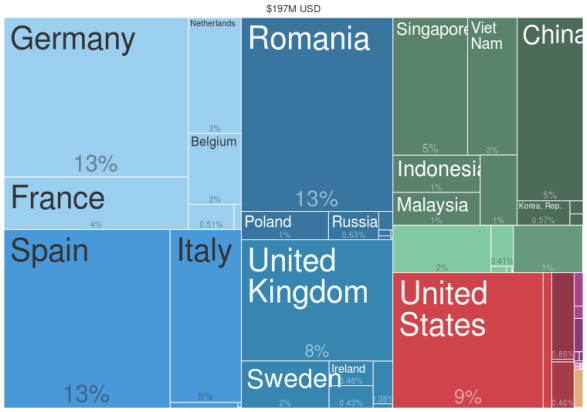
Source: The ATLAS of Economic Complexity

Figure 17: Sources of SA imports of soaps and detergents - 2014

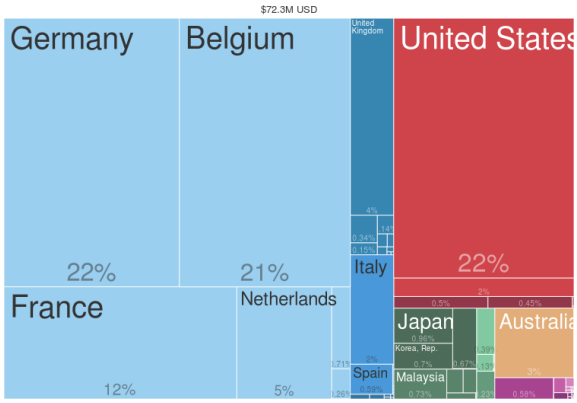
Soap -$40.5m USD



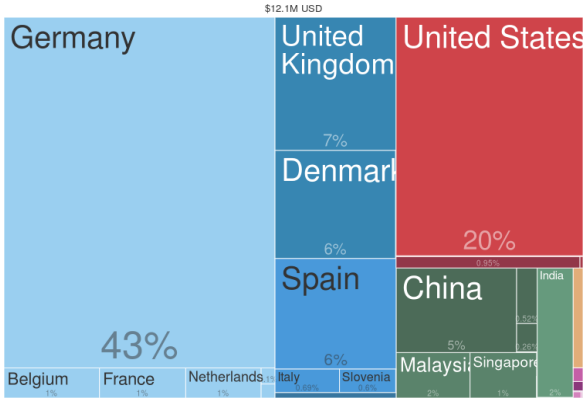
Cleaning products - $197m USD



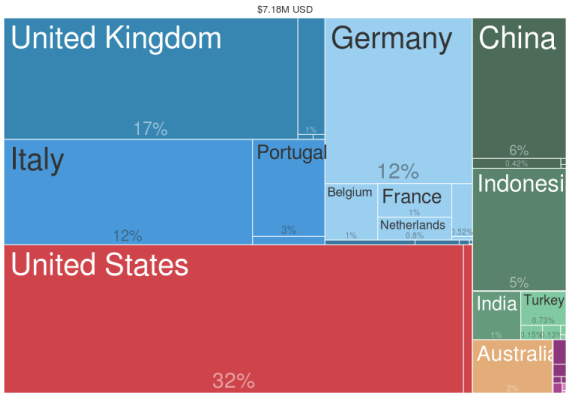
Lubricating products - $72.3m USD



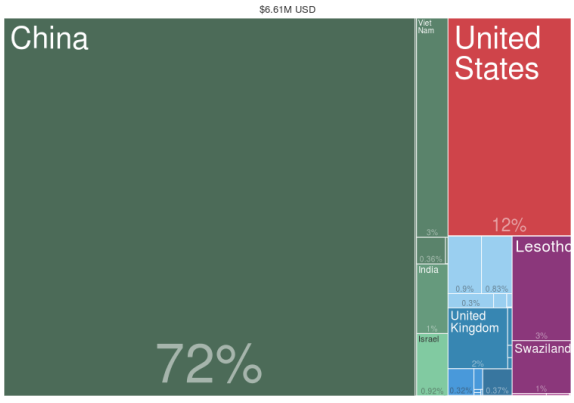
Artificial and prepared waxes - $12.1 USD



Polishes and cream - $7.18m USD



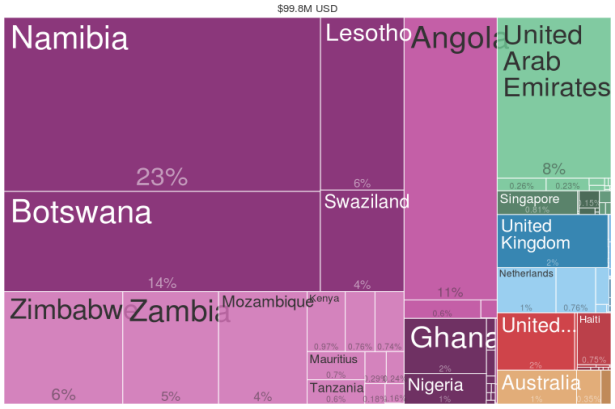
Candles - $6.61m USD



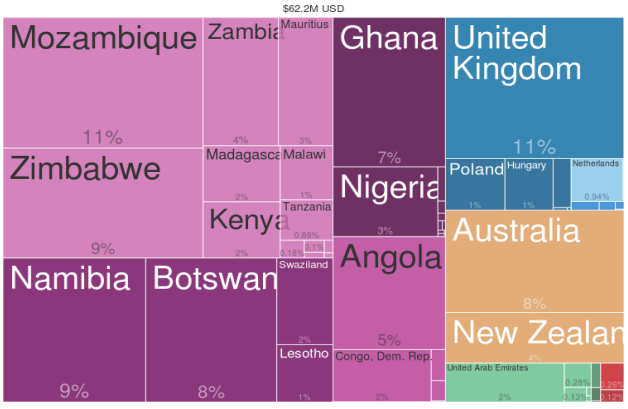
Source: The ATLAS of Economic Complexity

Figure 18: Cosmetics export destinations - 2014

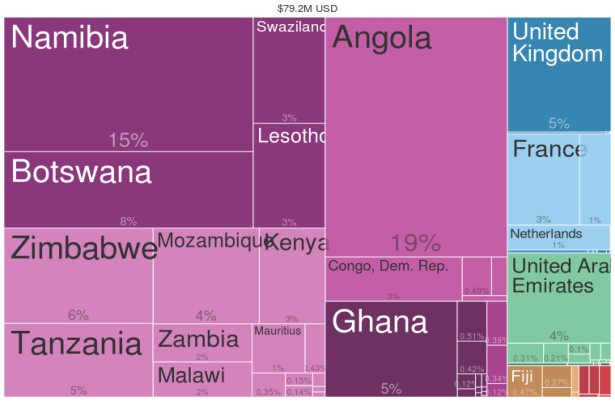
Shaving products - $99.8m USD



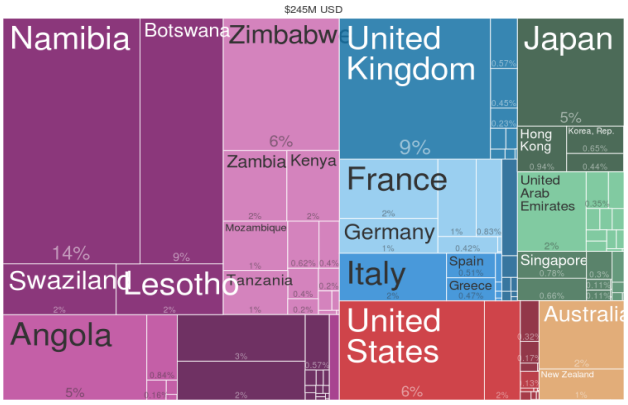
Dental hygiene products - $62.2m USD



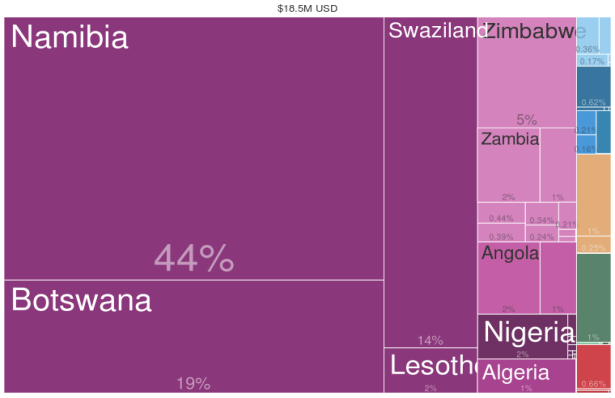
Hair products - $79.2m USD



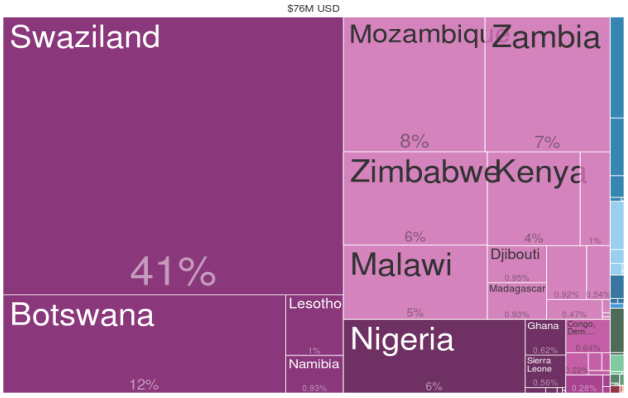
Beauty or makeup preparations - $254m USD



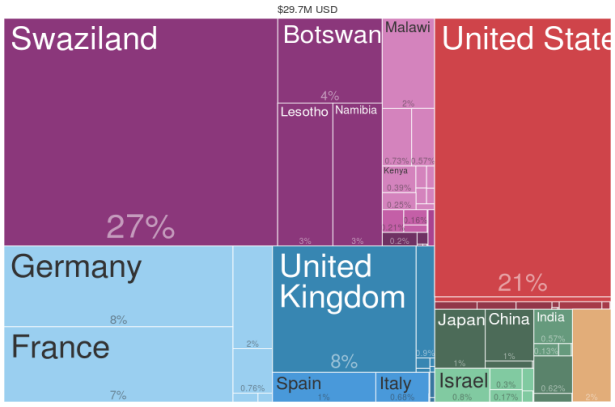
Perfumes and toilet waters - $18.5m USD



Odoriferous substances - $76m - USD



Essential oils - $29.7m USD

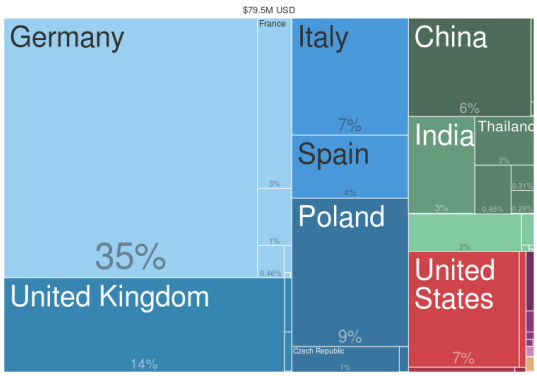


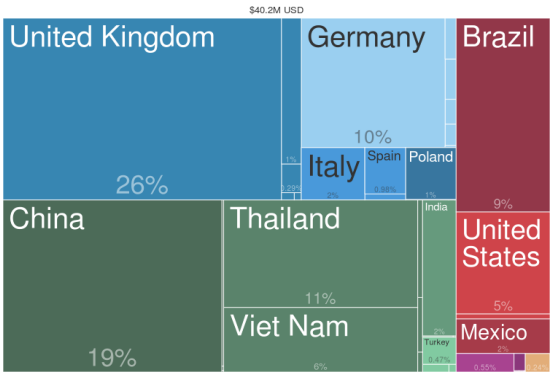
Source: The ATLAS of Economic Complexity

Figure 19: **Sources of SA cosmetics imports - 2014**

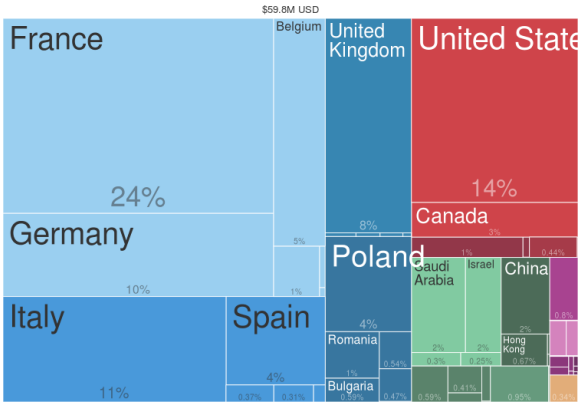
Shaving products - $79.5m USD

Dental hygiene products - $40.2m USD

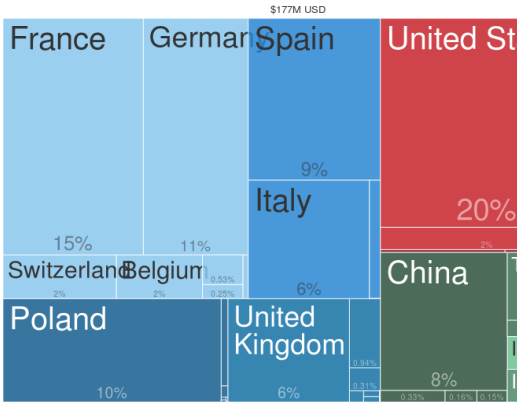




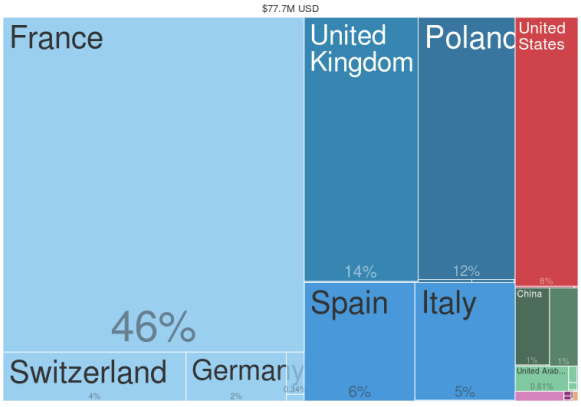
Hair products - $59.8m USD



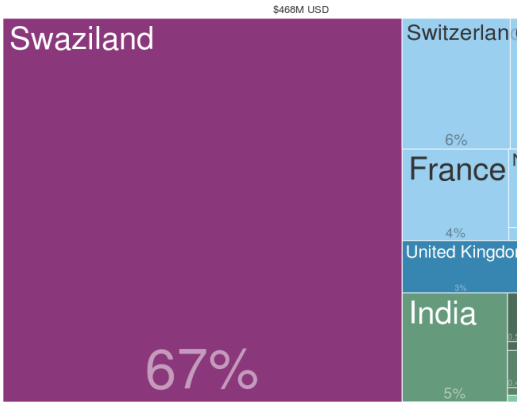
Beauty or makeup products - $177m USD



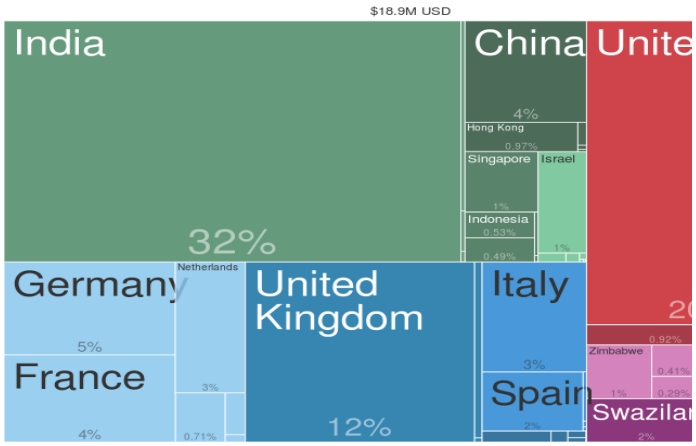
Perfumes and toilet waters - $77.7m USD



Odoriferous substances - $468m USD



Essential oils - $18.7m USD



Source: The ATLAS of Economic Complexity