An interview with Nick Blazquez, President, Africa, Diageo

Diageo, the international drinks company, first shipped Guinness to Sierra Leone in 1827. It built its first brewery outside the British Isles in Nigeria in 1963. And in the latest fiscal year, 14 percent of Diageo's global business—and 40 percent of its total growth—came from Africa. In this interview, McKinsey's Martin Dewhurst talked with Nick Blazquez about the company's growth strategies, the role of partnerships in its success, and how it attracts and develops people through a reliance on core values.

Martin Dewhurst

McKinsey: *Tell us a little about the scope of your business in Africa and how you make decisions about growth.*

Nick Blazquez: Within Africa we operate in 40 different countries. We tend to prioritize the largest profit pools; the top 10 markets account for about 80 percent of the profit pool. If you split those into beer and into spirits you've got 20 beverage alcohol categories. Five years ago, we were in 6 of those beer or spirits profit pools; now we're in 16. We've expanded our participation within the beverage alcohol category by building beer and spirits, and we've expanded geographically through acquisition, greenfield, or joint ventures. We plan to double our business in the next four years, and I suspect that most of our growth will be organic.

We are, however, open to all routes forward. In emerging markets, I think finding the right partners and flexing your go-to-market model is important. For example, we had a very well-established and scaled spirits business in South Africa, but no direct access to their beer market, which accounts for about 40 percent of the beer profit pool across Africa. We could have built one of our own brands. But it's quite difficult to go in against an incumbent like SAB in their home market without scale. So it made sense for us to form a joint venture with Heineken and Namibia Breweries to drive scale benefits of beer and spirits together. It was different in Ethiopia. People knew we were bidding for the Meta Abo Brewery there, and a number of them asked whether they could partner with us. We couldn't see what added value a partner would bring at that stage, so it made sense from a value creation perspective that Diageo acquire that asset 100 percent.

McKinsey: *"Africa" can be a scary word to many investors. How do you think about the relative risk of Africa versus other emerging markets?*

Nick Blazquez: I think "brand Africa" is somewhat tarnished. By and large, if you talk about Africa, people immediately think about disease, poverty, corruption, war, and famine. That stuff does exist, by the way, but it exists all over the world. However, elsewhere in the world, people also talk about the opportunities as well. There are plenty of opportunities in Africa that are not talked about as much. We encourage people inside and outside of Diageo to take a look at the complete picture. This is why, eight years ago, Diageo launched the Africa Business Reporting Awards, which sought to celebrate journalism that paints a more accurate picture of the business environment in Africa. The continent is transforming—you need only look at the GDP growth rates, where Africa has 7 of the top 10 fastest-growing countries.

Five or six years ago, Africa was managed somewhat separate from the rest of Diageo. As the African business has grown, people have been able to rely on it more and have seen the consistency of growth from Africa. There has been greater interest in our marketing programs, our innovative corporate social responsibility (CSR) programs, our agricultural programs,

"Our success as 21st century company is dependent on the health and prosperity of the communities in which we operate. In Africa, we see firsthand how socioeconomic development through inclusive business models and innovative partnerships can enhance reputation, attract talent and mitigate risk. We also see how it can help create an environment in which entrepreneurialism flourishes."
– Nick Blazquez

and our sales development programs. We implemented SAP in a number of markets; it was recognized as the best implementation anywhere in Diageo. Many people in Diageo today come to Africa and get promoted out of it. That sends a really good message internally to the organization. It's really come of age.

When we look at Africa, we look at it from a point of view of having a long history in the continent, having seen the ups and downs; we're prepared to take a longer-term view and ride the turbulence. We know how to navigate this volatility. We know that we can do this while operating to the highest standards of international corporate governance. Sometimes things might take a little bit longer, and it might be a bit more costly in terms of the infrastructure, but with patience and perseverance you can navigate your way through and the returns are good. In fact, the margins we earn in Africa compare very favorably with those in the rest of the world.

Another risk is foreign exchange volatility. One of the ways of mitigating this is to source more locally. We buy a lot of grain with which to brew beer, so as our business grows, the more we source locally, the better. We source about 65 percent of all our grain locally and buy from more than 100,000 farmers now. Some people think we do this just because it's a good thing to do for the local society. Of course it does have those benefits, but we also do it because it makes sound good business sense. It is a natural hedge to fluctuating foreign exchange rates.

And something that's particularly important in all emerging markets is having a really good local network, so we are well connected into the community in which we operate, having insights and a broad network of people we can use to understand immediately what's going on and take actions quickly.

McKinsey: *These relationships can also offer new ways to think about innovation.*

Nick Blazquez: Yes. In Kenya, for example, we were asking how we could accelerate growth. We had built a strong business in what is known as the formal sector. With a large informal sector in Kenya, we realized that we needed to redefine the pond that we were in. And if you redefine the pond you're in, you pick up all sorts of opportunities.

In Kenya it was estimated that about 50 percent of all alcohol consumed was in the illicit sector. This has a huge impact on health, as illicit drinks are often manufactured using substances that are seriously damaging. We decided that we could engineer a product at a lower cost using local grains. In turn, the government waived duty so we were able to sell a 30-centiliter mug of this new beer for 20 shillings—about the same amount as people were paying for the illicit brews. So now, the consumer could go to a dedicated bar which we have invested in to make a pleasant consumer environment, trade up by drinking a mug with a brand name on it, and drink something that is not injurious to health for the same price as illicit alcohol. The government saw returns because we were employing more people, including more farmers to grow barley, and we were paying more corporation tax. We grew our business—it's our biggest brand by volume and it has generated $250 million of revenue over four years. So it's good for the consumer, good for the government, and good business for us.

McKinsey: *You've mentioned good corporate governance. How does Diageo think about values more broadly in Africa?*

Nick Blazquez

Vital statistics

51 years old

Married, three children

Education

PhD,
University of Bristol

Bachelor of Science,
University of Aberdeen

Career highlights

Diageo Plc
(1989–present)

President, Africa
(2004–present)

Managing director, Asia Key Markets (2001–04)

Various managerial positions (United Distillers)

Chairman of Seychelles Breweries Ltd.

Member of the boards of Guinness Nigeria Plc, East African Breweries Ltd.

Fast facts

Former chairman and current board member of Private Investors for Africa (pan-regional business coalition) and board member of Mercy Corps (global non-governmental organization that aims to assist transitional societies)

Nick Blazquez: The question is not whether you can make a fast buck, but rather whether what you're doing will create value in the long term. Playing a positive part in the communities in which we operate has a number of benefits. Part of this is consistently sticking to our processes and not compromising on any standards. I think that's why we've been around the continent for so long. Sometimes it's difficult to get our products through the ports, for example. We will not pay facilitation payments; but we've now built a reputation in many of the countries where people know us for not paying these, so they don't bother coming to us anymore. One's reputation therefore becomes important.

Let's take Ethiopia as an example. The government was aware of the agricultural work we had done in Uganda, Kenya, Ghana, and Cameroon. The Ethiopian prime minister was keen to transform the agricultural sector, stimulate local production, and rely less on imports. The brewery we were looking to buy imported all of its grain. So the prime minister brought forward the idea of a big, well-run corporate providing regular demand for local grain; that benefits us, it benefits the government, and it benefits the local economy. In Cameroon, we created the Coalition Against Corruption to act as a catalyst in promoting corporate integrity. We got a number of businesses, the police authorities, and the government to commit to it. That idea has been used elsewhere, and it makes us the kind of company people want to have around.

It helps with talent too. People hear about Diageo and want to be associated with a company that has a good reputation and high standards—it is a reflection of the way they want to conduct their lives. When I ask graduates why they joined Diageo instead of another company, half of them spontaneously mention our CSR initiatives and say they wanted to join a company they could connect with, that had a motivating purpose. There's a real spirit of community in Africa and a desire to give back amongst many employees. Employees are increasingly seeking companies they can relate to. And that is not just in Africa but around the world too.

McKinsey: Retaining talent is a major challenge for companies in most emerging markets. How does Diageo address it?

Nick Blazquez: Africa is no different from anywhere else, other than that there are loads of opportunities for employees to get experiences in many places. You've got to help people develop their careers and get reward and retention mechanisms in place. If you look at our projected growth, we'll need a lot of people in Africa. Three years ago, we started our own pan-Africa graduate recruitment program, through which we recruit 100 African graduates a year. We develop them in Africa, the UK, and elsewhere around the world. In addition, we have our "growing leaders scheme," a mid-career program to take people with potential and accelerate their progress. As a result of those conscious actions, we've become far less dependent on expatriates. Something like 60 percent of our general managers are now Africans, as opposed to about 20 percent a few years ago.

McKinsey: *And what about the skills that senior leaders need?*

Nick Blazquez: A general manager leading a business in an emerging market needs a different skill set from a general manager in a developed market. You have fewer data points, there's less transparency, and they need to engage with a broader set of stakeholders. You're also dealing with taxation issues. Another difference is that Diageo has a huge production footprint in Africa, with one or two or three breweries per market. Compare that with our spirits business, where we have two or three manufacturing sites that serve 180 markets. I fully expect a general manager in an African country to be engaging with finance ministers and prime ministers. When I was a general manager in the UK 20 years ago, I needed to be a good commercial guy who could lead people. I engaged occasionally with government, but it was really not very much.

Looking ahead to the leaders we'll need, I used to think that to optimize the impact, a general manager should work in a developed market for a period of time, because that's where you see well-developed competencies. I'm just not seeing that now. If I think about marketing competencies, for example, some of Diageo's most innovative marketing solutions are in Africa—we are way ahead of where we are elsewhere. So I just don't think that there's a need anymore for somebody to have worked in a developed market to be a really good manager.

Martin Dewhurst is a director in McKinsey's London office.