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Africa: A continent of opportunity for pharma and patients

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Africa may be the only pharmaceutical market where genuinely high growth is still achievable. Here's what's driving that strength and how companies should react.

The value of Africa's pharmaceutical industry jumped to \$20.8 billion in 2013 from just \$4.7 billion a decade earlier. That growth is continuing at a rapid pace: we predict the market will be worth \$40 billion to \$65 billion by 2020 (exhibit). That's good news for multinationals and pharmaceutical companies seeking new sources of growth as developed markets stagnate. It's also good news for patients, who have gained access to medicines previously unavailable on the continent. Yet it isn't enough to know where the industry's next growth engine can be found. Leaders must also understand what is driving growth, what challenges they are likely to face, and how to collaboratively work with health systems to win in this complex environment.

What's driving growth

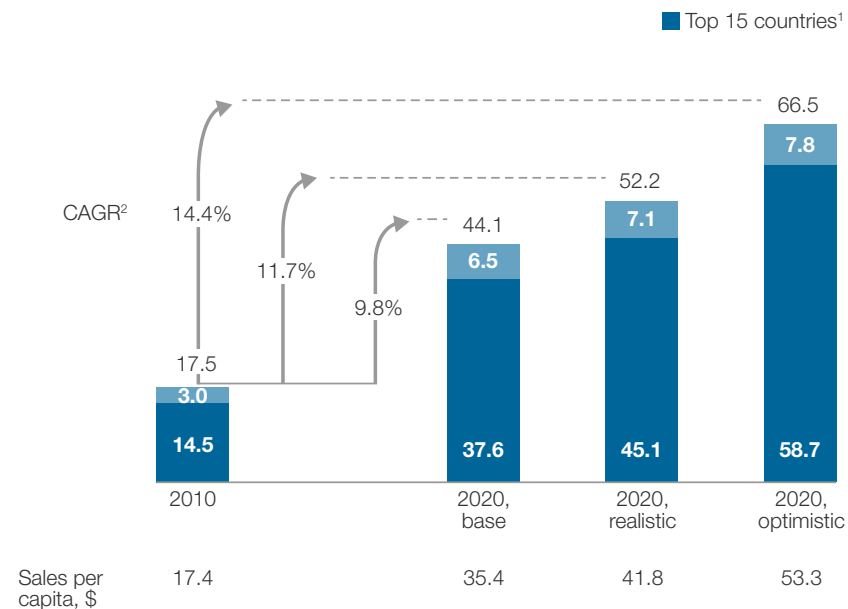
Africa's pharmaceutical markets are growing in every sector. Between 2013 and 2020, prescription drugs are forecast to grow at a compound annual growth rate of 6 percent, generics at 9 percent, over-the-counter medicines at 6 percent, and medical devices at 11 percent. Three factors are driving this growth:

- **Urbanization.** Africa's population is undergoing a massive shift. By 2025, two-fifths of economic growth will come from 30 cities of two million people or more; 22 of these cities will have GDP in excess of \$20 billion. Cities enjoy better logistics infrastructures and healthcare capabilities, and urban households have more purchasing power and are quicker to adopt modern medicines.
- **Healthcare capacity.** Between 2005 and 2012, Africa added 70,000 new hospital beds, 16,000 doctors, and 60,000 nurses. Healthcare provision is becoming more efficient through initiatives such as Mozambique's switch to specialist nurse anesthetists and South Africa's use of nurses to initiate antiretroviral drug therapy. The introduction of innovative delivery models is increasing capacity still further.

- *The business environment.* To create a more supportive environment for business, governments have introduced price controls and import restrictions to encourage domestic drug manufacture; required country-specific labeling to reduce counterfeiting and parallel imports; and tightened laws on import, wholesale, and retail margins. In the pharma industry, meanwhile, pharmacy chains are consolidating, horizontal and vertical integration is on the rise, and manufacturing is expanding. A flurry of mergers and acquisitions, joint ventures, strategic alliances, partnerships, and private-equity deals are further extending Africa's markets.

Exhibit Africa's pharmaceutical market can expect strong growth.

Market forecast, \$ billion



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

²Compound annual growth rate.

Source: African Development Bank; BMI Research; International Monetary Fund; World Bank; World Health Organization; McKinsey analysis

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What it takes to win

In a world of slowing and stagnating markets, Africa represents perhaps the last geographic frontier where genuinely high growth is still achievable. Early movers can take these four steps to pursue competitive advantage:

- **Focus on pockets of growth.** Africa is not one unified market, but 54 distinct ones, with wide gaps between countries in terms of their market size, growth trajectory, macroeconomic landscape, legal structure, and political complexities. Over the past decade, ten countries have delivered more than two-thirds of Africa's GDP and cumulative growth.¹ However, much of the opportunity lies not at country level, but in cities. In fact, our analysis shows that 37 percent of African consumers are concentrated in 30 cities, which will have more consuming households than Australia and the Netherlands combined by 2025.
- **Build strong local teams.** Real talent is key and requires investment in big, effective local marketing and sales teams. That means hiring more pharmacy representatives, building teams' technical skills, and selecting and developing strong local managers to lead them. Sales teams also should be set up in a flexible way that enables them to be responsive to the needs of local markets.
- **Forge partnerships.** Global pharmaceutical companies need local business partners—manufacturers, packaging companies, and distributors—to help them navigate the continent's many markets, with their widely varying consumer preferences, price points, manufacturing, and distribution infrastructures. In the absence of a pan-African pharma regulatory body, they also need to invest in local partnerships to understand varying regulatory environments. Partnerships with governments are equally important, whether they involve working with medical opinion leaders to guide research priorities and secure funding, or collaborating with health ministries and nongovernmental organizations to provide public-awareness campaigns, health screening, treatment, equipment, and training for hospitals and clinics. Johnson & Johnson, for example, has partnered with the South African government to introduce an education program for maternal, newborn, and child health that operates via mobile-phone messaging.
- **Address supply and distribution challenges.** In parts of Africa, supply and distribution mechanisms still pose challenges: regulations are evolving, transport and logistics infrastructures are patchy, and lead times can be long. The ability to innovate the distribution channel and set up effective operations against this challenging backdrop is critical to capturing growth opportunities. Helpful strategies include locating fixed assets in countries with well-established political and business structures, outsourcing supply chains to third-party operators, and partnering with local logistics providers to identify efficient transport routes. In the key area of customs and border control, companies should work with the most reliable agents to minimize shipping delays, use only bonded distribution centers, and ensure all customs paperwork is airtight.

¹ Those countries are Algeria, Egypt, Ivory Coast, Kenya, Libya, Morocco, Nigeria, South Africa, Sudan, and Tunisia.



In a world of slowing and stagnating markets, Africa represents the last geographic frontier where high growth is still achievable. As ever, the key to success lies in understanding individual markets in granular detail. Early movers with the right approach should be able to capture competitive advantage. Africa will continue to grow for the foreseeable future. Now is the time for drug companies to decide whether they want to be part of that growth and, more important, play an active role in improving public health. [□](#)

[Download the full report on which this article is based, *Africa: A Continent of Opportunity for Pharma and Patients*, on \[mckinsey.com\]\(http://mckinsey.com\).](#)

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