How to operate in emerging markets without proper consumer data

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Executive Summary

Establishing and operating a consumer business in a country without reliable consumer data brings with it a difficult question: how do you make everyday business decisions? Moreover, how do you devise growth and expansion plans?

The case of DAL Group in Sudan provides unique insight into how to manage this paradox. Today, DAL Group’s Sayga Flour Mills is one of the largest milling operations in the region, with a capacity for more than one million tons of wheat per year. However, when DAL first considered whether it should expand into the food market, the company faced three informational challenges:

- **Demand side:** What is the size of the market? What are the Sudanese preferences in bread, the final product for DAL’s flour?
- **Supply side:** How much and what products are currently being offered/used?
- **Price elasticity:** How much are customers willing to pay for flour? For bread?

With the creation of Sayga Flour Mills, the DAL group discovered that operating in countries such as Sudan demands on-the-ground surveying of current suppliers and consumers to properly understand the market. The strategy it created to enter the flour business consisted of both a thorough assessment of what bakers—the main customers—require for their businesses, as well as the creation of a Research and Development department to test out its product and the different types of bread it could help produce. Additionally, the company realized that understanding its market is a day-to-day process, which requires it to be willing to constantly adjust its business development strategy to target any last-minute issues that may arise. As it accumulated this market and consumer knowledge, however, Sayga became well-positioned to pursue other goods within the same consumer category. This narrow food portfolio within the diversified conglomerate has proven to be a success story for both Sayga and the DAL group.

Any company interested in or currently operating in a country with poor market data can learn lessons that are both valuable and immediately deployable by reading the detailed account of the DAL Group’s efforts.

Background

DAL Group, headquartered in Khartoum, is the largest and most diversified conglomerate in Sudan. The group—established in 1951—operates across six sectors: food, agriculture, engineering, real estate, medical services and education. Sayga, DAL Group’s food company, started production of its flagship product, bakery flour, in 1996. Since then the business has diversified considerably, and today enjoys a portfolio ranging from industrial bakery products
to pasta, milk powder, and sugar. Sayga is also the partner of choice for international brands such as Unilever.¹

The establishment of Sayga came about organically. By the late eighties to early 1990s, the DAL group offered engineering products and agricultural services, the latter of which included ploughing more than a million acres of farmland. DAL Agriculture was often paid in commodities (local produce) rather than cash, which led management to start trading activities (mainly wheat flour). Spotting an opportunity, the group decided to enter the Wheat Milling business.

The author of this reflection joined the group in 2007 to manage the diversification of Sayga’s revenue stream by building a consumer business focused on food & beverage. The scope included creating own brands, building joint ventures/ partnerships with world class players to introduce their brands in the Sudanese market, as well as building a customer/market development framework that would ensure the adequate distribution of Sayga’s products across Sudan.

**Forcing Event**

Before the group entered the wheat milling market 11 years ago, the business was highly fragmented. There were quite a few flour mills in the country, but large-scale milling was not available. Mills could produce at most 100 tons of wheat per day. (For comparison purposes, today the mills in Sudan can produce over 5,500 tons.) Additionally, the quality of the wheat and subsequently the quality of the bread supplied in Sudan was very poor. Supply was also lacking—there was no consistency in the availability of bread. Most of the bread market was controlled by inefficient companies or traders looking to make short-term profits by selling whenever the supply of this basic good was low.

Given this context, the DAL Group saw an opportunity to enter the market. The company, however, had bigger and more ambitious plans. It wanted to enter the market for the long-term, in search of consistent profits rather than to benefit from supply and demand misbalances. DAL Group approached the Australian wheat board, known for its high-quality wheat offerings and its ability to provide a consistent supply of raw material input, to develop a partnership.

The company nonetheless lacked adequate information on customer preferences—e.g. what type of flour bakeries required and whether they would be open to trying a new product, and the price elasticity of the final product: bread. Because of the lack of market data, Sayga, DAL Group’s food company, was forced to establish its own mechanisms to learn about the market.

Limited consumer disposable income within the Sudanese population also meant that price would be a very important factor when consumers decided what bread to produce. With

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¹ For more information, please visit the company’s website, <www.sayga.com>.
premium flour, bakers would pass on the additional mark-up to customers, who might price-discriminate between bakers using Sayga’s flour and those using flour by one of the existing low-quality and cheaper suppliers.

**Response**

Sayga’s response to the lack of market data focused on three core areas:

- **Industrial level:** Secure demand by researching how bakeries could take the most advantage of the high-quality flour they would provide
- **Managerial level:** Make learning about the market a day-to-day activity, and be willing to play a game of trial and error
- **Retail level:** Ensure consumers are satisfied with the product offered by obtaining constant feedback on food habits and preferences

At the **industrial level**, Sayga was forced to take a bottom-up approach. They surveyed multiple stakeholders, including producers, retailers, and consumers, in the process testing and tailoring products and services. For instance, Sayga surveyed bakers and learned that they would more easily open up to Sayga’s flour—along with its many advantages—if they knew how to use it. The company thus established a Research and Development unit to study the different types of bread that could be produced with the new flour and then offer the information to bakers. By talking directly to customers, the product development team also learned that Sudanese consumers would appreciate a higher quality product and, regardless of their income, would pay a small premium in order to obtain it. This market information helped Sayga to promote its product to the bakeries, as the price increase in their inputs could be transferred directly to consumers. It also helped that the good quality of the wheat flour allowed the bakers to get more yield out of the product.

At the **managerial level**, because Sayga did not have numbers available, its managers relied heavily on qualitative methods, such as surveys, to know their market—and with the information available, they took risks. This required a management team that was focused on and dedicated to the project. A narrow portfolio helped with this goal, seeing as management could center its energies in understanding the ins and outs of wheat/wheat products (and their complements). Managers also had to accept responsibility to gear their business development strategy to target any last-minute issues that could arise. For example, once the flour was in the market, managers realized that telling bakers the many techniques they could follow to use the Sayga flour was not enough. The company needed to train these bakers in how to properly use the product. Sayga thus created a department of technical support that would help bakers decide on the best ingredients to use, how to follow a production process, and so on. This built a strong relationship between the company and its industrial customers (bakers), and built brand loyalty.
With these two strategies, Sayga was soon controlling 50% of the Sudanese flour market. As the Wheat Milling & Bread baking industry started to grow & develop, other players entered this market (private as well as government supported). This was expected, as it would be unlikely for the government to accept the implications of such a monopoly on such a critical consumer market as bread. It thus started encouraging other players to enter the market.

For the last 3-4 years, the government has even encouraged public companies to invest in the industry. The government would not set a quota for Sayga, but the company faced the risk of a forced price decrease or limited access to foreign currency, which the company requires to deal with foreign raw material providers.

With the increasing competition in the milling industry & the fact that there was no room to grow in the b2b sector (the cost of additional market share was too high), Sayga decided to retain its current share while at the same time diversifying into the retail market, where the growth potential was immense. Lack of data, however, was again a challenge. When Sayga started, there was no consumer flour in the Sudanese market. People used to buy 50kg bulk flour (meant for bakeries) and repackage them into smaller portions to sell to individual consumers.

The company thus entered the retail market cautiously and at a small-scale in order to monitor its progress. At the retail level, its main strategy to obtain market data was to create a free training center for housewives, where they could learn how to incorporate flour into their daily kitchen routines. The selected women participate in a series of interactive trainings, where they mix flour with other products and bake goods in small kitchens with the help of professional chefs. The company provides all materials and covers all costs. At the end of the training course, the marketing team surveys the women on their thoughts about the product and any improvements they would suggest. This program has become the company’s main source of retail data.

In the last seven years, DAL and Sayga have trained more than 150,000 housewives, and today there is a six-month waiting list to attend the training program. Now the company is using the same strategy for its new product: pasta. This technique has proven to be the competitive advantage that differentiates Sayga from new market entrants: competitors have not been able to copy this model because of the high investments required. The input from housewives has also helped the company figure out where to move next: now its product base is moving toward creating flour from traditional grains used for regional foods, as well as other basic foods. Additionally, the portfolio of Sayga Consumer Business now includes sugar, powdered milk, tea, powder drinks, tomato paste, lentils, rice, beans, and bullions.

Additional sources of consumer insights also came from: consumer connections; focus groups; and insights from usage and attitude studies conducted in Sudan by international agencies and research firms. Most importantly, the company was able to extrapolate market size based on several assumptions and scenarios that were averaged to reach a final figure (consumption
habits, number of people per household, number of households, benchmarking on similar markets with similar consumption habits, average gram mage consumption per meal/dish, raw material import figures, and so forth).

For the DAL Group, the process of determining the size of the opportunity in the retail market as well as understanding the Sudanese consumers was made easier by the fact that it was working within an already familiar industry—foods. Going into people’s homes now allowed Sayga to explore customer preferences in other products. This helped the company enter into the pasta market, for example, which was recognized through its market surveys as a product that households were demanding.

**Evaluation**

DAL Group is very proud of its work in expanding to new markets without adequate consumer data. This has been an immediately achievable objective with observable positive impact. The tangible result of its efforts at the industrial, managerial, and retail level has been that foreign companies have recognized the benefits of DAL’s unique understanding of the Sudanese market, leading directly to successful joint ventures such as the one with Unilever.

Unilever had been working in Sudan since the 1970s, focusing in non-food products such as toothpaste and detergents. It then tried to enter the food products industry by employing the same local distributor networks used for its personal care products, but encountered many roadblocks along the way:

1. **Unilever had no knowledge of the food business, including how much and what products were being used.** The company tried offering price discounts to gain easy access, but the market was not as price-elastic as the company expected. The Sudanese population, although considered “base of the pyramid” consumers, have certain preferences for their tea and tomato paste—the products Unilever tried to introduce into the market—that were not being met.

2. **The company lacked information on the size of the market.** The answer to this question was going to help the company determine whether to import products or build a factory in Sudan.

3. **Sudan’s high tariffs for food products made importing expensive.**

4. **Unilever underestimated the need to tailor its offerings.** Unilever’s imports were created to address an international demand which did not account for local Sudanese preferences. For instance, the occasion and the quality of tea that Sudanese people drink differs from Egypt’s, from where Unilever was sourcing its current imports.
5. Unilever’s brand communication was not tailored to Sudan, and that made the task of connecting with consumers more difficult. The company would need to adapt an archetypal approach to the foods business (product/price/pack/proposition).

As Unilever had aggressive growth ambitions for Sudan, which its current operating model was not delivering, it decided to partner with DAL’s Sayga, which had established and tested mechanisms to learn more about the customers in the food industry—and thus how to succeed in it. Through its market research, DAL had found that when local Sudanese needs are met, consumers are willing to pay a small price increase. Additionally, DAL used its retail-level strategy to help Unilever define the local needs its products would have to satisfy. DAL slowly introduced Unilever’s chicken stock cube and its tomato paste in its pasta training lessons, first to introduce the product and then to include these goods in the final assessment carried out by the marketing team.

Conclusion

One of the challenges of operating in a frontier market is the lack of reliable consumer data to make business decisions. Most of the time, managers have to rely on intuition. Companies can gain a more in-depth understanding of their market, however, by following a bottom-up approach in which everyone from customers to current market players are surveyed. There is no limit to the level of creativity that can go into these surveys, as DAL group’s training centers show. Given that this level of market research takes time and effort, in order to succeed, companies would do well to focus on a narrow portfolio, where they cover the same category of consumer goods (and possibly multiple brands within that). Nevertheless, conglomerates need to diversify their overall markets, carrying under their umbrella companies that explore different sectors.

Moreover, multinationals considering entering markets with poor consumer data would fare better by partnering with a local company that has experience in the sector they are targeting, and has thus already acquired sufficient consumer information to devise a suitable entry strategy. When market data is not easily available, simply establishing a local distribution system is not enough.

Unconventional methods need to be applied in countries lacking secondary data such as Sudan, and gut-feel/intuition is key.