

FIGHTING ITS CORNER

Like their counterparts elsewhere, Africa's cigarette markets are dominated by multinationals. Occasionally, however, a homegrown player manages to carve out a niche, using local knowledge to counter global resources.

Nearly a decade ago, several Malawi flue-cured tobacco farmers ventured into cigarette manufacturing. Confounding the naysayers, they have held their own against deep-pocketed rivals, capturing a share of the country's—admittedly tiny—cigarette market.

"We were driving pickup trucks, and the leaf buyers were driving Land Rovers," quips Konrad Buckle about the group's decision to move up the value chain.

"Today, we are still driving pickups," he chuckles.

That is not entirely true—Buckle, too, now owns a late-model Land Rover—but his joke hints at the challenges of establishing a cigarette company in a country with frequent power failures, a crumbling infrastructure and rock-bottom disposable incomes, not to mention a formidable incumbent.

The newly created enterprise, Nyasa Manufacturing Co. (NMC), set up shop in Blantyre, Malawi's commercial capital. In 2009, Buckle spent three months in Indonesia, learning to operate the equipment that the company had purchased for its factory. NMC developed six brands, and soon it was producing cigarettes "out of its rear."

But making cigarettes proved to be easier than selling them.

"We quickly learned about the importance of brand loyalty and price positioning," says Buckle. With a gross national per capita income of only \$340, according to World Bank figures, Malawi is said to be the world's poorest country outside of a war zone. Cigarettes are considered a luxury, and the typical smoker can afford to buy only one stick at a time. Not only must cigarettes be priced extremely competitively in such an environment, but newcomers must also lure smokers away from multinational brands that have been around for ages.

The company struggled, and in 2012 it nearly went bankrupt. But Buckle and his partners persisted. Applying the lessons learned, they slowly but surely put NMC on the map.

Playing on its home turf worked to the company's advantage. According to Buckle, importers tend to sell their cigarettes through supermarkets, which are located primarily in urban areas. The vast majority of Malawians, however, live in rural areas. So NMC invested in a fleet of cars and motorcycles, along with "a never-ending supply of replacement parts" to guarantee mobility on Malawi's bumpy roads. "We sent our people into the countryside to ensure our products would be available everywhere, all the time," says Buckle.

NMC also took notice of the particularities of Malawi's economy, which is based on subsistence farming. "From





January to March, spending grinds to a halt as farmers plant their crops,” says Buckle. “Until harvest time, they have many expenses but zero disposable income. You must consider that cycle in your cash flow projections.”

To further increase brand awareness, in 2016 the company bought the Nyasa Big Bullets, a Malawi football team with 8 million supporters. The move made NMC a household name overnight, even though the firm has been careful to avoid tobacco references in its sponsorship materials. Buying the team also brought on board a highly motivated sales force. “Ninety percent of vendors on the street are Big Bullet fans,” explains Buckle.

While the sponsorship of a sports team by a tobacco company raised eyebrows, the international governing body of football, FIFA, acknowledged that, in Malawi, there are few alternative sources of funding.

Of course, NMC’s competitors didn’t sit by idly as the newcomer encroached on their turf. To slow the company’s momentum, they temporarily dropped their prices—but NMC was ready for that scenario. “We



bought all the discounted stock we could get our hands on,” grins Buckle. “When they eventually raised their prices again, we sold those cigarettes and doubled our money!”

Business grew steadily, and the Blantyre factory now runs two shifts per day, seven days a week. While statistics are hard to come by—Malawi’s puny market isn’t tracked by market intelligence firms such as Euromonitor—observers estimate domestic volume at 1 billion sticks. “Twenty-five percent of that is smuggled from neighboring countries,” estimates Buckle. “Of the remaining 750 million sticks, we have 50 percent.”

Buckle attributes the company’s success to a combination of determination and street smarts. And the advantage of being local, he stresses, cannot be exaggerated.

Even though he was born and raised in South Africa, Buckle has lived in Malawi for more than 30 years. “This is my home,” he says. His business partners, Dimitri Kalaitzis and Demokritos Kalaitzis, are fourth-gener-

ation members of Malawi's small Greek community. "They understand the environment and the politics," says Buckle.

As if to underscore the extent of his integration into the local community, Buckle was recently invited to join Malawi's Ngoni people. In an elaborate ceremony overseen by the chief, Inkosi ya Makosi M'mbelwa V, he became an official member of the tribe. "Two leopards died because of me," he says, with a mixture of pride and regret, referring to the traditional attire worn during the ceremony. Being part of a prominent tribe earns a degree of respect in Malawi and opens doors that might remain closed to outsiders.

The company's local roots also earned it the support of Malawi's government, which has been eager to capture a greater share of the tobacco value chain. Leaf tobacco accounts for a whopping 60 percent of the country's export income, but the government wants Malawi to do more than export raw materials. For years, it has been encouraging investors start manufacturing cigarettes in Malawi but with little success. A plan, announced by Eastern Co. of Egypt in 2014, to build a cigarette factory in Lilongwe appears to have been quietly abandoned.

To encourage the new venture, the government granted NMC tax breaks and other benefits. NMC and

its sister company Nyasa Distributing Co. now employ 200 people—a big deal in a country of peasant farmers, where only a handful of people hold formal jobs. And the benefits stretch further than the immediate positions created. According to Buckle, each employee supports an average of six people.

NMC intends to support Malawi's economy going forward as well. Whenever possible, the company sources its materials locally, starting with tobacco. "Critics said it wouldn't be possible to produce cigarettes using only local leaf," says Buckle. "But Malawi has everything we need: burley, flue-cured and dark fire-cured." Due to Malawi's small industrial base, some imports are unavoidable. Cigarette paper, foil and wrap are purchased abroad, while cut rag is created in Zimbabwe, using Malawi leaf. The company has ordered a filter making machine and expects to start producing its own filters in September.

Plenty of challenges remain, but Buckle is optimistic about the future. The trials of starting cigarette production in Malawi, he notes, have taught the partners good business sense. "You must operate as lean as possible so that you will be covered also in bad times," he says.

"As a small player, we must box cleverly."—*Taco Tuinstra*