

CONSUMER MARKET NIGERIA – HOW TO ENTER ONE OF THE LARGEST AFRICAN MARKETS

The increasing competition worldwide forces global FMCG companies to search for new markets. Competition in Asia has increased significantly and the business environment in China and India is becoming more and more difficult. One solution is to address Africa with more than 1 billion potential consumers a rising middle class, with increasing disposable incomes and the interest in foreign products.

Africa in a Nutshell

Africa is one of the fastest growing markets with an annual GDP growth of 4.9% since 2000. The population is set to double in the next 40 years from 1 billion to 2 billion people. Because of the growing number of inhabitants and high birth rate, the median age in Africa is 20 years, while in comparison Asia's average person is 30 and Europe's even 40 years old. This has an impact on the age of the employees and results in a young and dynamic workforce. Following the labor productivity rising of 2.7% Africa has a great chance to position itself on the global market. On average per year trade between Africa and the world has increased by 200% in comparison to year 2000. The inflation was 22% in the 1990s, but fortunately has now sunk to 8%. All this has had an impact on the consumers and has resulted in a growing middle class with increasing purchasing power. i

FMCG in Africa

Consumer goods companies benefit from good development on the continent. Especially the projection that the number of destitute consumers will shrink by 20% and the number of customers with disposable income (income over US\$1.000) will grow by 16% is very helpful for successful business. Many international companies have already entered the African market successfully. By doing so at an early stage, companies like Unilever were able to shape the market, build brand loyalty and influence consumer preferences.ii
The growth rates of African countries in the consumer category are similar to the ones India had in the past. There aren't as many organized players in the market as there are in other continents and the penetration levels are also significantly lower, which offers huge growth potential for products and brands. iii



“For all the challenges of the Nigerian market, if companies do not have a Nigeria strategy they do not really have an Africa strategy.”

(CEO, SAB Miller, 2009)

i) The economist "The sun shines bright" (2011)

ii) Cinci consulting "Winning in Africa" (2010)

iii) Reuters "FMCG firms eye Africa as next growth vehicle" (2010)

Country Analysis for FMCG companies

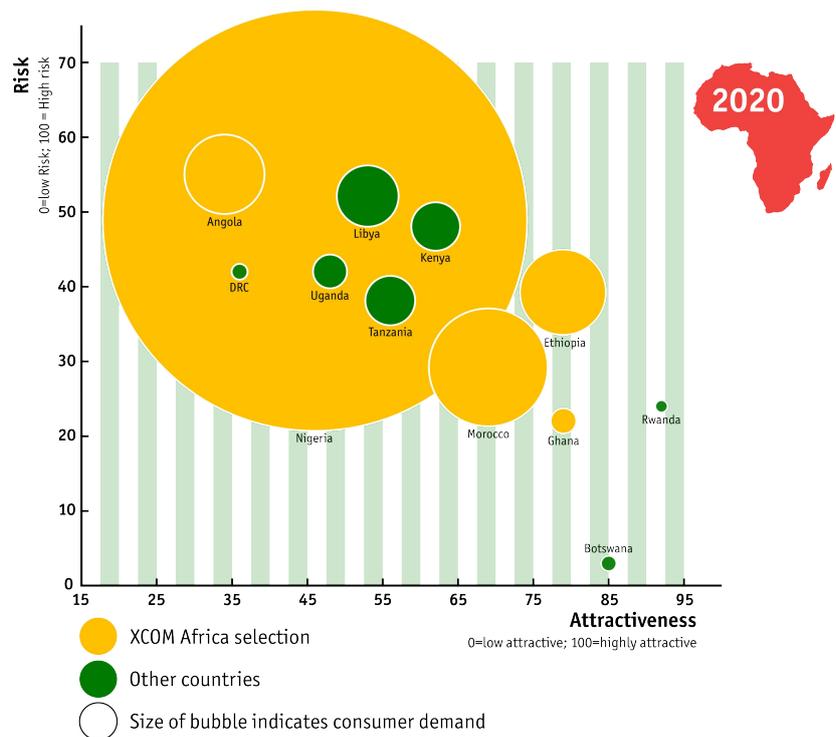
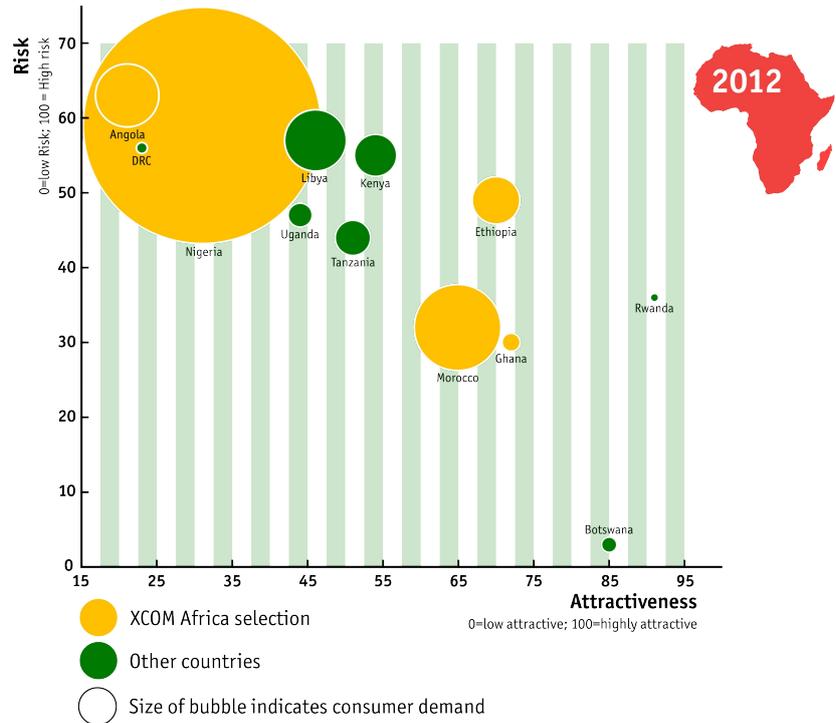
The countries are gaining attractiveness and in many of them, new regulations and developments are lowering the risk of investing. There are several important factors, which have to be taken into consideration to measure the attractiveness and risks of African countries: Local demand (Income per capita, population), risks (Corruption index, political & economical situation), attractiveness (Competitors, ease of business, costs). Taking all these factors, the risks will shrink and the attractiveness for several countries will grow tremendously until 2020. It is seen that Nigeria will be one of the key markets to address in future with the highest demand for FMCG products in Africa.

FMCG in Nigeria

Nigeria has a significant future-success-story. Being the largest consumer market, the country has a population of about 170 million (estimated 2012) people. 72% of those are under the age of 30 years. This number is set to double by 2050 to 326 million. There are eight "anchor" cities in Nigeria with populations above 1 million each. This development shows the huge potential for future investment and consumption activity. Also the numbers of the FMCG sector are formidable. The whole sector grew 10% from 2000 until 2010. The contribution from FMCG spending to GDP grew enormously over the ten years from 13% to 24.3%. Nigerians aged between 16 and 65 have \$100 billion to spend (due to per capita income).iv

iv) Worldbank (2008, 2010)

FMCG Country Potential in Africa 2012 vs. 2020



Even though there is a huge potential, there are risks and weaknesses, which have to be taken into consideration. Nigeria ranks 133 from 183 in the ease of doing business index. This is a result of different factors like electricity, contracts, permits and tax-issues. Also corruption and terrorism have to be understood before entering the market. There are religious issues between Muslims and Christians and at the Niger Delta there are oil conflicts on a regular basis.

The most important aspect while thinking about doing business in Nigeria is "informal trade". 87% of the trading in Nigeria happens in informal markets, even with Shoprite, Spar and other supermarket chains entering the country. One of the biggest places for informal trade is the Onitsha market, consisting of 12 specialized markets with 50,000 shops and an FMCG trade volume of \$1.5 billion. Most of West Africa is served by this or other similar markets.

Market Entry Strategies

There are several opportunities and possibilities to enter the African market: distribution model, joint ventures, acquisitions and the green field-strategy. The most recommended model is distribution, because of its low overhead costs and wide product coverage. When choosing the distribution model, the company

establishes relationships with local distributors, who sell the products in the defined region. The prices are normally prearranged. The Key is to choose the right partner. The distributor should have sufficient storage capacity and a good distribution network, which covers the whole country. v

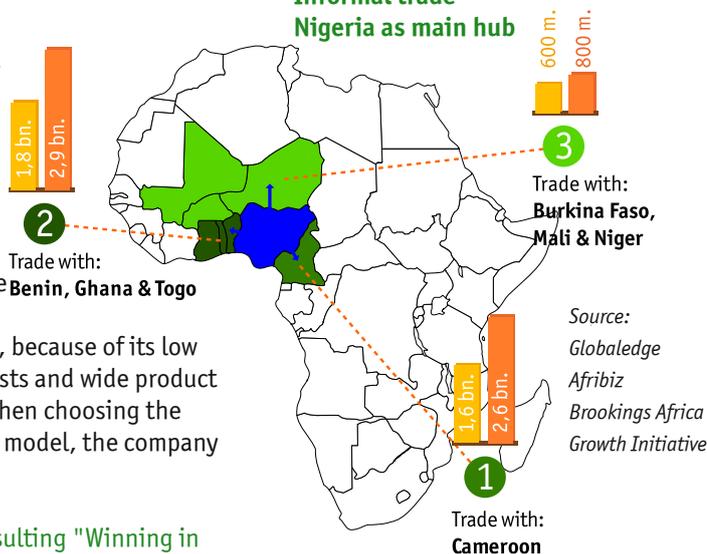
The right strategy can only be chosen when all the advantages and disadvantages from the different market entry strategies are balanced and compared with the intention of the company.

Executive Take-Away

All in all Africa can be seen as a future-market with significant growth potential for FMCG companies however the business environment is not easy and needs designated Africa strategies.

One of the key markets today and in future is Nigeria with a rising middle class, growing importance of retail business and its strategic markets. To have a smooth market entry into Africa/Nigeria companies will have to adapt their strategy to cultural aspects and to build up local expertise with HQ management.

Informal trade Nigeria as main hub



Source:
Gloledge
Afrbiz
Brookings Africa
Growth Initiative

v) Cinci consulting "Winning in Africa" (2010)



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