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Winning in Africa: An Investor’s Guide to the Nigerian FMCG Market

With a projected population of 1.4 billion by 2025, Africa will be a market almost as large as the combined markets of the Americas and Europe, currently at 1.8 billion. Organizations that intend to remain relevant in the consumer goods space cannot afford to ignore the so-called Dark Continent’s growing markets. With a compound annual GDP growth rate of 4.9% between 2000 and 2008, Africa has outperformed not only the world average growth rate but also that of Europe and Latin America. Over the last 15 years, GDP per household has more than doubled across the continent. Today, around 85 million African households earn at least US$5,000 annually, and per capita income in the continent stands at US$1,880. Simultaneously, external debt has decreased from 65% of GDP to a modest 23%, reflecting a better macro-economic environment.

Africa’s steady, and sharp, growth in recent years has drawn the attention of investors from developed nations. Global foreign direct investment, or FDI, inflows into African countries have risen steadily over the last decade - from 0.7% of GDP in 2000 to 5.3% in 2009 (i.e. from USD10b in 2000 to USD60b in 2011).

Hailed as the world’s third fastest-growing economic region, Africa’s collective GDP last year was US$1.7 trillion, considerably higher than Australia’s figure but also higher than that of Russia’s $1.2 trillion. A review of the projected performance of the developed regions reveals that if Africa sustains its growth trend, it will catch up with Latin America’s rate in a few years and its GDP could rise to $2.6 trillion by 2020.

The economic upsurge in Africa cannot be dissociated from a variety of indices. It possesses about 60% of the world’s uncultivated arable land and has a combined population of 1.05 billion, 56% of which is within the working age of 16 to 64 years. Consequently, long-term development is indicated by social as well as demographic trends within the region, especially as it relates to its growing labor force, urbanization and the rise in the number of middle class consumers. Between 2005 and 2015, it is also estimated that the number of destitute consumers will shrink by 20% whereas the market segment with some disposable income – individuals with income of over US$1,000 — will grow by 16%. The staggering current number of low-income consumers and the projected growth in the number of aspirational consumers with disposable income creates huge opportunities for consumer goods companies.
A comparison of global population growth rate and Africa’s consumer market outlook

**Figure 3:**
Africa’s Consumer Market
According to income ranges

**Figure 4:**
Annual Population Growth Rates (2010 estimates) In %

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**Investing in Africa: How to Pick the Best Markets**

There is no gainsaying that a wealth of opportunity lies in Africa for companies making consumer goods. While the gross national income per capita in many African countries is already greater than that of China and India, their gross domestic product is also comparable to that of Brazil. Driven by economic growth, population growth and migration to cities, consumer spending rose rapidly at a compounded annual growth rate of 16% between 2005 and 2008.
<table>
<thead>
<tr>
<th>Africa – Now</th>
<th>Africa – The Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>- The region recorded a collective GDP of US$1.7t in 2010</td>
<td>- The region is projected to record a collective GDP of US$2.6t in 2020</td>
</tr>
<tr>
<td>- The combined consumer spending for Africa was US$860m in 2008</td>
<td>- The combined consumer spending for Africa will increase to about US$1.4t in 2020</td>
</tr>
<tr>
<td>- Between 2000 and 2008, 316m people signed up for mobile phones</td>
<td>- By 2020, 128m African households will have discretionary income of over US$1,000</td>
</tr>
<tr>
<td>- Africa accounts for about 60% of the world’s uncultivated arable land</td>
<td>- 1.1 billion Africans will be within working age by 2040</td>
</tr>
<tr>
<td>- There are 52 African cities with more than 1 million inhabitants</td>
<td>- 50% of Africans will be living in cities by 2030</td>
</tr>
<tr>
<td>- 56% of the region’s population is within the standard working age range i.e. 16-64</td>
<td>- The continent’s population is estimated to reach 1.4b by 2025 and 2.1b by 2050</td>
</tr>
<tr>
<td>- In 2008, the average GNI per capita in the region was US$2,630</td>
<td>- The compound annual GDP per capita of 4.5% will continue until 2015, boosting consumer spending by more than 35%</td>
</tr>
<tr>
<td>- About 38% of the continent’s population live in urban areas</td>
<td></td>
</tr>
</tbody>
</table>

Still, the risks of doing business within the region are high. To succeed in the African business environment, it is necessary to recognize that not all the countries within the region are performing optimally. Consequently, selection of investment destinations is critical. Companies need to strategize their approach and optimally pick from the continent’s 53 countries, considering such factors as trade legislation, socio-demographic groupings and infrastructural development.

Selecting specific markets for investment - whether for initial investment or expansion - can be a daunting task. This is because Africa is not only very large, a land mass larger than two large countries China and the U.S and the entire European continent combined, but also has over 2,110 different languages spoken by about 3,315 ethnic and religious groups. The overlapping regional trading blocs, coupled with ethnic and cultural complexities, further complicate market prioritization. The fractioning of the continent into countries and regions by the erstwhile colonialists has meant even more complexities. An example of this is the separation of similar religious and ethnic groups by artificial national borders. Economic growth and business prospects differ markedly from country to country and region to region, making it difficult to transfer knowledge and insights gained from studying one market to another.

To successfully cherry-pick attractive markets, companies require a fundamentally different approach to investment prioritization. It is necessary to evaluate the countries on multiple criteria such as population, demographics, political stability, economic and regulatory environment, infrastructural advancement and availability of local talent.
From an economic perspective, it is clear from the foregoing charts that South Africa, Egypt and Nigeria are among the top markets for growth. Based on population, Nigeria, Ethiopia and Egypt seem the better options. However, historical performance shows Ethiopia as generating a relatively low GDP – US$32.9 billion in 2009. Therefore, the country’s potential is projected to be realized over a much longer term than other countries mentioned above. Some reasons for the less-than-bullish position on Ethiopia are as follows:

i. Although Ethiopia accounted for about 8.2% of the region’s population in 2010, it contributed barely 2% of the region’s total GDP

ii. With a GDP per capita of US$418 in 2009, the country ranked 44th among the region’s 52 countries

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**Figure 5:**

Four industries in Africa have been projected to have a combined revenue of $2.6 trillion by 2020

* in billion dollars

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**Figure 6:**

Analysis of the four industries that have been projected to have a combined revenue of $2.6 trillion by 2020

* in billion dollars
Considering that most Ethiopian households live on an annual household income of about US$400, a majority does not fall in the category of emerging consumers. Although the country may have long-term potential, based on its 2.6% annual population growth rate, Ethiopia may not be the right choice for an organization desirous of “quick wins.”

A review of the economies that contribute the largest chunk of Africa’s collective GDP reveals that the most suitable candidates for investment are South Africa, Egypt and Nigeria. Collectively, the three economies generated about 46% of the region’s nominal GDP in 2010 and also accounted for about 20% of the FDI inflows into Africa.

*For the purpose of this report, particular emphasis will be placed on Nigeria and the investment opportunities that exist within its consumer goods market.*

**Nigeria: A Young, Emerging Nation**

Nigeria's growing young population and its continued economic growth has positioned it as not only one of the largest high-potential consumer markets in Africa, but also makes it a significant market in the West African sub-region and in the continent as whole. Foreign companies are beginning to recognize the potential of this country and have been taking strategic steps to establish their presence here.

<table>
<thead>
<tr>
<th>Contribution to Africa’s GDP (2010)</th>
<th>Population size</th>
<th>% of population in working range</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa US$357.259b</td>
<td>49.9m</td>
<td>64</td>
</tr>
<tr>
<td>Egypt US$218.466b</td>
<td>80.4m</td>
<td>63</td>
</tr>
<tr>
<td>Nigeria US$216.803b</td>
<td>158.3m</td>
<td>54</td>
</tr>
</tbody>
</table>
Top African Recipient of FDI

Over the last decade, FDI inflow into Nigeria has grown rapidly. From US$1.14 billion in 2001, Nigeria’s FDI inflow hit an all-time high of US$11 billion in 2009, making it the top recipient in Africa and the 19th highest receiver of FDI globally. The inflow comes in the form of establishment of new companies as well as the expansion of operational capacity by existing organizations.

Many of the early entrants to Africa have established successful, profitable businesses. Companies have been able to generate competitive advantage by influencing consumer preferences, building brand loyalty and shaping industry structure ahead of rivals. Some of these companies are Nestle, Unilever and Procter & Gamble.

In February 2011, Nestle, which has been operating in Nigeria for more than 50 years, opened a new factory. With an investment of US$77.1 million, the Flowergate factory, built on 12 hectares of land in Nigeria’s Ogun state, makes products under the brand name Maggi, especially the so-called Popularly Positioned Products (PPP) varieties of the brand. Nestle’s PPPs are adapted to meet the unique preferences of emerging consumers in terms of price, accessibility, format and nutritional benefits.

In 2009, Procter and Gamble, the largest U.S. maker of consumer goods, announced a US$100 million expansion plan in Nigeria. Speaking about the impending expansion plans, the Managing Director of the company for West Africa, Mr. Manoj Kumar, said:

“Africa is a major focus for P&G and, within Africa, Nigeria is among the fastest-growing markets. This investment will give us a larger production platform, increase our capacity, bring in the latest technologies for better performing products and also bring in new categories that respond to consumer aspiration and cash outlay.”

The identified consumer goods manufacturers are not alone in showing interest in Nigeria. Top executives from several multinational companies are examining ways to take full advantage of the opportunities in the Nigerian consumer market. This heightened interest is distinctly different from the 1990s and even early 2000s when investing in Nigeria was often compared to “playing Russian roulette” (African Business Initiative survey – U.S. Chamber of Commerce).

Why Nigeria?

Fast economic growth

Speaking at the “Making Nigeria Your Goal” event in March 2011, Henry Bellingham, U.K. Parliamentary Undersecretary of State for Africa and Overseas Territories, said:

“The misconceptions about doing business in Nigeria are many, yet this young, exuberant and ambitious country offers a wealth of unlocked opportunities for U.K. businesses to tap into.”

The Nigerian economy is one of the most developed economies in Africa. With GDP growth forecast to reach 7% in 2011, a population set to double by 2050 to 326 million, an increasing middle class and rich reserves of natural resources, companies cannot afford to overlook Nigeria as a potential business destination in Africa.
Exponential Population Growth

With a population of about 158 million, Nigeria represents the largest consumer market with 72% of its population under the age of 30 and an excellent regional distribution of eight “anchor” cities, each with populations exceeding one million, Nigeria is primed for tremendous growth and currently represents a significant base for future investment and consumption activity.

Urbanization and the rise of the middle income earner

According to the Population Reference Bureau, about 74.2 million Nigerians currently live in urban areas. With urbanization progressing at about 3.5% annually, significantly higher than the country’s annual population growth rate 2.4%, more than 70% of Nigerians are projected to live in its cities in just a few years. The sheer number of low-income consumers and the growth in the number of emerging middle income earners/consumers with disposable income creates huge opportunities for consumer goods companies.

Encouraging environment for foreign investment

Although Nigeria was ranked 137th in the World Bank’s “Ease of Doing Business Index,” certain strategic moves by the government to not only develop non-oil sectors but also to encourage foreign participation in the nation’s economic activities has given ample reason for optimism.

To encourage the entry of foreign investment, a One Stop Investment Center (OSIC) has been created, assembling relevant agencies of government at one location with the objective of making business entry procedures transparent, convenient, efficient, simple and timely. Also, based on some pre-defined criteria, certain new organizations that intend to trade in sectors where demand currently outstrips supply are granted pioneer status and as such do not pay taxes for their first 3-5 years of operations.
How Big Is Nigeria’s Retail Market?

With a population of over 158 million and GDP growth rate of 6.9% (National Bureau of Statistics), Nigeria not only presents an attractive market but is also the commercial hub of the West African sub-region. Over the years, Nigeria’s Fast Moving Consumer Goods (FMCG) sector has grown from US$884 million in 2008 to an estimated $1 billion in 2011. With cumulative gains of 44% in 2010 and projected 48% in 2011, the sector was the best-performing one in 2010 (Nigeria Consumer Goods Index). The sector was driven by strong overall economic growth and a stable political environment. Its contribution to GDP in 2010 was 22.3%, while its own growth rate stood at 10.14%. Still, the sector’s contribution to the nation’s GDP is relatively small, considering Nigeria’s estimated middle class market of 15.3 million.

Diverse Market Segments

With a well established distribution network, and intense competition between formal and informal players, the FMCG sector is the fourth largest in the Nigerian economy. It has been witnessing steady growth in the past few years. While its output grew from 9.54% in 2010 to 10.14% in Q1 2011, its contribution to GDP is projected to increase from 22.3% in 2010 to 23% by 2011 year ended.

Globally, the FMCG sector can be grouped into three primary sub-segments, namely Food and Beverages, Household Care and Personal Care. According to a recent study by the Harvard Business School, the top performing categories across the sub-segments in the Nigerian FMCG space are hair care, household care, male grooming, female hygiene and confectioneries. Growth in these categories can be associated with the increased volume in wholesale and retail trade within the sector.
FMCG sector growth rate and contribution to GDP over the last 10 years

Figure 9:
Annual FMCG Contributions to Nigeria’s GDP
In %

Figure 10:
FMCG annual growth rate
In %

Food and Beverages

The food and beverage sub-sector is arguably one of the most competitive globally. With top brands such as Coca Cola, Nestle, P&G and Unilever, the Nigerian market is led by multinational companies with strong global footprints. Like in many other countries, Nigerian subsidiaries of these companies dominate the local market in size, reach, volume and revenue. This is not to say that some locally owned manufacturers do not have significant market presence. Some indigenous companies such as Dangote Group, UAC of Nigeria and Flour Mills have begun to distinguish themselves and use their proximity to market to their advantage. For instance, a recent regulatory intervention – ban on import of fruit drinks – has opened up new ground for the local players who now control a large share of the fruit drink market. Remove comma after coca cola in the box below.
Table 2: Top Performers in Nigeria’s FMCG sector

<table>
<thead>
<tr>
<th>Sub-segment</th>
<th>Top Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beverages</td>
<td>Nestle, Cadbury</td>
</tr>
<tr>
<td>Soft drinks</td>
<td>Coca-Cola,</td>
</tr>
<tr>
<td>Bakery products</td>
<td>Chi foods, UAC</td>
</tr>
<tr>
<td>Dairy products (Milk, yoghurt, cheese)</td>
<td>Friesland, Promasidor</td>
</tr>
<tr>
<td>Confectionery</td>
<td>Cadbury</td>
</tr>
</tbody>
</table>

**Household Care**

The Nigerian household care market consists of soaps, detergents, dishwashing liquids, etc. The highly competitive fabric wash sub-sector is dominated by Unilever’s Omo detergent brand and P&G’s Ariel. Over the past five years, the demand for detergents has risen at an annual rate of 11%. A study on consumer preferences in this segment reveals that consumers typically prefer washing powder and detergents to bar soaps. This is because detergents are considered cheaper and more convenient to use.

**Personal Care**

This sub-segment is made up of hair-care, cosmetics, and personal wash and oral care products and is dominated by multinational and local manufacturers alike. They include companies such as PZ, P&G and GSK. This segment has experienced high growth in recent years – 2% for the personal wash care products and 10% for premium and middle-end bathing soaps. The oral care market, which was dominated by GlaxoSmithKline’s MacLean’s, has been overtaken by Unilever’s Close Up, largely on the strength of a 2009 marketing strategy called “Brush Day + Night” along with customized toothbrushes. Compared to the brand and marketing activities of MacLean’s, analysts believe that Close Up will continue to lead in 2011.

**Processing raw materials: Addressing supply and demand gaps**

Even though the demand for processed and convenience food has been growing in parallel with the nation’s population growth, research shows that only a small percentage of the raw materials in Nigeria are processed into finished products. Consequently, the country imports a lot of these products. According to a recent study, 99% of the milk consumed in Nigeria in 2010 was imported.
The demand-supply imbalance is indicative of the untapped opportunities within the FMCG market especially in areas such as packaged foods. The annual local demand for the industry's products is estimated to be in excess of US$3.36 billion in 2009 and was expected to grow further to around US$3.87 billion in 2010. The growing demand for goods can be associated with multiple reasons – changing demographics, urbanization, drop in illiteracy levels and growth in the number of middle income earners.

**Abundant Raw Material**

With over 75% of its 92 million hectare landmass being suitable for crop cultivation, Nigeria has all the resources to position itself as one of the world's leading producers of food products. Some of the food crops grown in Nigeria include cassava, yam, corn, coco-yam, cow-pea, beans, sweet potato, millet, plantain, banana, rice, sorghum, and a variety of fruits and vegetables. In addition to the cash and food crops produced, diverse livestock are reared in the country.

Statistics show that the Nigerian FMCG sector imports, on an average, about 60-70% of its raw materials. These include fats and soap noodles for soap manufacturing, chemicals for detergents, milk for yoghurts, paper for sanitary towels, plastics and other packaging materials. The high imports present an opportunity for investors willing to establish local raw materials production facilities to support their factories. To reduce costs of raw materials, Nestle Nigeria Limited, for example, recently partnered with Shonga Farms, one of Nigeria's leading dairy farms.

**The Regulatory Framework**

To ensure that the consumer goods traded in the Nigerian market meet pre-determined standards, there are three bodies overseeing quality: the National Agency for Food and Drug Administration (NAFDAC), the Manufacturers’ Association of Nigeria (MAN) and Standards Organization of Nigeria (SON). Their supervision covers areas such as product quality, health and safety, and tariffs. Collectively, they regulate all consumer products manufactured or imported into the country.

**NAFDAC**: This agency is responsible for regulating and controlling the manufacture, import, export, advertisement, distribution, sale and use of food, drugs, cosmetics, medical devices, chemicals and pre-packaged water.

**MAN**: This body was established as a company limited by guarantee. Its establishment was motivated by the desire to have a focal point of communication and consultation between industry players, on one hand, and the government and the general public, on the other.

**SON**: This is the sole statutory body vested with the responsibility of standardizing and regulating the quality of all products in Nigeria. It is responsible for the strict enforcement of powers of seizure, confiscation and destruction of substandard products and has the power to seal premises where defective products are manufactured or stored.
How Rosy Is the FMCG Market?

Recent studies expect Nigeria’s population to rise to 402 million by 2050, from the current 158 million. Even now, Nigeria’s population dwarfs that of South Africa (48 million) and Egypt (81 million). The very structure of its population, with 72% under the age of 30 and an excellent regional distribution of eight “anchor” cities, each with populations exceeding one million, suggests a healthy growth opportunity.

The Nigerian consumer goods sector is projected to witness double-digit growth in the coming years. Despite the existing challenges in the business environment, a positive long-term outlook prevails in the sector. To boost growth, the government is making efforts such as diversifying the economy and developing the real estate sector. These government initiatives promise to be beneficial to all stakeholders as it guarantees national development, improved spending power per capita and increased sales volumes.

Do You Understand the Nigerian Consumer?

Brand Loyalty

Brand loyalty refers to a situation whereby consumers become committed to certain brands and make repeated purchases over time. Loyal customers will consistently purchase their preferred brands, regardless of convenience or price. To achieve brand loyalty, investors must take strategic steps to ensure that consumer needs are met. By doing this, consumers will not only move to the new brands but also hold the promise of repeated purchases.

Studies show that the primary driver of product/brand loyalty is perceived product quality. Although new products emerge frequently, only those that successfully meet consumer expectations emerge as market leaders. One of the most successful brands in Nigeria today is Indomie Noodles by DUFIL Prima Foods. Although there are multiple competitors in the market, including Golden Penny, Dangote and Chikki & Mimo, the brand enjoys incredibly high sales volume and a 70% share of the noodles market.

The success of the Indomie brand in Nigeria indicates that consumers are not necessarily drawn by the manufacturer of certain products. Rather, the perceived quality of the product, the price and the ease of use play vital roles in guaranteeing brand loyalty.

Religion: The Importance of God in Nigerian Market

In the words of Karl Marx, an ancient German philosopher, “religion is the opium of the people.” This maxim is true particularly for societies that typically find a way of associating all aspects of their lives with religion.

“Nigeria is the most religious country in the world with 90% of the population believing in a higher power, praying regularly and affirming their readiness to die on behalf of their belief.”

This was the conclusion of a survey titled, “What the World Thinks of God,” conducted by the British Broadcasting Corporation in 10 countries including the United States, United Kingdom, Israel, India, South Korea, Indonesia, Nigeria, Russia, Mexico and Lebanon. The large number of religious-minded people in Nigeria plays a huge role in the population’s consumption patterns. Consumers are highly influenced by religious practices affecting everything from clothing to personal grooming to eating and drinking habits. In 2009, a survey revealed that a majority (50.4%) of Nigeria’s population is Muslim, particularly
in the northern states, with Christians dominating the other regions. As a result, some products may not be profitable in specific areas of the country due to religious laws and restrictions. For instance, alcohol consumption is prohibited by Islamic law and as such it may be unwise to set up an alcoholic beverages factory in the north.

**Price Sensitivity**

Studies show that at least 70% of Nigeria’s population lives below the international poverty line of $1.25 a day. Still, the teeming size of its population presents a huge opportunity for consumer goods companies. Due to the low purchasing power of citizens, companies that intend to effectively serve Nigeria’s 158 million consumers must factor in price sensitivity.

To effectively serve the consumers at the right price point, innovations typically revolve around introducing smaller packages for immediate consumption. For example, while small local companies sell packaged water for 5 naira (US$0.03), the major companies’ best effort has been a small lemon-shaped bottle, produced by Nestlé for 20 naira (US$0.12). Some of the multinational companies are starting to realize the potential of serving the mass market and have started introducing smaller packaging for low-income earners. After having traded in the Nigeria market for over 25 years with its 500-gram packs, Kniepe in 2009 introduced the 12-gram and 20-gram packs of their Dano milk. Unilever also introduced single-use packaging for a number of its brands such as Close-Up toothpaste and Blue Band margarine.

**Operations: Getting It Right from the Onset**

Selecting potential markets for entry or expansion can prove to be a complex exercise in Africa. To succeed, it is necessary to get strategic decision-making right from the start and this is particularly true in Nigeria where the rewards and risks are high. Once the market has been selected, the next step is to have a clear understanding of how to run operations. Equipped with the right information, potential investors will not only be able to clearly define their target market, they also can make decisions on how to operate efficiently and achieve optimal results.

**Local Market Intelligence**

Researching your potential market is a requirement for any business owner. Market research helps companies understand current trends, issues and potential. Although market research can take time and be expensive, it is critical to success.

A clear understanding of the FMCG market will help investors identify niche areas and products. A key element of this segment is the SWOT analysis, which highlights the existing gaps in the industry and how such gaps could be exploited. This involves gathering information on the total market size, assessing the barriers to trade and identifying the major players in the industry across sub-segments and finally identifying prospective partners.

The Nigerian market offers great business opportunities on account of rapid economic growth and large market size. However, it has its fair share of challenges, ranging from limited market data, inadequate infrastructure, inappropriate entry procedures, lack of access to sales channels, difficulty in finding partners and cultural differences, etc. However, regardless of the opportunity, it is necessary for investors to study the market as this will
go a long way in making informed business decisions. With diverse religious and cultural beliefs across various parts of the country, investors need to understand the peculiarities of different regions and put them into consideration when building an entry strategy. From the Muslim-dominated north to the Christian-dominated south, strategies should be devised to suit the local environment. For example, most parts of Northern Nigeria are governed by Islamic laws that restrict the sale of certain product types. In addition to recognizing the social differences, it is necessary to have an understanding of the various seasonal changes, especially those that impact on sales. Another issue to consider is the state of existing infrastructure including communications, power, water, housing and transportation. Foreign investors need to select their target geographies and estimate the potential size of their markets as well as their growth potential. One of the ways this can be achieved is by obtaining information on the population of people who possess the purchasing power to buy their products, their geographical spread and their responses to price changes. The required information can be obtained from trade organisations, governmental data and industry experts.

Navigating Regulations and Crossing Barriers

Every sector in the Nigerian economy is guided by government regulations. New companies entering the Nigerian market need to research and understand the policies that can directly affect their potential market. The FMCG market in Nigeria is regulated by three primary agencies:

- Manufacturing Association of Nigeria (MAN)
- Standards Organisation of Nigeria (SON)
- The National Agency for Food and Drug Administration and Control (NAFDAC)

Collectively, these bodies are mandated to ensure that all products entering the Nigerian market meet quality standards and are safe for consumption.

Competitive Landscape

In addition to understanding the regulatory issues that govern the activities of the investors’ selected markets, there is a need to understand the potential market in terms of its competitive landscape, market size and available market share. With this information, the investor can strategize on how to claim not only the available market but also migrate some of the customers of other brands.

Entry Strategy as Key to Success

While it is important to understand the potential market, it is also important to decide beforehand the mode of entry into the market. An entry strategy involves an effective allocation of available resources in creating a viable and financially sustainable venture. A sound market-entry strategy gives an operator greater control over its market introduction and launch expectations, thereby ensuring financial targets are met. Key decisions must be made around defining the company’s value proposition, its organisational structure, financial resources and technical capabilities.

These decisions are crucial to the success of the organisation in the sense that entering a market through a wrong model could potentially cripple operations, especially in an unpredictable market like Nigeria. Best practice studies reveal four primary market-entry models: Distribution, joint venture, acquisition and greenfield. Recent developments show that companies are gradually shifting away from these traditional models to hybrid ones that integrate the best elements of two or more models.
Table 3: Factors that affect businesses in Nigeria

<table>
<thead>
<tr>
<th>Policies and regulatory issues</th>
<th>The policy-making system in Nigeria is very unpredictable and has a large impact on companies’ ability to make effective plans.</th>
<th>To operate effectively in Nigeria, companies need market data as well as a full assessment of government policies and regulations. This business intelligence is required to make informed business decisions.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human capital intensity</td>
<td>Although Nigeria has a relatively low rate of illiteracy, recruiting skilled manpower is often an issue.</td>
<td>Many organizations are saddled with the responsibility of organizing extensive training programs for their new recruits.</td>
</tr>
<tr>
<td>Finance</td>
<td>Inadequate access to funds is another factor that affects businesses in Nigeria.</td>
<td>It is difficult to get loans from banks in Nigeria and even when available the interest rates are high.</td>
</tr>
<tr>
<td>Infrastructural gaps</td>
<td>Basic infrastructure and logistics required to create an enabling environment for business are not readily available. This is evident in the lack of quality roads, transport system and inconsistent water and power supply.</td>
<td>Most companies have to allocate additional budgets to fund some of these basic services themselves, resulting in higher operating costs.</td>
</tr>
<tr>
<td>Bureaucracy</td>
<td>Getting businesses or products registered in Nigeria takes longer than it typically should on account of bureaucratic procedures.</td>
<td>Multiple layers of scrutiny results in a protracted approval process that needs to be factored in for any planning.</td>
</tr>
</tbody>
</table>
Simple Distribution Model

One of the most popular considerations when developing entry strategies used by multinational companies, especially in the FMCG industry, is the distribution model. Here, companies that do not have their products in the market establish relationships with local distributors who, in turn, sell these products in pre-selected geographies. The model requires that foreign companies reach an agreement with a local partner, which will act as their mercantile arm within the local market. Based on pre-defined terms, certain elements of the import/export process would be shared between the parties. From the import of goods to the sale of the product to the final consumer, the trading partners are clear on what roles they will play in successfully driving the business.

What typically happens in the Nigerian market is that the foreign manufacturer exports its products to local distributors at an agreed price and the distributor sells to other agents at a pre-determined price. Typically, manufacturers look for distributors that have adequate storage facilities and an extensive distribution network that spans the entire country.

Assessing Joint Ventures

A joint venture takes place when two parties come together to start a business or take up a project even though both parties remain separate and distinct. In order to achieve the desired objective, both parties invest time and effort in the business. Major corporations use this method to penetrate new markets and since the cost of setting up new companies is relatively high, a joint venture allows parties to split responsibilities (financial and non-financial), risks and profits.

Many joint ventures in Nigeria have failed as a result of misunderstanding between the partners. Therefore, it is necessary that all issues, especially profit-sharing, management and ownership, are clearly specified in the joint-venture agreement. Also, it is important to have a strategic plan that focuses on the future of the partnership, rather than only on the returns. Ultimately, both short-term and long-term success is important and in order to achieve this, integrity, communication and transparency are necessary.

Acquisition: A Quick and Easy Way?

An acquisition can take the form of an outright purchase of an existing business or an investor acquiring a majority stake in an existing business. In this model, an investor takes over an operation that is already generating cash flow and, perhaps, profits. The business will likely have an established customer base and qualified employees running the company.

Whatever the reason for acquiring an existing business, the foreign company needs to conduct a due diligence exercise to ascertain the true value of the business by assessing such factors as financial sustainability, human resource capabilities, ownership model and other related issues. An example of an acquisition is the purchase of a majority stake in Nigerian Bottling Company by the Coca-Cola Hellenic Bottling Company, one of the American beverage-maker’s largest anchor bottlers worldwide. The acquisition was made in order to increase Coca-Cola’s global market share.

Greenfield: Only for the Long Haul, and the Brave

Greenfield ventures as a market-entry strategy are rarely used because of high costs and long lead time required to do so. Greenfields typically involve a lot of technicalities. Consequently, the model is often a last resort for foreign investors.

Nevertheless, there are some exceptional cases where entirely new companies are created to bridge identified market gaps. For instance, the ban on the import of certain consumer goods opens up the market for new companies. Greenfields also come into play when new product categories have to be created in the Nigerian market. A good example is the establishment of Indomie Noodles when there was no market for noodles in the country.
Table 4: Pros and cons of different entry models into the FMCG market

<table>
<thead>
<tr>
<th>Considerations</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution</td>
<td>Low overhead cost</td>
<td>Potential brand erosion</td>
</tr>
<tr>
<td></td>
<td>Wider product coverage</td>
<td>Potential loss of invested capital</td>
</tr>
<tr>
<td>Joint venture</td>
<td>Asset and liability sharing</td>
<td>Slow corporate integration</td>
</tr>
<tr>
<td></td>
<td>Increased product coverage</td>
<td>Limited process control</td>
</tr>
<tr>
<td>Acquisition</td>
<td>Automatic market share and client base</td>
<td>High cost of acquisition</td>
</tr>
<tr>
<td></td>
<td>Reduced the risks associated with new markets</td>
<td>Managing the newly formed portfolio.</td>
</tr>
<tr>
<td>Green field</td>
<td>Maximum decision rights on business operations</td>
<td>High start-up costs</td>
</tr>
<tr>
<td></td>
<td>In direct contact with the market</td>
<td>It is difficult to gain market presence</td>
</tr>
<tr>
<td></td>
<td>Complete control of business finance</td>
<td>High cost of marketing and advertising</td>
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</tbody>
</table>

Operational Models for FMCG Companies

Managing a profitable business in Africa’s most populous country requires the implementation of cost-effective business operations. Based on their competence levels across the operations value chain, companies with superior operational models enjoy appreciable levels of market dominance.

Procurement Procedure

Having a cost-effective procurement system will help a company strike the right balance between meeting the demands of Nigeria’s teeming population and growing its market share. Although manufacturers consistently seek innovative methods of meeting growing market demands, they often fall short due to unavailability of sufficient raw materials and other logistical issues.
A recent study by Ciuci Consulting revealed that over 95% of the milk packaged in Nigeria is imported. Imports are often marked by bureaucratic procedures and carry the risk of transit loss. Having a clearly defined procurement methodology also helps safeguard the company’s reputation within the market. One of the best ways of ensuring continuous production is by procuring raw materials from within the local market or through backward integration to fill supply gaps. An additional advantage of sourcing local raw materials is the access to the ECOWAS Trade Liberalisation Scheme (ETLS), which allows companies to do business in the whole of West Africa.

**Inventory Management**

Inventory management involves maintaining the right balance of stock in any period of time, thereby avoiding either oversupply or a scarcity. With infrastructural challenges such as bad roads, epileptic power and limited water supply, some FMCG companies in Nigeria use inventory management to efficiently meet market demand. Mobil Oil Nigeria, producers of Mobil insecticide, uses an automated enterprise resource planning process that ensures single-point accountability and eliminates the risks of lost inventory, double counting etc. This has given the company an edge as it provides “Just in Time” supply to its distributors while also reducing the costs of warehousing.

**Technology and Innovation**

Companies typically rely on innovation to add value to their product offerings and to get ahead of the competition. In some cases, this could require the deployment of state-of-the-art facilities in manufacturing, processing, packaging and distributing. Keeping up with current technology trends in the relevant industry segments helps investors maintain their hold on the market, leading to greater efficiency in the manufacturing value chain.

**Distribution Processes**

A sound distribution network is crucial to the success of a consumer goods business because it not only allows the manufacturer reach its targets effectively but also guarantees the manufacturer a larger share of his market and ultimately larger profit margins. Getting to the market is dependent of many factors.

- **The market factor:** Having good data on consumer behaviour will help a manufacturer build a distribution network that is cost-effective and sustainable. A survey by Ciuci Consulting revealed that most consumers prefer to take yoghurt products as snacks and as such would not mind taking it “on the go.” Fan Milk, one of the largest producers of yoghurt in Nigeria, effectively utilized this insight by using mobile vendors to sell their “FanYogo” products. UAC Foods also utilizes a similar method to position itself in the fast-food market by distributing its Gala beef roll directly to hawkers. This method not only cuts down distribution costs, but also ensures that the products get to the final consumers as and when required. Prospective companies need to not only ask questions about what the consumers want, but also need to gather information on how the consumers want it and how best to get it to them.

- **The product factor:** While building a marketing strategy, it is important to design plans that focus on the uniqueness of the product and devise optimal ways to transport it from factory to warehouses to wholesalers and retailers, and finally the consumers. These considerations are largely dependent on product lifecycle, product use and storage requirements. A good appreciation of the products’ manufacturing value chain would help enhance the process.
Hedging: Safeguards for the Future

Running a business involves diverse risks, some of which can be ruinous and some others can lead to costly and time-consuming delays. Regardless of the size of the business, CEOs and/or risk management officers can identify and anticipate most risks, and plan effectively to counter them.

Risk management is a central part of any organization’s strategic management. It is the process in which organizations methodically address risks involved in their line of business with the goal of achieving sustainable profitability. Every business has its own unique set of risks and businesses need to come up with innovative methods of pre-empting, mitigating and overcoming them.

Operating in the Nigerian FMCG sector can be very risky. To operate in a manner that guarantees sustainable profitability, companies must employ pre-emptive risk management. However, preparing for long-term profitability and growth is arguably one of the toughest challenges that affect the Nigerian market. This challenge can be associated with a number of factors such as the ethnic diversity of the country, evolving consumer preferences and the volatility of government policies and legislation.

Best practice studies reveal that by focusing on certain critical areas, an organisation has the potential to survive in the volatile Nigeria consumer goods market. They are:

• Employing and retaining local talent
• Participating in corporate social responsibility activities
• Focusing on risk and control areas

How to Recruit, Train and Retain Local Talent

A primary challenge faced by companies, especially multinational corporations, is the need to become “local.” To reduce unemployment rates and improve development, the Nigerian government has instituted certain polices that mandate 90% local staffing by foreign companies and multinationals. Besides the government injunction, the companies themselves are starting to realize the commercial benefits of employing local talent. The advantages include better understanding of local customers, business environment, languages and culture, besides lower labor costs.

To succeed in hiring good local talent, companies need to integrate nurturing of local leaders with the broader localization efforts such as promoting education and improving the local business infrastructure. To develop and retain talent, companies should consider the option of sending selected employees on specialized courses abroad such as MBA. When the beneficiaries return, they are likely to combine their patriotism for their country with local intelligence, personal initiative and global business skills, leading to higher productivity.
Demonstration of Faith: Corporate Social Responsibility

Corporate social responsibility is represented by the contributions companies make to society at large through not only their business activities but also through social investment and philanthropy. In recent years, CSR-related activities have become fundamental to any business and have gained much attention from executives, investors and regulators of large companies. There is a growing realization that such activities could potentially alleviate crises as well as build the company’s brand. Companies have determined that their impact on the economic, social and environmental landscape directly affects their relationships with stakeholders, in particular investors, employees, customers, business partners, governments and communities.

CSR activities assume multiple forms in Nigeria and include education sponsorship, road construction and beautification, free distribution of products etc. In 2010, Guarantee Trust Bank renovated the Massey Street Children’s Hospital’s 100-year-old building besides donating new medical equipment. To encourage driving, African Petroleum distributed free helmets in about eight states in 2009. Consumer goods manufacturers have also joined this effort. From time to time, Nigeria’s consumer goods giant Unilever distributes a million free samples of some products to mothers at maternity clinics.

Perhaps on account of the complexity of the Nigerian FMCG space, there is no standard method of implementing CSR. However, best practice reveals that by instituting three basic principles, companies can expect their CSR initiatives to deliver optimal results. These are:

a. Align and incorporate CSR with business strategy, and integrate it across all operational functions. This makes it easy to invest (not spend) the funds necessary to achieve its objectives.

b. Implement an open information strategy for more transparent information-sharing with multiple stakeholders.

c. Leverage transparency to increase the level of engagement of key constituents and customers.
When these activities are done in combination, CSR can become an important dimension of a company’s successful competitive strategy. Done right, these offer a company improved relationship with stakeholders, create more loyal customers, lower costs, increase revenues and raise its overall business’ standing in society.

Risk Management: Are You Up to It?

Nigeria’s multicultural society and development policies pose varied risks to companies. As FMCG companies take steps to improve the quality of their services within specific operating environments and strategize on how to achieve long-term results, it is not unusual to find weaknesses in key financial and business process controls, combined with limited appreciation of the value of good control. Having a clear understanding of the various issues that confront the company’s line of business and identifying methods of mitigating them is essential if global businesses are to successfully implement a more effective governance environment.

A review of the recent performance of multinational corporations in Nigeria reveals that, like in other markets, the companies typically struggle for survival in their first 5-8 years. The key problems the companies face include weaknesses in key financial and business process controls, deviation from global standards of the brand and control improvements that suffer from inconsistent management attention. This means that parent companies tend to hear about everything or nothing — neither of which is ideal.

To strike the right balance between local control and global oversight, sustainable change in the control environment is required in the form of increased training and awareness, continually reinforced through performance management.
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