

NIGERIA – OPPORTUNITIES ABOUND

I recently spent two weeks in Nigeria with a European Government sponsored Development Fund looking to invest in a local fast food chain as a means to encourage agricultural production & efficiencies. I visited Lagos, Port Harcourt & Abuja(Capital) which gave me good insight into the consumer & retail economy. I came away very bullish about business opportunities in the food & beverage sector. Here are some insights from the trip.

Big Population of F&B Consumers

Nigeria has the largest population(192 Million) and GDP(\$376 Billion) in Sub-Saharan Africa. Per capital consumption expenditure however, is only \$1700(2017). The consumer foodservice market worth \$8 Billion(2017), had a compounded growth rate of 12% during 2012~2017, one of the highest in the world, a faster rate than China or India. The country has a young population with a median age of only 18. Like other typical emerging markets, foodservice growth is driven by rising household income and urbanization(50%).

Huge Infrastructure Challenges

Nigeria's foodservice market of 8 Billion is very small in relation to countries with large population size like Indonesia(264 Million) with a market size of \$37 Billion. Key reasons are lack of local infrastructure, import controls, the limited number of commercial real estate projects and limited competition in the market. For example, there are only 18 KFC's in Nigeria compared to 650+ in

Indonesia. Despite being one of the top oil & gas producers in the world, power outages are routine in the county and occur several times daily in Lagos, the key commercial city. Every major restaurant, hotel & commercial building is equipped with their own generators to ensure there is continuous power. Roads are poor and there is no national airline. Small private regional airlines fly limited overseas routes. Airports are very primitive as are the railroads and there is very limited public transportation other than buses. Traffic is horrific in Lagos given poor roads and the large number of cars.



Corruption is Endemic

Nigeria is often ranked in the top 10 most corrupt countries in the world which adds significantly to the cost of doing business. For example, the generator distribution business is owned by friends of the government who share in the profits and it is simply too lucrative for the government to actually fix the energy grid which would actually eliminate the need for so many of these machines. Energy costs for a typical chain restaurant account for 15% of sales versus 5% in markets like Indonesia (also an energy producer). Paying small bribes is necessary to conduct one's daily life and run a business similar to places like India & Pakistan. Locals are experienced in navigating the system but foreigners will be in for a large shock and only large organizations probably have the grit and stamina to push through and get their business done successfully. Companies like Coca-Cola & Nestle are faring well for example.

Some Restaurant Brands are Doing Well

While still small, brands like Kilimanjaro, Chicken Republic, Genesis and Domino's Pizza are growing fast and very popular. The great majority of restaurants serve local West African foods which are very spicy and locals prefer this type of cuisine. Most chains are quick service and spending per person is around \$2~3. These chains are considered aspirational brands compared to developed markets and visit frequency is low given the menu prices. However, rent and labor expenses are comparably low so the business is very profitable and these brands have excellent financial performance and have excellent development potential in big cities given the population density.

Café'/Bars Rule The Market

Surprisingly, alcohol based Cafés and bars account for 69% of the total consumer foodservice market in the country. Basically, Nigerians eat at home most of the time but go out to drink with friends. These establishments are more like speakeasies than proper bars. Beer is the drink of choice, not cheap(\$.80) and comes in large bottles(600ml). Fast food(14%) is the largest food segment with chicken being the dominant protein by far.

What are The Opportunities?

An emerging market like Nigeria is full of challenges that we have described but also lots of opportunities for future business development. Operating with a local partner is critical to navigate the local scene. It is important to understand that the market is way less developed than Vietnam and Indonesia for example, and more chaotic.

Investments in local QSR chains selling affordable Nigerian food will do very well. Certain international brands like Domino's will grow fast as long as there is a limited need to import ingredients. Hamburger concepts for now are off limits given the need to import beef. There is limited interest in Asian food other than Chinese fried rice.

Kitchen equipment is a big area of growth and Chinese and Korean manufacturers can supply this market effectively.

The market is not for everyone but fearless entrepreneurs should consider giving it a try!