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HRI Food Service Sector

Report

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Report Highlights:

The food service sector in Nigeria was valued at US\$2 billion (industry estimate) in 2003, with imports accounting for less than 10 percent. Nigeria's foodservice sector consists of hotels and resorts, restaurants, and institutional contracts. The largest and fastest growing segment is fast food restaurants. The return to democracy, more women working outside the home, urbanization and modest economic growth are some of the factors that have increased demand in the HRI sector. The sector is expected to continue to grow, as convenience fast food chain restaurants become more and more important in the Nigerian way of life. U.S. products with the best prospects include potato chips, sauces, seasonings, pastry mixes, seafood, canned food, wine and ice cream.

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SECTION I. MARKET SUMMARY

Overall, growth in Nigeria's HRI food service sector over the past five years has been mixed. While the restaurant/fast food segment witnessed a phenomenal growth, averaging 40 percent per annum during the period, the hotel and tourism sub-sectors have stagnated. New fast food chain outlets are being established in major urban centers such as Lagos and Abuja. Several South African based fast food chains have also been established recently, primarily in Lagos. Frequently, upscale restaurants are inaugurated that serve continental or ethnic (steak houses, Asian, Tex-Mex, Lebanese, etc.) cuisine. Some are associated with newly established "boutique" hotels. According to industry sources, the value of the Nigeria food service market in 2003 was estimated at about \$2 billion. The sector is expected to grow at 20 percent per annum to \$5 billion in the next five years. Following are the major growth drivers:

- Nigeria's return to democratic rule since 1999 after more than two decades of military rule has ushered some measure of political stability and growth in the economy.
- Nigeria has a large and growing market of more than 130 million people. Its youthful population has a penchant for western style eateries.
- Increased business travels, especially in Nigeria's dominant oil sector is driving up demand in the food service sector.
- Nigeria's changing demographics (urbanization and changing lifestyles of the predominantly youth population)
- An increasing number of women work outside the home.
- And the growing preference of young professionals to meet their business contacts at restaurants.

Nigeria has the potential to build a tourist industry, however, growth has been negligible due to limited support facilities. Hotels meeting international standards are few but growing. The newer hotels are concentrated in Abuja and to a lesser extent, Lagos and Port Harcourt. Abuja's status as a new capital and a growing profile as international conference city is attracting investors in the hospitality industry. Multinational franchise owners such as Protea Group from South Africa are establishing luxury hotels across the country.

Although Nigeria offers investors a low cost labor pool, lack of infrastructure affects the profitability of business and growth. At present, the cost of doing business in Nigeria is prohibitively high, as investors have to provide their own water, electricity, road access, etc. Additionally, the GON has not established a clear legal and regulatory framework guiding the establishment, operation, classification and control of the food service industry in Nigeria.

The direction of government policies in recent years has also had adverse effects on the industry. For example, the GON's import bans on a wide range of processed and packaged food items limits the ability of the food service industry to deliver consistent and good quality food service to their customers. HRI food operators have had to resort to illicit means to source products because the local supply can be inadequate and several food/drink product imports are banned. Inconsistent government policies and an uneven playing field have to a great extent dampened the growth momentum of the HRI in Nigeria. However, industry sources think that the market is too big to be ignored. In fact, the largest players believe that multinational fast food firms will eventually enter the market.

Exchange Rate: US\$1 = 140 Naira

Advantages and Challenges for U.S. exporters

Advantages	Challenges
Nigeria's population of more than 130 million is growing at three percent per annum	Average per capita income is estimated at \$350
Nigerian consumers' perception of U.S. food products as higher quality items	U.S. freight costs are significantly higher than those from the EU, Asian & South African suppliers
Nigerian consumers readily adapting U.S. tastes and preferences especially for convenience-typed foods and snacks	Direct U.S. to West African shipping routes are infrequent—transshipments, often made at EU & South African ports add to cost and longer shipping time
Increasing female workers and school-attending children	Duplicate inspections and longer clearing time at Nigerian ports
Domestic food processing remains under-developed due to inefficient infrastructure and ineffective policies	GON's import ban on many HVP and high tariffs on HVPs ranging 100-150 percent
Nigeria has a large and growing expatriate population especially in the oil and gas sector	The food service sector has little or no legal and regulatory framework guiding operations.
Extension of Supplier Credit Guarantee Program to Nigeria	Bad perception of Nigerian businesses in the U.S.

SECTION II. ROAD MAP FOR MARKET ENTRY**A. Entry Strategy**

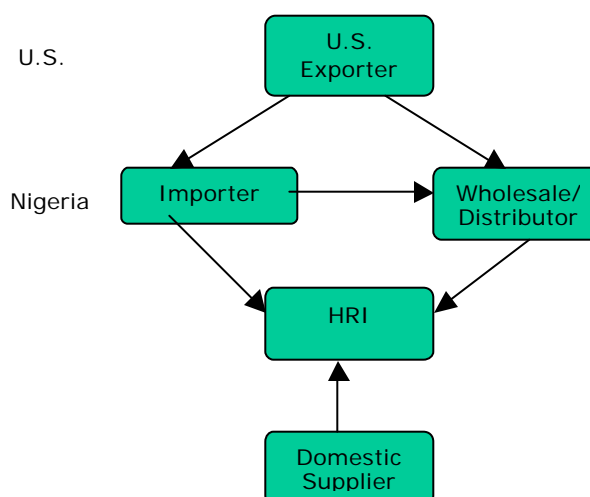
Nigeria's food service sector offers a growing market opportunity for U.S. exporters of food products and ingredients. U.S. exporters can approach the Nigerian HRI food market through established importers, distributors, agents or representatives. The importer-distributor is central and the first contact for entry into Nigerian market. The U.S. exporters can follow one or a combination of these strategies to enter the Nigerian market:

- I. Contact the Agricultural Attaché at the USDA/FAS office located in the U.S. Consulate at Lagos-Nigeria, to assist in selecting one or more importer-distributors
- II. Directly contact the selected importer-distributor/s with sales catalogs. (Product samples could be sent when necessary. The local importer-distributors usually register the products with the GON's food regulatory agency, NAFDAC. Target distributors and wholesalers that stock a wide range of items, as the food service market is looking to 'one-stop-shop' distributors who can offer a range of dry and frozen goods.
- III. Exhibit at shows such as the National Restaurant Association show in Chicago, which is well attended by Nigerian importers and where follow-up contacts can be made
- IV. Offer flexible shipping volumes and small-sized packaging, indicating readable manufacture date and date of expiration

- V. Send sample products and sales catalogs of importable HVP to Post during local promotions of U.S. food products. U.S. exporters should base their entry strategy on stimulating demand by encouraging local HRI operators to incorporate U.S. food ingredients in traditional and international menus.
- VI. Build brand awareness through advertising and promotion.

Regardless of which strategy is chosen, personal contacts are highly recommended to get to know the buyer. The Nigerian partner should be well known to the U.S. exporter before any permanent contractual arrangement is made and should be able to provide updated information on the market consumer trends, on current market developments and trade practices.

B. Market Structure



Following is a brief description of the distribution channels:

- Approximately 90 percent of the food products and ingredients used in the HRI sector are fresh produce, beef, and seafood, poultry products sourced locally.
- For products not produced in Nigeria, the HRI establishments buy them at different points of the distribution chain, reflecting each product's particular nature. Fresh foods are bought in produce markets and the open markets. Most hotels and restaurant in Nigeria have in-house departments that source and purchase local food products.
- Numerous independent food distributors dominate Nigeria's food service industry. This means that the food service operators need to deal with a large number of distributors and wholesalers to meet their requirements. Most HRI operators prefer to make their purchases from a small number of wholesalers who provide several lines of food and beverages at good prices.
- One fast food chain reported importing specially formulated recipes and seasonings from the U.S. exclusively for their use. This is an isolated case and not standard industry practice.

C. SUB-SECTOR PROFILES

Nigeria's foodservice sector consists of three main sub-sectors - hotels and resorts; restaurants; and institutional contracts. The following provides a brief description and comparison of each sub sector.

Hotels and Resorts in Nigeria

CLASS OF HOTEL	NUMBER IN THE CLASS
Five and four star hotels	8
Three and Two-star hotels	15
One star Hotels	250
Apart-hotels & resorts	10
Inns	16
Total	299

Although the GON has upgraded tourism to cabinet level in 2002, a classification of hotels and restaurants is yet to be done. Hotels and resorts meeting international standards are few, resulting in relatively high hotel rates. Newly built "boutique" hotels have helped fill the gap in supply. The international hotel chains that are known to be present in Nigeria include: Hilton (1), Sheraton (2), Sofitel (2), Meridien (2), and Protea (3). Visitors to Nigeria are largely business travelers working in the oil and gas sector. Hotels represent a growing opportunity for sales of imported food items. This sub-sector is the third most popular location for buying a meal, ranking behind fast food chains and restaurants.

In the short-term, Nigeria could develop a small eco-tourist sector. The few game parks, cultural events, and art and crafts could attract visitors if some investment was made in infrastructure.

Restaurants

Fast Food: In the past five years, the fast food sub-sector has been the top growing area in the industry. Industry sources estimate the total revenue of fast food operations in 2004 at approximately \$385 million. The annual growth rate in the sector is estimated at an average of 40 percent in the past five years. The labor-intensive industry provides employment for about 25,000 workers at present, largely unskilled. The low barrier to both entry and exit has attracted a myriad of both local and foreign investors. There is a growing awareness among Nigerians of healthy eating and along with this is the trend toward lighter meals. Consumption of chicken and fish has grown considerably, aided by the countrywide expansion of "Mr. Biggs" (a subsidiary of a large conglomerate). The demand for fresh produce and foods without preservatives has also increased.

There are three distinct segments in the fast food market: The indigenous brands led by Mr. Biggs, international franchise brands such as Steers, Chicken Licken, and the myriad of single, neighborhood outlets. Several South African fast food franchises have established western style fast food operations in Nigeria in the past five years. The growth in fast food operations in Nigeria offers U.S. exporters the opportunity to supply innovative products such as seasoned potato chips, sauces and seasonings.

Quick service food chains and takeaway outlets are the most popular locations for buying a full meal or snack in Nigeria. Restaurants are the second most frequently used, especially by professionals and business people.

Fast Food Companies in Nigeria

Fast Foods Companies	No. Of Outlets	Rev. Estimate (NM)	Market Share (%)
Mr. Biggs	106	15,089	30.16
Tantalizers	27	3,548	7.09
Sweet Sensation	10	1,679	3.36
TFC	5	913	1.82
Chicken Licken	6	1,205	2.41
Mama Cass	7	715	1.43
Parkers	4	307	0.61
Tetrazine	5	566	1.13
Kingstone Joe	4	555	1.11
Favorites	2	146	0.29
La Baguette	3	219	0.44
Kas Chicken	2	146	0.29
Savvy	3	241	0.48
Double four	2	256	0.51
Frenchies	3	329	0.66
Chiquita	2	219	0.44
Munchies	2	292	0.58
Flavors	2	161	0.32
De Simeon	2	146	0.29
Mr. Fans	2	110	0.22
Hunger Buster	3	329	0.66
Barcellors	1	219	0.44
Mochachos & Skippers	1	212	0.42
Southern Fried Chicken	1	175	0.35
Candy's	2	256	0.51
Chocolate Royal	1	219	0.44
Relish	2	197	0.39
New Yorker	1	183	0.36
Choicest	2	219	0.44
Eat-rite	2	219	0.44
Church's	1	146	0.29
La Salandier	1	183	0.36
Domino Dinner	2	204	0.41
Others in and outside Lagos	223	20,321	47.04
Total	444	50,034	100

Source: Industry

Restaurants: This is the second fastest growing in the sub-sector. New, upscale and specialized restaurants serving both local and continental cuisines are springing up in the major urban centers. Business travelers and the growing preference of young professionals to meet their clients in restaurants drive growth in this segment.

Institutional

The number of institutional food service contractors in Nigeria is uncertain but they do exist especially in the oil industry. Several of the contractors are located in Port Harcourt and Warri servicing the oil industry. Government regulation of this sector is minimal.

SECTION III. COMPETITION

Generally, Nigerians attach high quality to products of U.S. origin and are willing to pay a premium. South Africa and the EU are the major competitors for the market. Several South African franchises have been established in Nigeria over the last five years. They include the Steers Group, Barcellos, Chicken Licken and more recently, Nandos. These franchises tend to import food products and ingredients from their company's home base.

SECTION IV. BEST PRODUCTS PROSPECTS**A. Products in the market which have good sales potentials**

Mayonnaise Salad Dressing Tomato Ketchup Sauces (AAA)	Mixed Seasoning (AAA)	Breakfast Cereals, including Oatmeal, etc (AAA)	Potato Chips (AAA)
Canned vegetables (A) Canned Soups (AA)	Spirits, Liqueurs, etc (AAA)	Spices, Coffee, Tea (AAA)	Wine, including sparkling wine (AAA)
Baking mixes including Yeast & Baking Powder (AAA)	Roasted Nuts (AAA)	Powdered beverages, including powdered fruit juice (AA)	Bottled Vegetable/ Cooking oil (AAA)
Canned beef, Fish & Ham (AA)	Creamers Whiteners Sweeteners (AAA)	Ice Cream (AAA)	Jam & Jellies (AA)
Packaged rice (AA)		Snack Foods (AAA)	Milk, Cream, Honey products (liquid or powdered) (AAA)

Footnotes:

A=====Sales Potential

AA=====High Sales Potential

AAA=====Highest Sales Potential

B. Products not present in significant quantities but have good sales potentials

Wines and energy drinks, spices

C. Products not present because they face significant barriers

Poultry products, beef and beef products, pork and pork products: In July 2002, the GON, a long-standing member of the WTO implemented an import ban on frozen poultry. The ban was extended to include all meat and meat products in 2003. Imports of several HVPs used in the HRI sector are banned for imports. These include beer, biscuits, and spaghetti and noodles and sugar confectioneries. Despite the ban, a significant amount of these products continue to enter the country through informal channels (smuggling).

SECTION V. POST CONTACT AND FURTHER INFORMATION

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For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's website at: <http://www.fas.usda.gov>