



USDA Foreign Agricultural Service

# GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

**Date:** 12/16/2008

**GAIN Report Number:** NI8033

## Nigeria

### HRI Food Service Sector

### Standing Report

### 2008

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**Report Highlights:**

Nigeria's food service sector; consisting of hotels, restaurants and institutional contracts (HRI) was valued at US\$3 billion in 2007. The largest and fastest growing segment is the quick service restaurants (QSR). Growth in the HRI sector is driven by modest economic growth, urbanization, more women working outside the home and changing demographics in favor of the youths who have a penchant for western style convenience foods. The sector is expected to continue to grow as convenience QSRs become more and more important in the Nigerian way of life. In the same vein, import demand for food ingredients by the operators is trending upwards. U.S. products with best market prospects include potato chips, sauces, seasonings, pastry mixes, seafood, canned food, wine and ice cream.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Trade Report  
Lagos [NI1]  
[NI]

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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, especially the quick service restaurants (QSR) segment, has witnessed phenomenal growth, averaging 30 percent per annum during the period, the hotel and tourism sub-sectors have witnessed only modest growth. New QSR chain outlets are being established in major urban centers such as Lagos and Abuja. In addition, 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. As the Nigerian market opens up, it is generally believed that it will begin to attract the interest of global QSRs such as McDonalds, Burger King, Pizza Hut, KFC, Subway and such other operators. These multinational firms are still being deterred by the high cost of doing business and perceptions of Nigeria as a potential trouble spot. In the mean time, several South African based QSRs have been established recently, primarily in Lagos.

According to industry sources, the value of the Nigeria food service market in 2007 was estimated at about \$3 billion. The sector is expected to continue to grow at 30 percent per annum and reach \$5 billion in the next five years. Following are the major drivers of his remarkable growth:

- The continuation of Nigeria's democracy since 1999 after more than two decades of military rule has guaranteed some measure of political stability and growth in the economy.
- Nigeria's large population of more than 146 million people, growing at three percent per annum, makes it Africa's largest market. Its large youth population has strong demand for western style eateries.
- Increased business travel is driving up demand in the food service sector.
- Nigeria's changing demographics (urbanization and changing lifestyles) is encouraging a shift from the traditional eat at home to eating out
- An increasing number of women work outside the home.

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

The Government of Nigeria (GON) has not established a clear legal and regulatory framework guiding the establishment, operation, classification and control of the food service industry in Nigeria. Industry sources consider this a major set back for the sector. Until very recently, the GON's trade policies were highly restrictive with a wide range of processed and packaged food items banned for imports. This limited 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 were banned. However, in September 2008 the GON significantly reduced the number of items prohibited for imports and reduced the duty on others. Notwithstanding, industry sources think that the market is too big to be ignored. It is also generally believed by industry contacts that the time is ripe for large multinational fast food firms to enter the Nigerian market.

Exchange Rate: US\$1 = 125 Naira

**Advantages and Challenges for U.S. exporters**

<b>Advantages</b>	<b>Challenges</b>
Nigeria's population of more than 146 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 are 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-age children	Undue delays in clearance of goods through the ports
Domestic food processing remains under-developed due to inefficient infrastructure and ineffective policies	GON's import bans remain on some HVP
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.
USDA's Export Credit Program supports sales expansion of US food and agricultural products to Nigeria	Bad perception of Nigerian businesses.

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

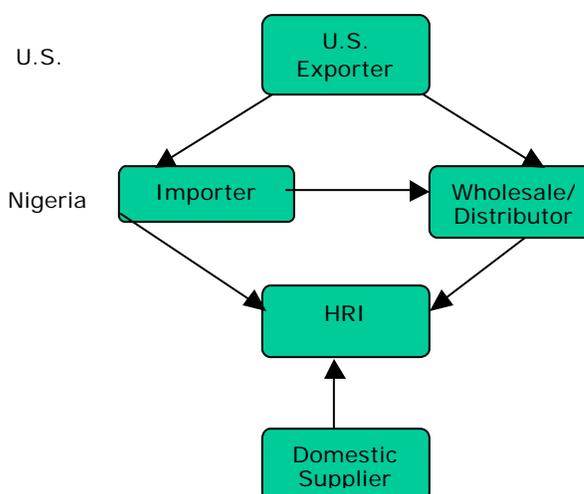
Nigeria's food service sector offers a growing market opportunity for U.S. exporters of food products and ingredients. Exporters can enter the Nigerian HRI food market through established importers, distributors, agents or representatives. The importer-distributor is central and the first contact for 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 Office of Agricultural Affairs (USDA/FAS) office located in the U.S. Consulate, 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. 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 80 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	10
Three and Two-star hotels	15
One star Hotels	250
Apart-hotels & resorts	10
Inns	16
<b>Total</b>	<b>301</b>

Although the GON upgraded tourism to cabinet level since 2002, a classification of hotels and restaurants is yet to be done. Hotels and resorts meeting international standards are few, resulting in very high hotel rates for those that qualify. 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 (3), and Protea (8). 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.

Despite recent improvements, Nigeria is still perceived as a high-risk destination for investment, especially with the problem in the Niger Delta region. This situation has affected investments in hotels, which are capital intensive and long-term pay-back ventures. Tourism is a potential growth sector. The country's natural, historic and cultural assets are extraordinary and can be exploited by investors. In the short-term, Nigeria could develop a small eco-tourist sector. The recent commissioning of the Tinapa resort and the annual Abuja and Calabar festivals have good potentials of evolving into a major tourist attraction. The few game parks, cultural events, and art and crafts could also attract visitors if some investment was made in infrastructure. And with the considerable interest in the development of Nigeria's oil and gas industry - and the huge expansion in telecommunications - the country's hotel business could begin to experience rapid growth.

#### Restaurants

**Fast Food:** In the past five years, the fast food sub-sector has been the top growing area in the industry. The annual growth rate in the sector is estimated at an average of 30 percent per annum during the past five years. The labor-intensive nature of the 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 a myriad of local brands with 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	175	19,767	30.13
Tantalizers	39	4,648	7.09
Sweet Sensation	10	2,200	3.36
TFC	8	1,300	1.82
Chicken Licken	8	1,579	2.41
Mama Cass	9	937	1.43
Parkers	4	402	0.61
Tetrazzini	6	742	1.13
Kingstone Joe	5	727	1.11
Favorites	3	192	0.29
La Baguette	3	287	0.44
Kas Chicken	2	191	0.29
Savvy	4	316	0.48
Double four	2	335	0.51
Frenchies	3	430	0.66
Chiquita	2	387	0.44
Munchies	4	383	0.58
Flavors	3	211	0.32
De Simeon	3	191	0.29
Mr. Fans	3	144	0.22
Hunger Buster	4	431	0.66
Barcellors	3	287	0.44
Mochachos & Skippers	3	278	0.42
Southern Fried Chicken	3	229	0.35
Candy's	3	335	0.51
Chocolate Royal	1	287	0.44
Relish	3	258	0.39
New Yorker	1	240	0.36
Choicest	2	287	0.44
Eat-rite	3	287	0.44
Church's	3	191	0.29
La Salandier	2	240	0.36
Domino Dinner	2	267	0.41
Others in and outside Lagos	303	26,621	47.04
<b>Total</b>	<b>630</b>	<b>65,607</b>	<b>100</b>

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)	Energy Drinks (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 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 value-added products used in the HRI sector are banned for imports. These include beer, and spaghetti and noodles. 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>