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Nigeria

Retail Food Sector

Annual

2005

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Report Highlights:
The GON signed the Common ECOWAS Tariffs (CET) agreement requiring it to fully phase out all bans and reduce Nigeria's existing 20 different tariff categories into five, by 2007. Nigeria's HVP imports are expected to increase if the agreement is carried out. Meanwhile, the spate of GON bans on a number of HVP items, has apparently led to significant drops in Nigeria's HVP imports. Industry projection of imported HVP by end of CY2005 is $290 million, about eight percent drop compared to $315 in CY2004. Although the GON threat to enforce HVP import ban at the supermarkets are deterring the sector's growth, smaller retail outlets in the more predominant convenience and traditional sector have continued to increase in number. Nigeria will continue to depend on imported HVP for sometime due to its weak domestic food processing sector and rising demand for processed foods.

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

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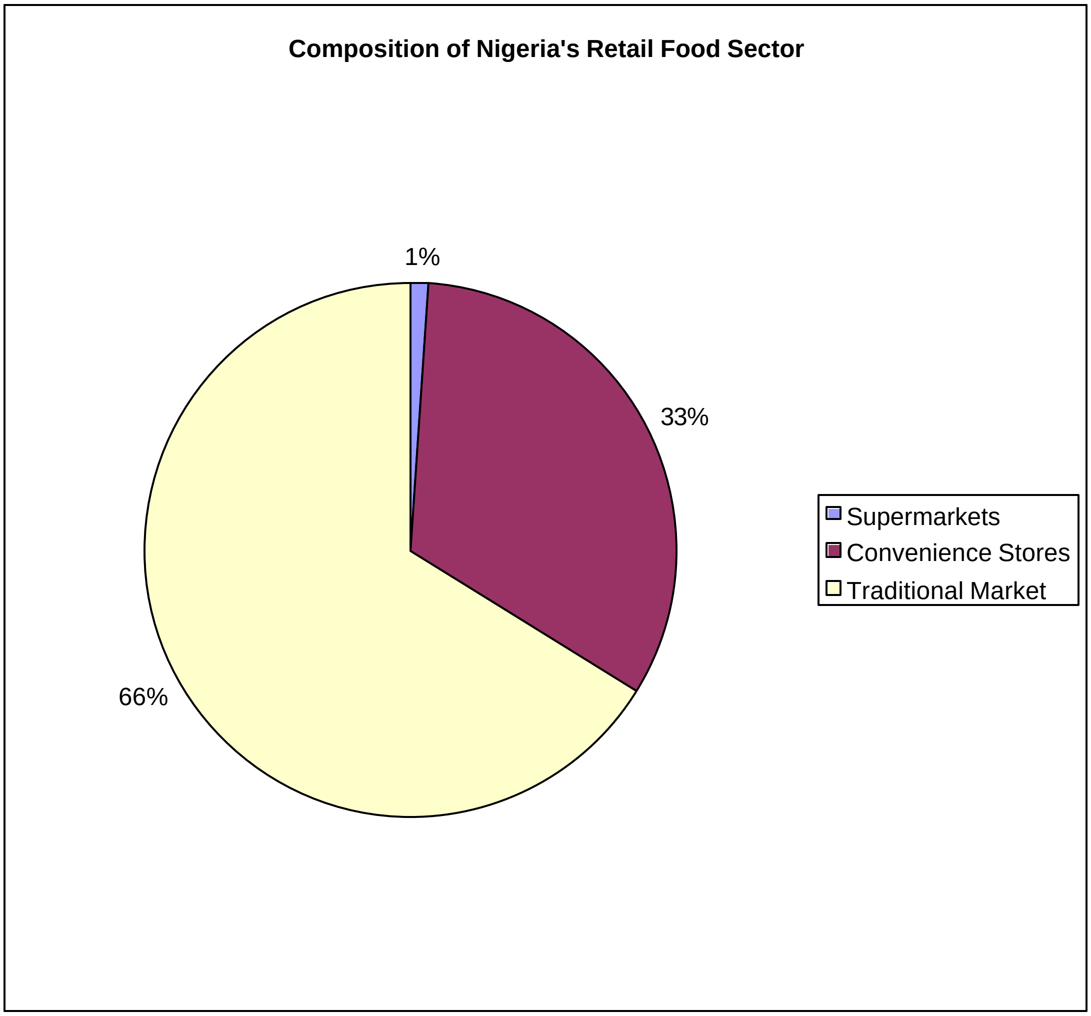
SECTION I. MARKET SUMMARY:

- The retail food sector in Nigeria consists of supermarkets, convenience stores/small groceries, and traditional open-air markets--accounting for approximately one percent, 33 percent and 66 percent respectively, of total retail food sales as shown below:



Source: Industry

- The major players for imported HVP merchandising in Nigeria are:
  - Importer-distributors
  - Agents/Sole Representatives
  - Wholesalers
  - Retailers

- The GON has maintained high tariffs and import bans on major high value products (HVPs) since 2001. The measures were initiated to protect domestic industries and conserve foreign exchange.

- Domestic food processing has grown by an average of 10 percent over the last four years but outputs are grossly inadequate in meeting the huge and growing local demand.

- Outputs are also limited to a selection of products such as: soft drinks, beer, fruit juice, snack food, pasta, biscuits, and bottled water.

- The GON's restrictive measures have led to some drop in HVP imports compared to last year. Industry estimates of Nigeria's retail food sales are forecast at about $14.5 billion in CY2005, with imported, high-value products accounting for two percent ($290 million). This will represent a drop of eight percent compared to approximately $315 million, in 2004.

- Cross-border smuggling activities strive and constitute a major means of bringing banned HVP into the Nigerian market.

- The GON has on many occasions threatened to seal Nigeria's supermarkets stocking banned HVP products. But supermarket operators have legally challenged the authorities that Nigeria's food processors could barely produce 15 percent of its stocking requirements.

- However, the GON's threats have continued to create uncertainties in the market place and have caused many supermarket operators to suspend opening new outlets.

- Implementation of the GON's threats above however, does not appear feasible in the more dominant traditional market. Hence, the number of smaller outlets in the convenience and traditional categories has continued to increase and the majority of Nigerian consumers rely on them for their HVP needs.

- The GON announced that it has begun the phased-in implementation of its Common ECOWAS Common External Tariff (CET) agreement from October 1, 2005.

- Accordingly, the GON plans to fully phase out all import bans and reduce Nigeria's existing 20 different tariff categories into the following five, by 2007:

Category	**Tariffs**	**Products**
Category 1	0%	Necessities such as books, medicines, newspapers etc
Category 2	5%	Raw materials and capital goods
Category 3	10%	Intermediate goods and other inputs
Category 4	20%	Finished goods
Category 5	50%	Products currently banned for imports

- HVP imports are expected to increase if the agreement is carried out.

- Some foreign retail giants (especially from South Africa) are anticipating favorable future environment for the retail food sector, and are already investing in retail shopping centers in Nigeria (See GAIN Report #: TPR NI5007 for CET details). For example, Shoprite is expected to open its first store in Lagos by December 15, 2005

- The EU, Asian and South African firms dominate the HVP sector in Nigeria.

Features Describing Retail Food Outlets in Nigeria:

- The following table describes features of Nigeria's retail food sector:

Features of Retail Food Outlets in Nigeria

	Supermarket	Convenience Stores	Traditional Markets
Average Size (sq. m)	20-300	<20	Clusters of stalls of 5-10 square meters in a large open air area
Number of Outlets	100	200,000	2,500 (locations)
Market Size Served (%)	1	33	66
Average Annual Turnover ($)	1.4 million	23,000	Approx. $4 million per location
Location	Urban	9:1 (urban-rural)	8:2 (urban-rural)
Stock Level	Relatively Full-Line	Limited	Very Limited
Service Method	Self-Serve	1:4 (self-assisted)	Assisted

- Banned foreign HVP have continued to enter Nigeria through cross-border smuggling activities and are mainly sold at convenience stores and traditional markets.

- Nigerian consumers are price sensitive. Retailers prefer stocking relatively small-sized consumer-ready food products, prepared and packaged for one-time use. Consumer demand for these products is high due to their affordable packages.

Pricing

- Price differentials are not too wide apart between the domestic products and imports due to high cost of local production. However, the U.S. products are relatively higher due mainly to higher freight and lack of U.S. exporter flexibilities while dealing with the Nigerian importers.

- The following describes the interplay of pricing patterns and relationships of U.S. products among competing products in the local market:

Suppliers' Pricing Pattern

Description	Domestic	Other Country	U.S. Products
Average retail mark-up (/100)	1.0	1.17	1.23
Average price ratio (/100)	1.0	1.30	1.40

Pricing pattern for the retail sector sub-groups

Description	S/Mkts	Convenience Shops	Traditional Markets
Retail mark-up (Imports)	1.40	1.10	1.0
Retail mark-up (Domestic)	1.10	1.05	1.0

Pricing pattern among retail sector channel members

Description	Importer	Wholesaler	Retailer	Consumer
Average Price Ratio (/100)	1.0	20	25	40

Advantages & Disadvantages:

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
A continued massive rural-urban migration is increasing demand for imported HVP	U.S. HVP are not as readily available and known in Nigeria as HVP from EU, Asia and South Africa
Nigerian consumers' perception of U.S. HVP as higher quality items	U.S. freight costs are significantly higher than those from the EU, Asian & South African suppliers
Relatively low fob prices for higher quality U.S. HVP	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 local demand for wider varieties of higher quality HVP	U.S. exporters are not as flexible about packaging and documentation as their competitors
Increasing female workers and school children	A lack of freight consolidators in the U.S. to handle the Nigerian importers' ordering and shipping requirements & duplicate inspections and longer clearing time at Nigerian ports
Domestic food processing remains under-developed and the need for imports to fill market gap	GON's import ban on many HVP and high tariffs on HVPs ranging 100-150 percent
Nigerian consumers readily adapting U.S. tastes and preferences especially for convenience-typed foods and snacks	Bad perception of Nigerian businesses in the U.S.
Adoption of National Agency of Food & Drug Administration & Control (NAFDAC's) 'Global Listing for Supermarket' items. (See GAIN Report #: NI5015)	Short product shelf life and coded (not readable) 'best before dates' on U.S. HVPs.

SECTION II. ROAD MAP FOR MARKET ENTRY

- The importer-distributor is central and the first contact for entry into Nigerian market

- The major players for imported HVP merchandising in Nigeria are:

  - Importer-distributors
  - Agents/Sole Representatives
  - Wholesalers
  - Retailers

- The U.S. exporters can follow one or a combination of these strategies to enter the Nigerian market:

  - Contact the Agricultural Attache at the Office of Agricultural Affairs in the U.S. Consulate at Lagos-Nigeria, for assistance in selecting reputable importers interested in representing the U.S. firms for handling product registration with the GON's food regulatory agency, NAFDAC and marketing

  - Directly contact the selected importer-distributor/s with sales catalogs. (Product samples could be sent when necessary)

  - Identify and sell through consolidators based in the U.S. who are serving the West African region. This can now be relevant for the sale of mixed containers applying NAFDAC's "Global Listing of Supermarket" products. (See GAIN report #: 5015 for details)

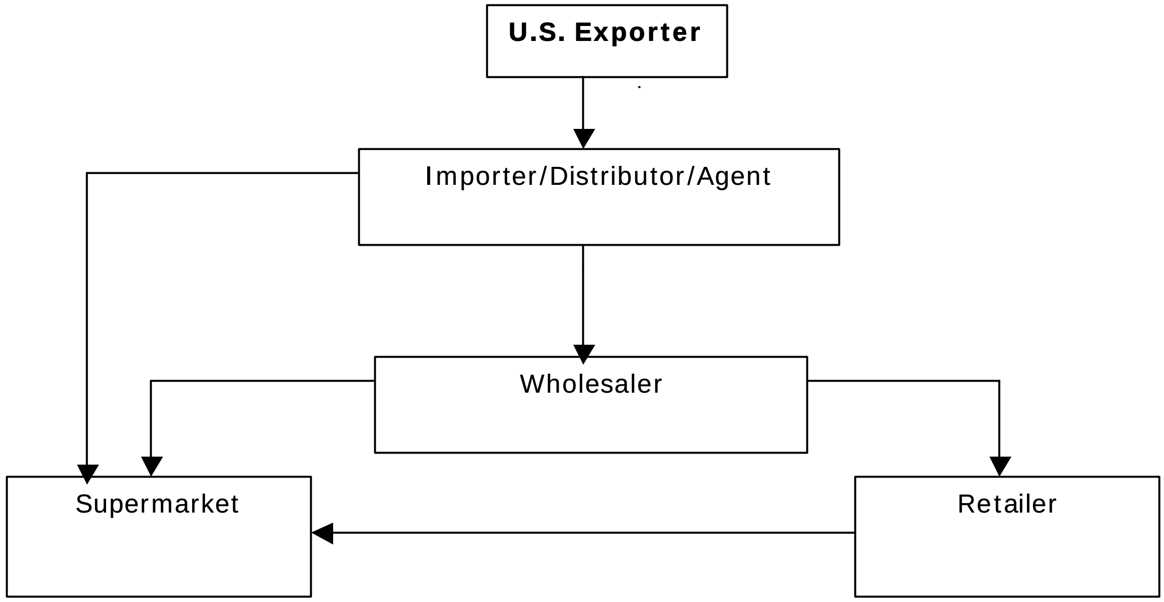
  - Exhibit, especially at the FMI supermarket trade show in Chicago, which is well attended by Nigerian importers and where follow-up contacts can be made

  - Offer flexible shipping volumes and small-sized packaging, indicating spell out manufacture date and date of expiration

  - Send sample products and sales catalogs of importable HVP to Post during local promotions of U.S. high-value foods.

A. Supermarkets:

Distribution Flow Chart for Supermarket Market



- An importer may either be the U.S. exporter's appointed agent and sole representative or he may be buying mixed-grocery containers from various HVP exporters and wholesale/retail outlets around the globe.
- The wholesaler sells to retailers in large quantities and at discounted prices
- Supermarkets procure goods directly from the wholesalers or local consolidators depending on size and financial leverage
- Importers own most supermarkets in Nigeria. They usually register trading/importing firms distinct from their supermarket operations for sourcing the supermarkets' merchandising requirements and selling to competing retailers
- Supermarkets purchase more than 90 percent of their HVP stocking from importers and wholesalers located in the traditional, open markets

Company Profiles of Major Supermarkets

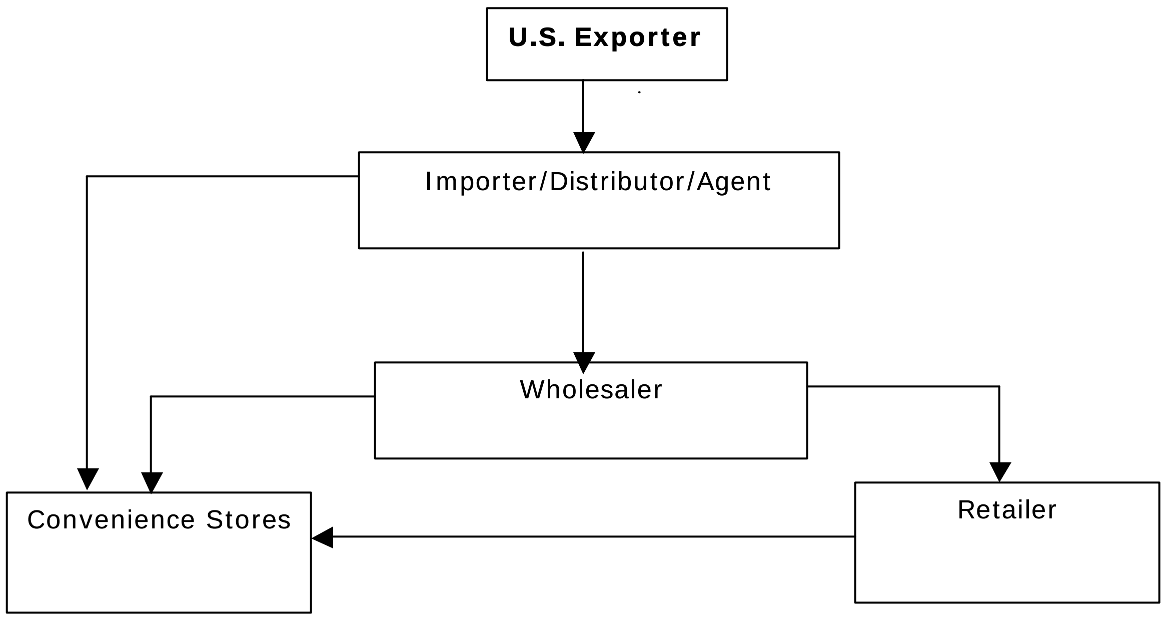
Retailer	Ownership	Sales ($Mil) (FAS Lagos Estimates)	No. Of Outlets	Location (City)	Purchasing Agent Type
Park 'N' Shop	Indian/Resident in Nigeria	16.0	6	Lagos, Abuja & Port Harcourt	Importer-distributor
Goodies	Lebanese/Resident in Nigeria	10.0	3	Lagos	Importer-distributor
Esco	Nigerian	3.0	1	Warri	Importer-distributor
Bestway	Nigerian	3.0	4	Port Harcourt	Importer-distributor
Chanrai's	Indian/Resident in Nigeria	2.5	2	Port Harcourt	Importer-distributor
BG-Mart	Nigerian	2.0	2	Lagos	Importer-distributor
Legend	Lebanese/Resident in Nigeria	2.0	1	Abuja	Importer-distributor
Amigos	Lebanese/Resident in Nigeria	2.0	1	Abuja	Importer-distributor
Choice	Lebanese/Resident in Nigeria	2.0	1	Port Harcourt	Importer-distributor
Grand	Nigerian	2.0	1	Abuja	As Above

B. Convenience Stores/Grocery Shops/Kiosks/Gas Marts

- Convenience shops are including mini-supermarkets, about 500,000 small grocery stores, about 2,000 gas marts, numerous kiosks, and roadside stalls

- Convenience stores have limited capitalization and significant space limitations. Most of these stores buy from wholesalers in the traditional market. Importers, sometimes sell directly to the convenience stores for promotional reasons

Distribution Flow Chart for Convenience



- Kiosks typically are located at prime locations where high sales potential exists and where municipal authorities issue only temporary building permits. They are fewer in number than roadside stalls

- Gas marts are growing rapidly and serving more mobile buyers. Their food sales are however, minimal. Product prices at these outlets usually are markedly higher than charged by other convenience store retailers

- Due largely to poor and irregular electricity supply, less than two percent of convenient stores sell frozen foods.

C. Traditional Markets

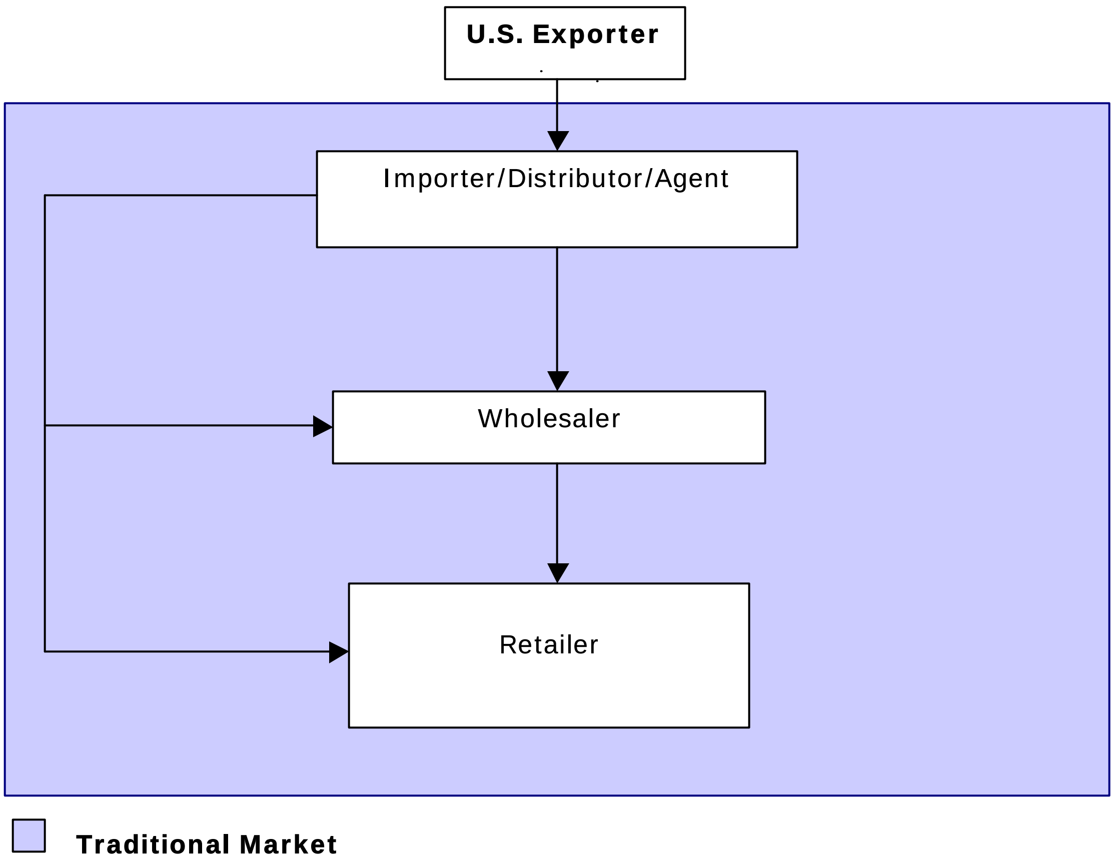
- Retailers buy from wholesalers due to limited capital

- More than 90 percent of imported HVP are sold through channel members located in Nigeria's traditional market

- About 85 percent of all wholesalers and retailers are located in the traditional markets. Nearly all importers have satellite outlets or representative in the traditional markets.

- Product prices are about 20% lower than in alternative retail outlets
- Pricing often is not fixed and ultimate sales price is negotiated on the spot
- More than 90 percent of the local staple foodstuffs, including fresh fruit and vegetables, meat and frozen fish (imported or local), are sold to ultimate consumers at Nigeria's traditional markets
- Retail outlets consist of small stalls clustered in a large grouping under a single roof or open venue

Distribution Flow Chart for Traditional Market



- Promotional activities organized at traditional markets tend to have significant consumer impact
- Product prices are about 20% lower compared to alternative retail sector outlets
- Pricing often is not fixed and ultimate sales price is negotiated on the spot
- More than 98 percent of the local staple foodstuffs, including fresh fruit and vegetables, meat and frozen fish (imported or local), are sold to ultimate consumers at Nigeria's traditional markets

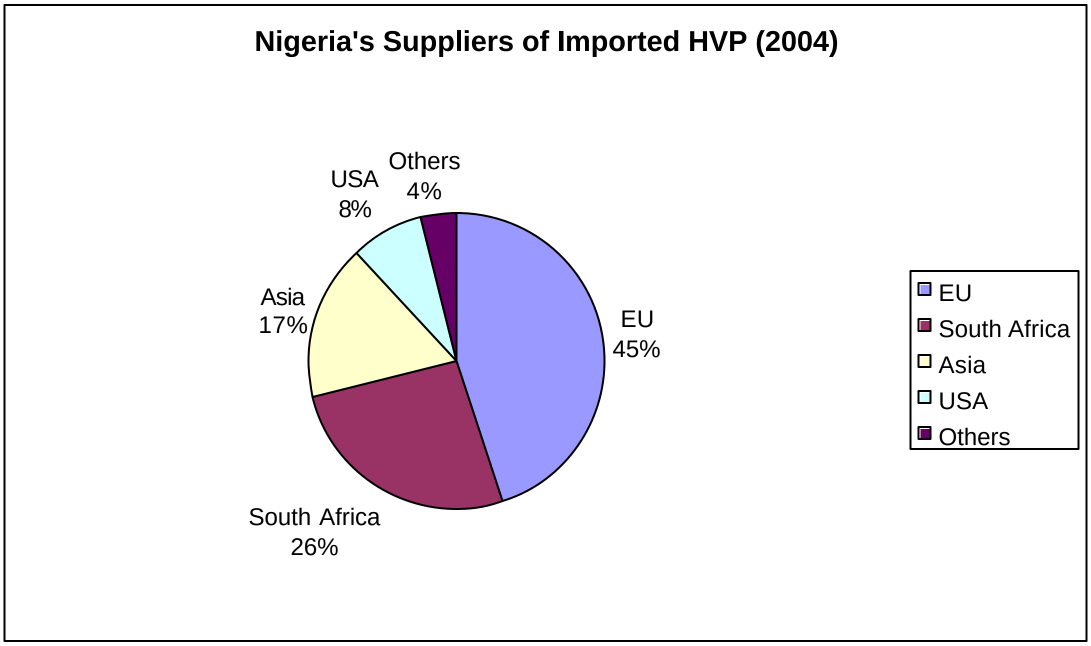
- Retail outlets consist of small stalls clustered in a large grouping under a single roof or open venue

- Promotional activities organized at traditional markets tend to have significant consumer impact

SECTION III. COMPETITION

- Nigeria's domestic food processing is under-developed
  1. Capacity utilization within this sector averages no more than 54 percent
  2. Decaying infrastructure and inappropriate economic policies deter the growth of domestic food processing
  3. Domestic HVP supply, currently at about five percent, will not catch up with the growing and sophisticated Nigerian consumers' demand for HVP, for some time

- Industry estimates of the origin and supply of imported consumer-ready food products in 2004 are as shown below:



Source: Industry Estimate

- Industry estimate of the value of US HVP sales in CY2004 is $25 million, representing approximately eight percent of total HVP imports (approx. $315 million). The U.S. market share in CY2003 was six percent of total HVP imports ($560 million).

- The EU together with Asian and South African firms is the dominant suppliers of imported consumer-ready food business in Nigeria

- Local HVP importers report that Nigeria's pre-shipment inspection agents in the U.S. (Swede Control/Intertek) are not flexible in handling importers' requests.

- The GON's adoption of destination inspection is helping to address third country competitors' advantages of under-invoicing and product concealment thus assisting in increasing market share for US exports (See GAIN Report #: NI4015).

- The key constraints for expanding US exports to Nigeria include:

    - The restrictive trade regime, competition from EU and Asian countries
    - Low purchasing power of the average consumer, relatively high US freight cost, unfavorable perception of Nigerian firms in the US
    - U.S. exporters' less responsiveness to the Nigerian importer demands especially, on documentation and product specifications
    - Lack of sufficient contact between Nigerian importers and U.S. HVP exporter

- Direct presence of Asian firms, including their personal participation in distributing and promoting their HVP in all the sub-groups of Nigeria's retail food sector, are also assisting them in increasing their market share

- Unique Market Requirements by the Nigerian importers include:
    1. Prefer purchasing mixed containers
    2. Want to minimize shipping costs and, therefore, find the services of freight consolidators in the U.S. to handle their ordering and shipment
    3. Anticipate that their foreign suppliers will meet their desire to under-invoice in order to reduce import duty payments
    4. Seek exclusive distribution agreements from exporters

- Competitor Advantages include:
    1. Nigerian importers easily and readily employ the services of freight consolidators located in the EU
    2. Nigerian importers find it easier to register subsidiary companies in the EU, Asian and other African countries for sourcing their import requirements
    3. A relatively lower freight on shipments from the EU, Asian and other African countries
    4. Asian firms are receptive to importer demands to especially, compromise on quality, packaging and documentation
    5. Asian firms (their personnel and/or appointed representatives) continuously and even, physically, interact with their Nigerian buyers to obtain essential marketing information.

SECTION IV. BEST PRODUCT PROSPECTS

A. Products with Good Sales Potentials and are legitimate for export to Nigeria

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

Footnotes:
A======Sales Potential AA=====High Sales Potential
AAA====Higher Sales Potential AAAA====Highest Sales Potential

B. Products Not Present Because They Face Significant Barriers

- Often, legal barriers do not fully affect the availability of food products in the Nigerian market due to cross-border smuggling activities. Importers ship their goods to neighboring countries where they easily enter the Nigerian market by road and, are freely sold.

- Smuggling activities have persisted due to GON anti-HVP import measures. Selected High-Value Food Products attracting high tariffs are—

  - Spices & Herbs (100%)
  - Vegetable Oil in retail pack (65%)
  - Breakfast Cereals (100%)
  - Fruit/Nut Mixtures-Peanut Butter (100%)
  - Condiments/Sauces & Seasonings (50%)
  - Ice Cream/Edible Ices (100%)
  - Mixes, Dough (100%)
  - Margarine (100%)
  - Distilled Beverages (100%)
  - Tapioca and Substitutes (100%)
  - Sparkling Wine (100%)
  - Jams, Jellies & Fruit Glace (100%)
  - Chocolate Products, etc

C. HVP Banned for Imports

- The following are HVP banned for imports:

Confectionery products	Flavored Yogurt Drink	Spaghetti and noodles
Fruit Juice Drinks	Fruit juice in retail packs	Biscuits of any type
Non-alcoholic Wines	Table water (sparkling and non-sparkling)	Canned beer

SECTION V. POST CONTACT AND FURTHER INFORMATION

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Victoria Island, Lagos-Nigeria
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(Please, Read Exporters Guide Gain Report #:NI3025 and FAIRS report, GAIN Report #: NI3006)

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