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Retail Food Sector

Retail Food Sector Annual 2006

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Report Highlights:

Consumer-oriented food exports to Nigeria are estimated to increase from \$290 million in 2005 to about \$400 million in 2006. This is despite GON's restrictions on some food imports designed to promote domestic food processing. Nigeria's food processing has remained limited and cost prohibitive whereas more consumers demand convenience and nutritious foods. The GON recent port/import reforms is reducing some unhealthy import practices and eroding third-country suppliers' competitiveness in Nigeria, but non-tariff barriers on some food products remain high.

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

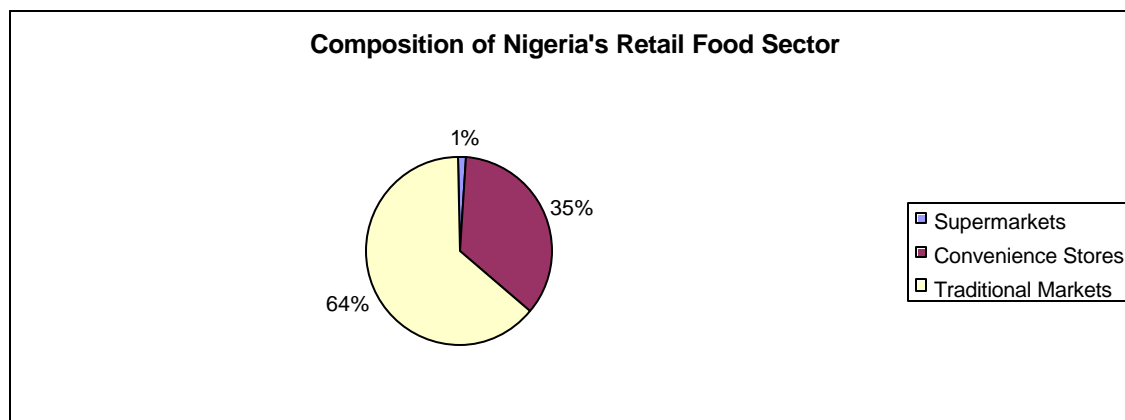
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SECTION I. MARKET SUMMARY:

Nigeria is the largest market in sub-Saharan Africa with a population of about 140 million, growing at three percent per annum. Nigeria's agriculture is primarily subsistence based—employing about 65 percent of the population and holding about 41.2 percent share of GDP, estimated at \$89.8 billion in 2005. Crude petroleum and gas exports account for about 27 percent of GDP the same year (The Economist, August 2006).

Nigeria's retail food sector consists of supermarkets, convenience stores/small groceries, and traditional, open-air markets—accounting for approximately one percent, 35 percent and 64 percent respectively, of total retail food sales in 2005 as shown below:



Source: FAS Lagos Estimate

The major players for merchandising imported consumer-oriented foods in Nigeria are: The importer-distributors, the wholesalers and the retailers. The importer-distributors also include agents/sole representatives and supermarkets importing mixed grocery containers for their own outlets and also for sale to other supermarkets and wholesalers.

The following table describes Nigeria's retail food sector:

	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	35	64
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

Importer preferences are evident for consumer-oriented food products with the following characteristics:

- Relatively small-sized products prepared and packaged for affordable one-time use.
- Bulk, intermediate products and ingredients (especially, beverage bases and flavors) for local re-processing and packaging.
- Mixed-containers of high-value products and brands that are legitimate for imports.
- Perishable food products processed and packaged for long shelf life without refrigeration

Nigerian consumers are price sensitive. Consumer demand for small-sized consumer-ready food products (prepared and packaged for one-time use) is high due to their affordable sizes. Price differentials are not too wide apart between the domestic products and imports despite the higher quality of imported products due to high cost of local production. However, the U.S. products are relatively more expensive mainly due to higher freight charges. But they are perceived as higher quality products and preferred by high-income consumers.

The interplay of pricing patterns and relationships of U.S. products among competing products in the local market are shown in the tables below:

Suppliers' Pricing Pattern

Description	Domestic	Other Country	U.S. Products
Average retail mark-up (/100)	1.0	1.15	1.25
Average price ratio (/100)	1.0	1.20	1.30

Pricing pattern for the retail sector sub-groups

Description	S/Mkts	Convenience Shops	Traditional Markets
Retail mark-up (Imports)	1.40	1.20	1.0
Retail mark-up (Domestic)	1.02	1.05	1.0

Pricing pattern among retail sector channel members

Description	Importer	Wholesaler	Retailer	Consumer
Average Price Mark-up	1.0	1.30	1.35	1.45

The major traditional foodstuffs consumed by majority of the population including, corn, sorghum, tubers, and seafood (fish) are predominantly unprocessed and/or semi-processed. Changing demographic and lifestyles are resulting in increasing consumer preference for wide range of convenience, processed and nutrition foods. These should assist Nigeria's retail food sector to expand.

All processed foods must be registered with National Agency for Food and Drug Administration and Control (NAFDAC) to be legally importable into Nigeria. Application for

registering regulated products is made by the manufacturer. Foreign manufacturers must appoint a duly registered Nigerian firm to represent them and handle their product registration with NAFDAC. This firm is a local importer-distributor desiring to distribute exporter's products in Nigeria. (See GAIN Report No: NI6017 for details).

The GON mounted high protective wall (import bans, high tariffs and high registration charges on many imported consumer-oriented foods) since 2001 to promote local food processing. The output of domestic food processing sector remains limited and prohibitively expensive due to poor infrastructure and inconsistent GON policies. Nigeria will continue to import consumer-oriented foods for the foreseeable future.

The GON's import restrictions have therefore, reduced legitimate imports and increased informal trade methods such as cross-border smuggling and red tape practices at Nigerian ports. Industry sources indicate that total export of consumer-oriented foods to Nigeria will increase from estimated \$290 million in 2005 to about \$400 million in 2006 despite the GON restrictive food import regime. This will be inclusive of banned items which have no or limited substitutes or where substitutes are highly sub-standard.

The GON threatens to seal supermarkets stocking banned items. Two major supermarkets were sealed in Lagos and Kano cities in 2005 for stocking banned food products. This GON measure creates uncertainties within the retail food sector. Growth in the supermarket sub-sector was less than one percent in 2005 despite Nigeria's increasing middle-class and income. Supermarket operators try minimizing the exposure/promotions of imported foods in their outlets to avoid sanctions by the GON agencies. The GON seldom enforce its import restriction measures within the smaller retail outlets in the more predominant traditional sector. The majority of Nigerian consumers have continued to rely on the convenience and the traditional (wet markets) sub-sectors for their household needs.

EU, Asia and South African firms are the dominant suppliers to the Nigerian market. Nigeria's port and import reforms (including scrapping of pre-shipment inspection and implementing destination inspection and the Common External Tariffs (CET) of the Economic Community of West African States (ECOWAS) since January 2006 are assisting in reducing some unhealthy import practices such as product counterfeiting and concealments. Market share for U.S. consumer-oriented products in Nigeria is increasing and documentations of direct U.S. exports to Nigeria are also improving. Exports of U.S. consumer-oriented products (including products banned for imports) are also increasing as more consumers demand higher quality foods.

Market access with the comparatively higher prices of U.S. consumer-oriented foods and the recent militancy in Nigeria's oil-rich Niger Delta zone remains part of the major challenges for U.S. exports of consumer-oriented foods to Nigeria. U.S. firms should promote their high quality products, which are normally less expensive compared to third-country suppliers. U.S. agribusiness firms interested in doing business in Nigeria, can seek assistance of USDA/FAS office in Nigeria to develop business relationships with local firms.

Advantages & Disadvantages:

Advantages	Disadvantages
Nigeria's population of about 140 million is growing at three percent per annum.	Insignificant presence of U.S. Agribusinesses in Nigeria and limited knowledge of the Nigerian market among the U.S. trade.
Growing middle-class and number of discerning Nigerian consumers demanding more varieties of hygienic and nutritious foods.	U.S. products seldom carry readable "Best Before" dates as required by GON food regulatory body. (The "Day/Month/Year" order or a spell-out of months is preferred)
Nigerian consumers' perception of U.S. foods as higher quality items.	Low consumer purchasing power.
Increasing demand for convenience-type foods due largely to: a continued massive rural-urban migration, increasing female workers and school children.	Shorter shelf life labeling of U.S. HVPs and the time-consuming port clearance procedures.
Growing food processing and HRI sectors demand intermediate products and ingredients.	Militancy in the oil-rich Niger Delta areas significantly reducing expatriate and high-income oil workers (major consumers).
Growing western-style retail sector.	Limited contact; negative perceptions about Nigerian businesses among U.S. exporters and a reluctance to do business in Nigeria.
Adoption of 'Global Listing for Supermarket' items by food regulatory authorities offering relatively low cost, low risk market-entry window for consumer-ready foods not banned for imports.	GON's import ban and high tariffs on many food and agricultural products.
Nigerian firms generally see U.S. suppliers as a reliable source, in terms of volume, standards and quality.	Direct U.S. to West African shipping route is infrequent—transshipments, often made at EU & South African ports add to cost and longer shipping time.
Privatization of port operations will likely reduce customs clearance time.	US freight rates are significantly higher than those from the EU, Asian & South Africa.
Nigerian consumers readily adapting U.S. tastes and preferences especially for convenience-typed foods and snacks	High level of unofficial transactions and procedures

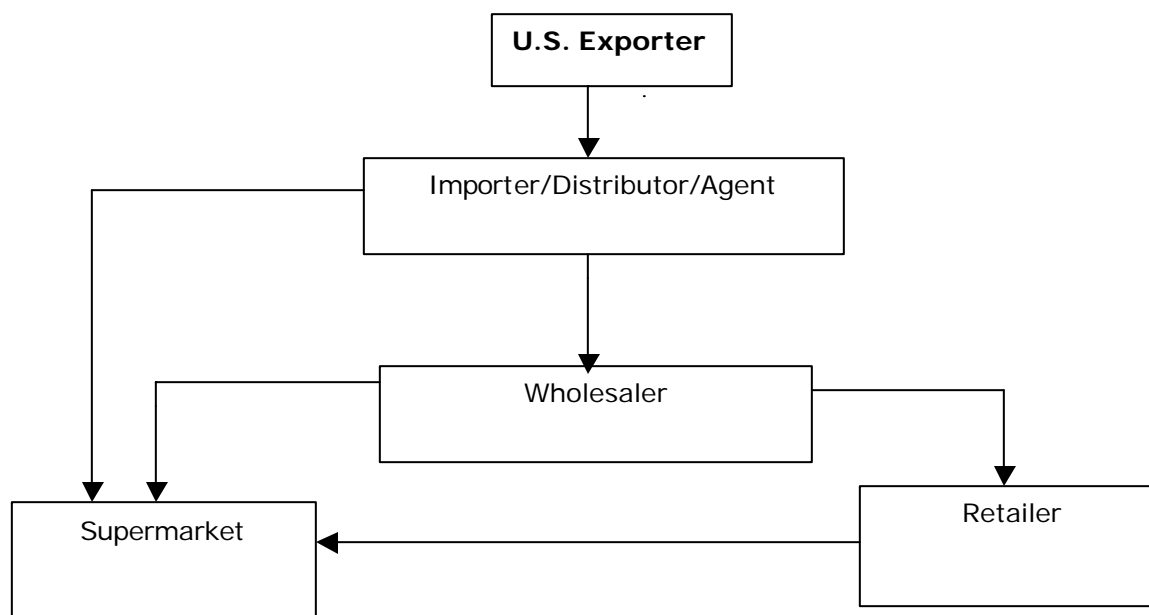
SECTION II. ROAD MAP FOR MARKET ENTRY

The importer-distributor is central and the first contact for entry into Nigerian market. The major players for imported consumer-oriented food 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 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 #: 6017 for details).
- Exhibit at the FMI (supermarket) and NRA (hotel/restaurant) trade shows both in Chicago, which are 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 consumer-oriented food products 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 consumer-oriented food 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 and sometimes from other retailers in the traditional markets depending on size and financial leverage. Importers also 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 consumer-oriented foods stocking from importers and wholesalers located in the traditional, open markets.

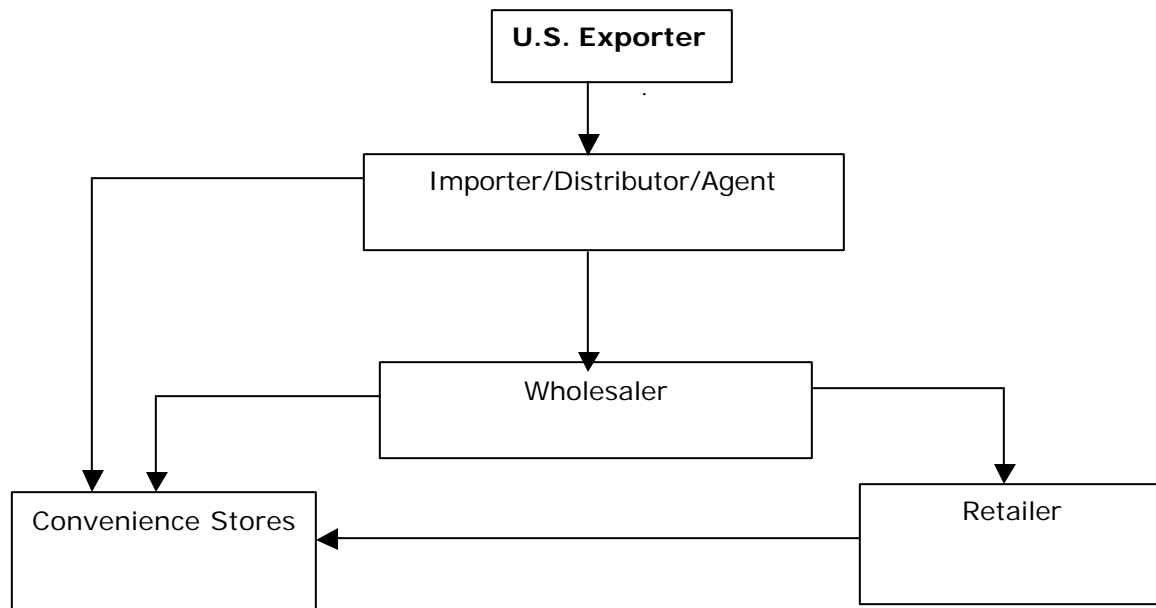
Company Profiles of Major Supermarkets

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	9.0	4	Lagos	Importer- distributor
ShopRite	South Africa	6.0	1	Lagos	Importer- distributor
Amigos	Lebanese/Resident in Nigeria	3.5	1	Abuja	Importer- distributor
Everyday	Nigerian	3.0	2	Port Harcourt	Importer- distributor
Grand	Nigerian	2.7	1	Abuja	Importer- distributor
Legend	Lebanese/Resident in Nigeria	2.5	1	Abuja	Importer- distributor
Bestway	Nigerian	2.0	3	Port Harcourt	Importer- distributor
Chanrai's	Indian/Resident in Nigeria	1.7	2	Port Harcourt	Importer- distributor
Choice	Lebanese/Resident in Nigeria	1.5	1	Port Harcourt	Importer- distributor
Esco	Nigerian	1.0	1	Warri	Importer- distributor
BG-Mart	Nigerian	0.5	2	Lagos	Importer- distributor

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

Convenience shops are including mini-supermarkets, more than 500,000 small grocery stores, more than 2,000 gas marts, numerous kiosks, and roadside stalls. They have limited capitalization and significant space limitations. Most of these stores buy from wholesalers and sometimes, retailers in the traditional market. Importers, sometimes sell directly to the convenience stores for promotional reasons.

Distribution Flow Chart for Convenience



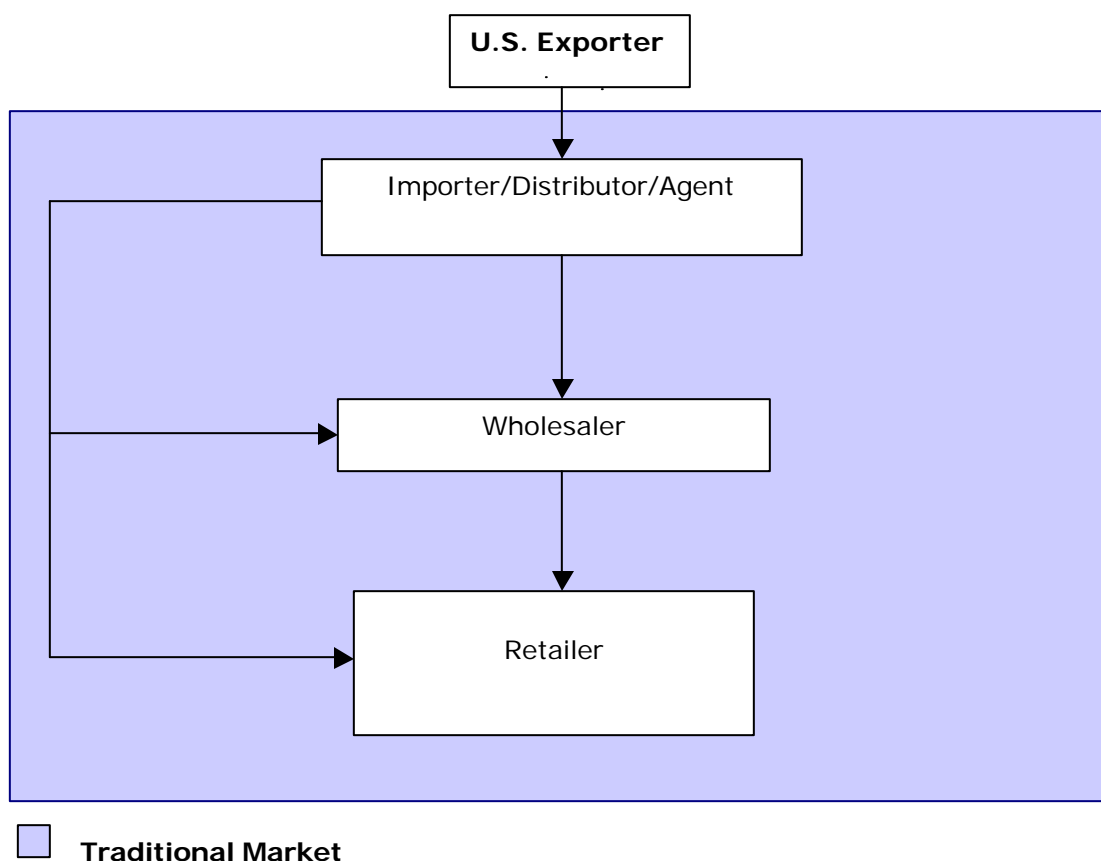
Kiosks typically are located at prime locations where high sales potential exists and where municipal authorities issue only temporary building permits. They are fewer in number than roadside stalls. Gas marts are growing rapidly and serving more mobile buyers. Their food sales are however, minimal. 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 consumer-oriented food products 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 20-30% lower than in alternative retail outlets. Pricing often is not fixed and ultimate sales price is negotiated on the spot in these markets. 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. Outlets consist of small stalls clustered in a large grouping under a single roof or open venue.

Distribution Flow Chart for Traditional Market



SECTION III. COMPETITION

Nigeria's domestic food processing is under-developed. Capacity utilization within this sector is less than 60 percent. Decaying infrastructure and inappropriate economic policies also deter the growth of domestic food processing. Domestic supply of processed consumer-oriented foods (currently below 20 percent) will not catch up with the demand of the growing, sophisticated Nigerian consumers for some time.

Nigeria's retail food sector offers greater export potentials for U.S. suppliers but the GON's high tariffs and non-tariff barriers on many consumer-oriented food imports since 2001 continue to limit opportunities. Consumer-oriented food exports had declined from estimated \$750 million in 2000 to approximately \$290 million in 2005 due to the GON's food import restrictions. The GON barriers are initiated to protect and encourage domestic food processing sector. Outputs of domestic food processing have remained limited and cost prohibitive due to poor infrastructure and inconsistent GON policies. Nigeria will continue to meet the supply gap through imports for the foreseeable future.

Nigeria is a founding member of ECOWAS and a signatory to ECOWAS' CET agreement, which seeks to eliminate import bans and replace them with relatively lower tariffs, among member states. Effective January 2006, Nigeria partially adopted the CET structure and lowered tariffs on the legally importable consumer-oriented foods into the country. The GON has also indicated that Nigeria would fully adopt the CET by January 2008, which will eliminate all import bans. These are expected to totally erode the prevalent cross-border

smuggling and other unofficial imports of consumer-oriented foods if the agreement is complied with. (Contact FAS Lagos for CET rates on specific food products)

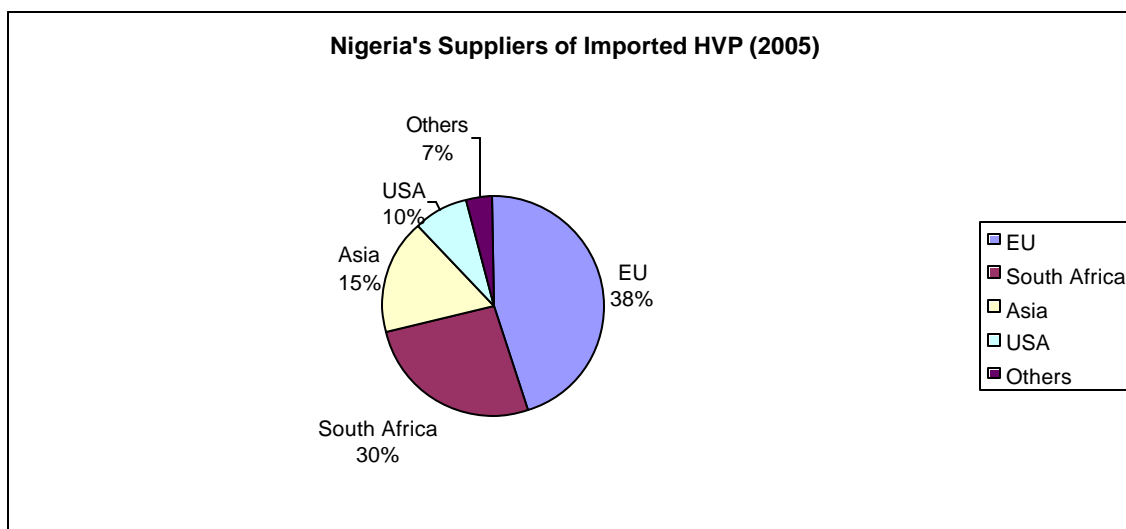
Importers report that third-country suppliers (including firms in the EU, Asia and South Africa) make physical contact with the market and key players in Nigeria's retail food sector. These suppliers understand Nigeria's local practices better and often are able to cooperate with importers' demands such as product counterfeiting, product concealments, under-invoicing, etc. These assist them reduce/avoid tariff payments and make their product prices more competitive. To some extent, Nigeria's recent implementation of destination inspection is assisting in reducing these importers' practices.

Market access remains major challenges despite port/import reforms. Although exports of U.S. consumer-oriented foods to Nigeria continue to grow, many of the imported products are banned for imports (See GAIN Report #: NI6022). Banned products enter the market through official collaboration during port clearing. They are mainly sold at convenience stores and traditional markets.

Total exports of U.S. consumer-oriented food products was approximately \$5.9 million in August 2005 compared to nearly \$14.1 million at the same period in 2006 (USDA's BICO report). Export growth is significant for dairy products; poultry meat; red meats; processed fruits/vegetables; fruit/vegetable juices and sundry consumer-oriented food products.

Growing militancy in Nigeria's oil-rich Niger Delta region is also impacting negatively on oil exploration activities and significantly reducing the number of expatriates and high-income Nigerians working in the oil sector. This category constitutes a major market segment for premium quality imported consumer-oriented foods, including products from the U.S.A.

Industry estimates of the origin and supply of imported consumer-ready food products (documented and undocumented) in 2005 are as shown below:



Source: Industry Estimate

The U.S. market share remains low in this market. The low U.S. market share is mostly attributed to:

- Higher freight charges for shipments from the US.

- Unfavorable perception of Nigerian firms in the US.
- U.S. firms often are unwilling to collaborate with Nigerian importers to falsify documentations and product specifications.
- Lack of sufficient contact between Nigerian importers and U.S. consumer-oriented food exporters.
- Restrictive trade regime.
- Competition from other countries especially the EU and Asia.
- Negative image of Nigerian businesses.
- Direct presence of Asian firms, including their personal participation in distributing and promoting their consumer-oriented foods 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:

- Prefer purchasing mixed containers.
- Want to minimize shipping costs and, therefore, find the services of freight consolidators in the U.S. to handle their ordering and shipment.
- Anticipate that their foreign suppliers will meet their desire to under-invoice in order to reduce import duty payments.
- Seek exclusive distribution agreements from exporters.
- Ensure that products labeling carry 'Best Before Dates'.

Competitor Advantages include:

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

U.S. firms should promote the high quality and relatively more price competitive goods compared to European and Asian products. U.S. exporters are also advised to persevere in this market. As business relationships with Nigerian firms endure, the apprehension of doing business in this market will be overcome. U.S. agribusiness firms interested in doing business in Nigeria, can seek assistance of USDA/FAS office in Nigeria to develop business relationships with local firms.

SECTION IV. BEST PRODUCT PROSPECTS**A. Products with Good Sales Potentials and are legitimate for export to Nigeria**

- Breakfast Cereals; Powdered beverages; etc
- Canned vegetables
- Nuts; Yeast & Baking Powder
- Milk and other dairy products
- Cream, Honey products (liquid or powdered)
- Snack foods
- Spices, Sauces including, Soy Sauce, Mixed Seasoning
- Coffee, Tea & Herbal products, Sweeteners & Non-Dairy Coffee Whiteners
- Tomato Ketchup; Mayonnaise & Salad Dressing; Canned Soups
- Baby Foods & Health Food products
- Ice Cream, Chocolate, etc

(See GAIN Report #: NI6004 for details)

B. Products Not Present Because They Face Significant Barriers

[Please see GAIN Report #: NI6022]

C. HVP Banned for Imports

[Please see GAIN Report #: NI6022]

SECTION V. POST CONTACT AND FURTHER INFORMATION

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[Please, refer to "Exporters Guide", Gain Report #:NI6022) and FAIRS report, (GAIN Report #: NI6017)]

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