



Financing Retail Trade in Nigeria
 CVL International Summit & Honours
 Award on Retail Trade
 Lagos, November 30, 2016

4 Things I wish to achieve

- 💡 **Present our understanding of Retail Trade in Nigeria as well as the trends observed so far**
- 💡 **Identify disruptors & potential for increased growth and investment in Retail Trade**
- 💡 **Highlight the Challenges faced by Retailers in Nigeria**
- 💡 **Comment on issues around how Retail Trade can be *Financed* in Nigeria**

1. Retail Trade in Nigeria



Retail Trade in Nigeria/o



“Retail Trade is the re-sale (sale without transformation) of new and used goods to the general public, for personal or household consumption or utilisation.” - *International Standard Industrial Classification (ISIC)*

Retail trade is further grouped into:

- non-specialised retail trade in stores;
- retail sale of food, beverages and tobacco in specialised stores;
- other retail trade of new goods in specialised stores;
- retail sale of second-hand goods in stores;
- retail trade not in stores.

Retail Trade in Nigeria/1



💡 Nigeria with its formidable and growing middle class had **only 6** shopping malls in 2012 compared to more than 200 in South Africa. Today, Nigeria can boast of at least **20** standard Retails Stores/Malls as at 2016...

💡 The retail business model has seen a shift in the last few years and is set to evolve and create an ecosystem that can match financing options available and may evolve

💡 Africa retailers such as South Africa's **Shoprite**, which operates in more than 16 African countries; **Nakumatt** which is based in Kenya and has stores in neighbouring Uganda, Rwanda & Tanzania, have done most of the expansion, but the global retailers are moving in. **WalMart** plans to open 90 supermarkets across Africa over the next 3 years and French retailer **Carrefour** recently confirmed it will enter Côte d'Ivoire, Senegal, Ghana, Nigeria, Cameroon, Congo, Gabon & DRC (in partnership with CFAO).

💡 **Some Data for a Nigerian Context** ➡

Retail Trade in Nigeria/2



Largest Shopping Malls in Nigeria

| S/N | State | Est. No. | Name of Leading Brands |
|-----|--------------|----------|--|
| 1 | Abia | 2 | Aba Mega Mall (opened May 27, 2015) - to be the first & only SMART MALL in the world |
| 2 | Anambra | 3 | Onitsha Mall (opened April 16, 2016) |
| 3 | Cross Rivers | 2 | Tinapa City Resort Emporiums (opened on April 2, 2007) |
| 4 | Delta | 4 | Delta City Mall (opened May 14, 2015) |
| 5 | Enugu | 2 | Polo Park Mall (opened on September 15, 2011) |
| 6 | FCT | 10 | Silverbird Entertainment Centre (opened in 2009) |
| | | | Grand Tower Mall (opened June 21, 2012) |
| | | | Jabi Lake Mall (opened November 26, 2015) |
| 7 | Imo | 2 | Owerri Mall (opened March 20, 2016) |
| 8 | Kano | 4 | Ado Bayero Mall (opened on March 20, 2014) -to be the largest mall in Northern Nigeria |
| 9 | Kwara | 3 | Palms Mall (opened September 12, 2012) |
| 10 | Lagos | 28 | Palms Shopping Mall, Victoria island |
| | | | Ikeja City Mall |
| | | | Blenco Mall (opened on December 16, 1999) |
| | | | Adeniran Ogunsaya Mall, Surulere, Lagos |
| | | | Apapa Mall |
| | | | Leisure Mall, Surulere Lagos |
| | | | Festival Mall, Festac Town |
| | | | Park 'n' Shop Lekki |
| | | | Mega Plaza, Victoria Island |
| | | | Maryland Mall, Lagos - (opened on June 28, 2016) Developed by Purple Capital |
| | | | Novare shopping mall-(opened on August 25, 2016) by Novare real estate Africa |
| 11 | Ogun | 3 | Gateway Mall (opened in 2014) |
| 12 | Ondo | 2 | Akure Mall (opened on October 21, 2015) |
| 13 | Oyo | 10 | Heritage Mall (opened on June 27, 2013) |
| | | | Palms Shopping Mall Ibadan (opened in March 2014) |
| 14 | Rivers | 8 | Port Harcourt Mall (opened on July 13, 2014) |
| | | | Chanrai's Supermarket (opened on January 1, 1957) |
| | | 83 | |



Retail Trade in Nigeria/3



Economic Score Card - Nigeria

| | Classification | Indicators | Nov | Oct | Sources |
|----|------------------|---------------------------|-----------|---------------|--------------|
| 1 | Macro Indicators | Population (Million) | 178.50 | 178.5 | WB |
| 2 | | Median Age | 17.80 | 17.80 | EIU |
| 3 | | Unemployment | 13.30 | 13.3 | NBS |
| 4 | | Underemployment | 19.30 | 19.3 | |
| 5 | | Inflation | 18.33 | 18.33 | CBN |
| 6 | | CPI | 209.7 | 209.7 | |
| 7 | | PMI | 52.90 | 52.9 | FBN Quest |
| 8 | | HDI (Human Dev. Index) | 0.514 | 0.514 | UNDP |
| 9 | | MPR | 14.00 | 14 | CBN |
| 10 | | Prime Lending Rate | 17.10 | 17.1 | |
| 11 | | CRR | 22.50 | 22.5 | |
| 12 | | GDP | -2.24 | -2.24 | NBS |
| 13 | | GNI per capita (\$) | 5710.00 | 5360 | EIU |
| 14 | | Official Reserves (\$'bn) | 24.57 | 23.94 | CBN |
| 15 | Commodities | Cocoa (\$) y-o-y Avg. | 2,397 | 2660 | IMF |
| 16 | | Rubber (\$) Avg. | 71.89 | 75.6 | |
| 17 | | Bonny Light (\$) Avg. | 43.11 | 47.87 | OPEC |
| 18 | Capital Market | NSE ASI | 25,333.39 | 27,220.09 | The Analyst |
| 19 | | NSE30 | 1,126.88 | 1,214.44 | The Analyst |
| 20 | | Naira - USD Spot Avg. | 305.25 | 308.81 | FMDQ - OTC |
| 22 | | Parallel Market Avg. | 399.00 | 470.00 | Everdon BDC |
| 23 | | T-Bills 1M | 12.54 | | FMDQ - NITTY |
| 24 | | T-Bills 2M | 15.68 | | |
| 25 | | T-Bills 3M | 16.82 | | |
| 26 | | OverNight Rate | 9.50 | 16.75 | |
| 31 | Energy | PMS (N) (m-o-m) Avg. | 145.9 | 145.9 | NBS |
| 32 | | HHK (N) (m-o-m) Avg. | 292.73 | 292.73 | |
| 33 | | AGO (N) (m-o-m) Avg. | 187.25 | 187.25 | |

| | |
|---------------------------|---------|
| Population | 178.50 |
| Economy Size | \$520bn |
| Exchange Rate: | |
| Naira - USD Spot Avg. | 305.25 |
| Parallel Market Avg. | 399.00 |
| Inflation | 18.33 |
| CPI | 209.7 |
| PMI | 52.90 |
| HDI (Human Dev. Index) | 0.514 |
| MPR | 14.00 |
| Prime Lending Rate | 17.10 |
| CRR | 22.50 |
| GDP | -2.24 |
| GNI per capita (\$) | 5710.00 |
| Official Reserves (\$'bn) | 24.57 |

Retail Trade in Nigeria/4



| S/No | Major Economic Sectors | | | | Economic Sectors - Before Rebasing | |
|------|---|------------------------------|------------------------------|---------|--|------------------------------|
| | Q3 2016 | | Q3 2014 | | Q1 2014 | |
| | Sectors | Contribution to Real GDP (%) | Contribution to Real GDP (%) | % Chg | Sectors | Contribution to Real GDP (%) |
| 1 | Mining & Quarrying | 8.34 | 10.58 | -21.17% | Services | 52.99 |
| 2 | Agriculture | 28.65 | 26.63 | 7.59% | Industries | 27.36 |
| 3 | Manufacturing | 8.59 | 9.83 | -12.61% | Agriculture | 19.65 |
| 4 | Electricity, Gas, Steam and Air Conditioning Supply | 0.33 | 0.35 | -5.71% | Dominant Non-Oil Economic Sectors | |
| 5 | Construction | 2.96 | 3.32 | -10.84% | | |
| 6 | Trade | 16.39 | 16 | 2.44% | Trade | 17.35 |
| 7 | Accommodation and Food Services | 0.87 | 0.96 | -9.38% | Crop Production | 17.12 |
| 8 | Information & Communication | 10.14 | 9.58 | 5.85% | Telecommunications | 8.27 |
| 9 | Transportation and Storage | 1.2 | 1.14 | 5.26% | Real Estate | 6.82 |
| 10 | Arts, Entertainment and Recreation | 0.19 | 0.17 | 11.76% | | |
| 11 | Finance and Insurance | 2.90 | 2.67 | 8.61% | | |
| 12 | Real Estate Services | 7.17 | 7.62 | -5.91% | | |
| 13 | Administrative and Support Services | 0.02 | 0.02 | 0.00% | | |
| 14 | Professional, Scientific and Technical Services | 3.84 | 3.61 | 6.37% | | |
| 15 | Education | 2.24 | 2.08 | 7.69% | | |
| 16 | Public Administration | 2.12 | 2.53 | -16.21% | | |
| 17 | Human Health and Social Services | 0.68 | 0.68 | 0.00% | | |
| 18 | Other Services | 2.51 | 2.08 | 20.67% | | |

Source: NBS, TheAnalyst

Retail Trade in Nigeria/5



| Household Retail Trade Expenditure | | | |
|---|------------------------------|------------------------------|-----------|
| Geo-Political Zone | Yr - 2010/2011 (N) | Yr - 2012/2013 (N) | %Change |
| NORTH CENTRAL | 932,515,736,699.00 | 1,142,250,097,090.80 | 0.22 |
| NORTH EAST | 1,651,511,202,299.00 | 3,241,733,290,809.20 | 0.96 |
| NORTH WEST | 1,770,046,331,921.00 | 7,934,433,916,178.80 | 3.48 |
| SOUTH EAST | 7,719,936,904,776.00 | 2,049,956,864,789.20 | - 0.73 |
| SOUTH SOUTH | 3,327,961,400,000.00 | 1,908,295,700,898.00 | - 0.43 |
| SOUTH WEST | 1,928,642,300,000.00 | 2,464,643,528,177.60 | 0.28 |
| Nigeria | 17,330,613,875,695.00 | 18,741,313,397,943.60 | 8% |
| <i>Source: NBS 2016</i> | | | |
| NB: The numbers are primarily household expenditure on commodity items (both food and non-food), hence excludes expenditure of services such as rent, healthcare, education, transportation and the likes. | | | |
| <i>NBS is presently rounding up the 2015/2016 round of the survey that produced these numbers.</i> | | | |

🕒NB: In 2011 & 2012, foreign direct investment in retail totalled \$1.3 billion.

Retail Trade in Nigeria/6



- 💡 Trade is the largest driver of growth in Nigeria over the past decade, accounting for 17% of Nigeria's GDP and 26% of employment.
- 💡 By 2030, Nigeria will become the world's 3rd largest country at 263m, a huge increase of 44.1% from 2015 and its economy is estimated to reach over \$1.6 trillion from \$510 billion in 2013. Trade is estimated to be one of **key drivers**. Such growth would make Nigeria one of the world's top 20 economies by 2030, larger than the Netherlands, Thailand, or Malaysia.
- 💡 Firms hoping to cater to that block of consumers however must overcome challenges such as finding land to build retail space, provide own power, import goods and manage currency risk.
- 💡 Real challenges therefore include shortage of liquidity in the economy which results in low sales due to depressed consumer demand. In turn, low sales negatively affects the profitability & viability of the SMEs.

Retail Trade in Nigeria/7



💡 Nigeria - Africa's Largest Economy – A diversified group of producers and outputs from agricultural products to hydrocarbons in Africa's biggest consumer market **YET** held back by a challenging environment due to cyclical pressures, structural challenges and conflicting priorities (*oxymoron*).

💡 Volume of output is small and Nigeria is thus forced to import most of what it consumes including raw materials and intermediate goods used by industries.

💡 Thus trade is reduced to an “**import and sell**” market; making currency policy the **MOST IMPORTANT** factor for the retail sector.

💡 Once retailers gain some certainty on “FX”, the next steps will likely be to take stock of balance sheets and capital requirements, then begin the process of utilising current retail capacity at malls to deliver on potential.

Retail Trade in Nigeria/8



Some Bright Spots:

- 🕯 As the population of Nigeria continues to increase, retailing in Nigeria has further expanded especially in urban areas, encouraged by increased access to the internet which has facilitated cashless shopping (@*&). **Mobile phones** and the internet are proliferating quickly across the country and it is urbanising at a faster rate than previously envisaged.
- 🕯 More states in the country have embarked on drives to turn their cities to metropolis, further increasing the possibilities of more retail trades via malls.
- 🕯 To lower costs in order to compete, domestic manufacturers are sourcing more raw materials locally. Expenditure on food in 2015 at \$197.24bn dipped from \$213.97bn in 2014 to the lowest level since 2012, according to Euromonitor International.
- 🕯 The FMCG's segment has proven fairly resilient in the face of recent economic challenges as consumers retreat to low-cost staples as spending power diminishes

2. Retail Trade Potentials





“Modern retailing accounts for just 2% of all retail consumption, and a current slowdown due to low oil prices and currency woes may slow overall discretionary spending in the short term.

However, the number of malls and shopping centres is increasing, and supply of retail space is likely to be lower than global per capita norms for decades to come, indicating a steady demand for more. ”

Source: Oxford Business Group, Nigerian Retail Industry Analysis

The Trends and Potentials/2



The 2015 African Retail Development index

Breaking down the ARDI top 15

| 2015 rank | 2014 rank | Country | Market attractiveness | Country risk | Market saturation | Time pressure |
|-----------|-----------|---------------|-----------------------|--------------|-------------------|---------------|
| 1 | 5 | Gabon | 20.2 | 13.0 | 20.7 | 12.1 |
| 2 | 8 | Botswana | 22.3 | 25.0 | 0.2 | 15.9 |
| 3 | 12 | Angola | 16.6 | 3.5 | 22.0 | 15.8 |
| 4 | 2 | Nigeria | 13.0 | 4.1 | 18.4 | 22.4 |
| 5 | 4 | Tanzania | 4.9 | 7.9 | 19.8 | 25.0 |
| 6 | 7 | South Africa | 25.0 | 22.7 | 0.0 | 9.6 |
| 7 | 1 | Rwanda | 5.7 | 11.2 | 21.6 | 18.2 |
| 8 | 3 | Namibia | 18.2 | 21.9 | 0.0 | 14.0 |
| 9 | 6 | Ghana | 10.9 | 11.3 | 21.6 | 8.5 |
| 10 | 14 | Senegal | 8.9 | 7.6 | 21.1 | 14.6 |
| 11 | NR | Gambia | 7.8 | 4.4 | 23.7 | 13.3 |
| 12 | 13 | Zambia | 8.8 | 8.4 | 13.5 | 18.2 |
| 13 | NR | Côte d'Ivoire | 8.7 | 3.0 | 22.5 | 13.3 |
| 14 | 10 | Ethiopia | 4.7 | 2.9 | 25.0 | 14.5 |
| 15 | 9 | Mozambique | 4.3 | 6.3 | 18.2 | 18.1 |

The Trends and Potentials/3



- 📍 The 2016 GRDI (Global Retail Development Index) study finds that retail in developing markets will continue to grow, following the path it has been on since 15 years ago.
- 📍 Avoiding the pitfalls of shifting retail markets, however, will **require a strategic mindset about expansion**. Each market has unique challenges and unique opportunities., none more so than Nigeria.
- 📍 According to GRDI, 3 North African countries are in the top 30, with Egypt's 30th-place ranking standing out as its **country risk slowly decreases** and a fast-growing middle class becomes more accessible to international retailers.
- 📍 However, Per head, only *Kinshasa* has less mall space than Nigeria among major African cities, according to a March 2016 report by Knight Frank, a global property consultancy...

The Trends and potentials/4



📍 HEADROOM FOR GROWTH:

Informal channels in Nigeria still account for 98% of transactions, according to a market study by **Deloitte**; compared with 40% in South Africa and 70% in Kenya.

The overall size of the retail market was \$122.9bn as of 2013, according to UK-based market researcher **Planet Retail**.

Wholesaling and retailing account for roughly 1/4 of Nigeria's total GDP, according to Deloitte but, unsurprisingly given the high level of informality, the market is fragmented, with the **top six retailers accounting for only about 2% of sales.**

Many of Nigeria's formal retailers are foreign investors, such as the South African big-box chains **Shoprite** and **Game**, along with high-end brands such as Ermenegildo Zegna, which opened its own standalone boutique in 2013.

The Trends and potentials/4b



📍 Small Base contd

Domestic franchisors are also playing a key role in bringing global name recognition.

Fast food outlets such as **KFC** and **Domino's** are well-represented in major urban areas, as are retailers such as Dutch firm **Spar**, which is operated locally by the Artee Group that merged its own domestic **Park 'n' Shop** chain with Spar.

Foreign investment also plays a crucial role in terms of retail property, although in the majority of cases, foreign funds are partnering with local developers rather than opening up greenfield projects.

Actis, the UK-based emerging markets private equity firm, teamed up with locally-owned *Persianas* to open up **The Palms**, for example, the country's first modern mall.

Source: Oxford Business Group, Nigerian Retail Industry Analysis

The Trends and potentials/5



📍 LOCAL OPERATIONS:

With 250 different languages, a wide spectrum of religious beliefs and significant variance in the income scale, the retail scene is currently largely centred on catering to city-level demand. Lagos being the largest, with Abuja, Port Harcourt and Kano being secondary cities.

Malls elsewhere are often smaller than the “showcase” mall size of 20,000 sq metres or more in gross leasable area (GLA) with all attendant implications on ROI.

Retailers can take advantage of **regional variations in consumer typology and distribution networks**, from the prosperous areas of the largely Christian south-to rural regions in the mostly Muslim north. In the food sector, regional producers are increasingly looking to cut transport times and build in efficiency as cost savers.

RECALL THE WALMART CASE STUDY STRATEGY.... Rural areas, rural needs

The Trends and potentials/6



📍 ITS SLOW NOW, ITS NOT GOING TO BE THAT WAY FOREVER:

While the long-term narrative for retailing in Nigeria is firmly tied to its massive population and fertility rate, short-term prospects were cloudy in 2016 due to the Nigeria's FX woes, which are largely the result of depressed demand for the Naira from foreign buyers of Nigerian oil and gas; and CBN's epileptic policies.

South African retailer, **Truworths** announced its departure from Nigeria in February 2016 respectively, citing a struggle to stock its outlets and manage the forex challenge. **Woolworths** exited in 2013 before the forex problems even began. It cited the high cost of rent, taxes and supply-chain management.

Many of the 41 item categories subject to capital controls directly impact the retail sector. **Chellarams**, a franchisor of KFC outlets in Nigeria, announced that it was switching out potatoes for rice on its menus as a result.

The Trends and potentials/6b



📍 **yet, some brands cannot hold on to stocks longer than others:**

Having third parties with FX settle accounts with foreign suppliers has also raised concerns among those suppliers about compliance with foreign banking regulations – particularly in the US, where “know-your-customer” rules are a factor; according to Sajan Suvarna, director of operations for the retail arm of Persianas Group, a local retail developer

Some of the global brands that Nigerian retailers work with were also concerned about old stock on sales floors impacting brand favourability, while brands not yet represented in Nigeria are struggling to find a local partner.

The opportunity for local fashion brands to step in has achieved little success ...owing in part to a lack of financial support and the cultural issues related to clothing in a “to fit” market.

Source: Oxford Business Group, Nigerian Retail Industry Analysis

The Trends and potentials/7



📍 MALLS & FINANCING

Nigeria's first mall, *The Palms*, opened in 2005 with 67 shops and over 20,000 sq metres of GLA - a joint venture between Actis and Persianas, which has separate divisions for property and retailing. **The Palms cost \$50m**, with Actis providing \$10.5m in equity and Persianas \$6.5m.

Persianas bought Actis's stake in 2007. An expansion is currently under way that will add 40,000 sq metres of additional retail space. The two anchor tenants, Shoprite and Game, occupy some 49% of the available square footage, according to *Broll*.

Actis moved into mainland - Ikeja, with investment partners including South Africa's **RMB Westport** and the local **Paragon Holdings**, among others. The *Ikeja City Mall* with only one anchor tenant, Shoprite, occupying 4000 of the property's 22,000 sq mtrs was built to target a middle-class clientele, along with the daytime workforce in nearby Lagos State Govt buildings. In one of the major recent transactions in Nigerian retail, in late 2015 the three partners in the project sold their stakes to two South African investors, **Hyprop Investments** and **Attacq**.

The Trends and potentials/8



TENANTS:

Anchor tenants in Nigeria's biggest malls tend to be middle and high-end supermarkets, such as *Shoprite* and *Game*, with a number of other spaces taken up by technology and luxury brands.

Luxury retailers have suffered less from the economic troubles in 2015 and 2016, but this is a small group of customers. Franchisors have brought luxury brands into malls, including ***Hugo Boss*** and ***Lacoste***, but others have opted for standalone stores or boutiques in more exclusive spots such as in hotel concourses.

For mall owners, filling space may tempt them to look in the opposite direction, such as having sections with microshops, similar to the “table top” model of informal markets, or designating one or two days a week for that type of commerce.

This would be similar to the model used by The Village Market, a mall in Nairobi that hosts a traditional market for local crafts on Fridays. **Expect to see more of this...**

Source: Oxford Business Group, Nigerian Retail Industry Analysis

The Trends and potentials/9



📍 LAND:

Finding land to build on, particularly in footfall-heavy locations, can be difficult. Development is often heavily concentrated in certain neighbourhoods, and the most accessible areas are frequently located in outlying neighbourhoods. – so look to the Lekki-Epe Expressway...

Mall development along the toll road is already under way, however. In addition to The Palms, which is adjacent to the expressway's westernmost point, further east along the road there is Circle Mall, a strip mall with Shoprite as an anchor tenant being developed by RMB Westport and Paragon Holdings, along with Royal Gardens, which is also being developed by RMB Westport and Trojan Estates.

Getting creative in this crowded market has meant doing more on smaller plots of land in fewer locations. “This is ultimately more challenging given that large pieces of land, on the scale of those required for malls, are harder to obtain,” *said Laide Agboola, managing partner of investment firm Purple Capital Partners,*



📍LOOKING BEYOND LAGOS :

Projects in mid-size cities like Enugu and Illorin, or in the less-developed northern half of the country, often begin with a public-private partnership in order to access suitable land. This is because land designated as urban in Nigeria is controlled by state governments, which have proven willing to work as partners on mall developments. Typically, a minority stake is granted in exchange.

Kwara own 30% stake in the Kwara Shopping Mall in Illorin, Oyo owns 5% share of Persianas's 18,500-sq-m Ibadan Mall; Enugu owns 20% of 22,350-sq-m Polo Park Mall. Malls currently scheduled to open in 2016 or 2017 include Abia Mall in Abia State, Benin Mall in Edo State, Owerri Mall in Owerri State and Onitsha Mall in Anambra State, according to Northcourt Real Estate.

At each of these sites, Shoprite is the anchor tenant and the offering includes a cinema and restaurants, a Persianas development model.

The Trends and potentials/11



📍 FOOD, FMCG & LAGOS BAN:

Despite the evidence for a rising middle class in Africa, which applies to Nigeria, the focus is still on basics: fast-moving consumer goods (FMCG), typically in small packages sold in informal markets.

This market was worth \$41.7bn in Nigeria, the largest on the continent in a 2010 World Bank survey conducted in 39 African countries. The next largest market was Egypt at \$27.6bn, with Morocco being the only other above \$20bn.

According to Nielsen, 80% of consumers buy from roadside stands, informal markets or street vendors, for which there are an estimated 200,000 sites in the country. “International firms in the food industry often need support understanding the local context when considering investing in Nigeria, as these are key to a successful market entry,” Tunde Ogunrinde, CEO of Just Food, told OBG.

FMCG suppliers have worked to devise strategies to streamline distribution and minimise time to market to fit the needs of informal retailing.

The Trends and potentials/11b



FOOD, FMCG & LAGOS BAN:

That means working with a myriad of distributors which serve as middlemen, but also selling directly to street sellers, and understanding their business models in the process. Street sellers in Nigeria are often focused on the morning and afternoon commute, when traffic piles up and cars are stopped or moving slow enough to sell on foot in the traffic lanes.

Thus, **the recent change in the law in Lagos banning street vendors may result in a shift towards more semi-permanent installations.** This may result in a major shake-up for the sector. ***UAC Foods***'s logistics arm, ***MDS Logistics***, has depots for street vendors across the country's 36 states, and can deliver directly to supermarkets and other major wholesalers and large retailers. Mobile vendors are about 80% of sales according to sources in the firm.

At Diageo, an alcoholic beverages company, a programme it launched in 2013 to study commuters' routes has led to an expansion from 8000 outlets in Nigeria to the current 45,000.

The Trends and potentials/12



🕒 QSR & E-COMMERCE :

Quick-service restaurants (QSR) have proven to be a dynamic growth market in Nigeria, with foreign brands such as **Domino's Pizza** and **Coldstone Creamery** representing a premium offering, South African chains **Steers** and **Debonairs Pizza** are mid-point and domestic franchises including **Mr. Bigg's** and **Tantalizers** are less costly. QSR outlets such as **Café Neo**, a coffee chain, are frequently paired with petrol stations or other stores (*and yet to catch on as fast*)

Online platforms in Nigeria have gained a toehold, with \$527.6m in sales in 2013. They are set to grow; **Deloitte** forecasts a compound annual growth rate of 37.7% from 2013 to 2017. The largest firms in the segment include **Jumia**, which was set up in 2012 and has attracted investment from outsiders such as *JP Morgan Asset Management* and German internet company *Rocket Internet*. **Konga**, also established in 2012, has backing from *Naspers*, a South African media investor. Both firms offer a wide array of consumer goods, with customised options for the local market, such as cash-on-delivery and pickup locations, in response to consumers' concerns regarding sharing personal data online or a lack of access to bank accounts and credit cards.



“There is a strong future for Nigeria, with its large youth population, which in turn is driving consumer goods companies to invest in new technology and infrastructure. This will allow them to handle the expected increase in growth”

- George Polymenakos, Managing Director at Nigerian Bottling Company”

Source: Oxford Business Group, Nigerian Retail Industry Analysis

3. Challenges facing Retail Trade in Nigeria



Challenges Facing Retail Trade in Nigeria /1



📍 Limiting imports may seem a logical response but it is not a strategic plan! For the retail business, the long-term challenge will be to coax the ***mass of Nigerians*** to try shopping in a new and ‘culturally unfamiliar’ environment....

“It is going to take a long time before Nigerians really embrace retail. Even elites still like to go to the market for things. If they buy a fish, they are going to want to see it swimming around first”

- Bola Sobande, Marketing Manager of The Palms Shopping Centre, the first standard mall opened in Nigeria

Source: Oxford Business Group, Nigerian Retail Industry Analysis

Challenges Facing Retail Trade in Nigeria /2



🕒 **OF MYTHS:** The popular “**Africa Rising**” narrative has largely been predicated on the emergence of a growing middle class on the continent, providing a steady rise in consumer demand to go with the increased export receipts and lower public debt burdens seen across Africa. **But** with oil prices falling since mid-2014, along with a rising US dollar and slowing demand in China, this theory substantially stands challenged.

🕒 Africa may have an emerging middle class with more spending power now than in previous decades, but retailers will still find themselves dealing with consumers who are vulnerable to economic shocks.

🕒 Household discretionary income is volatile and it may take more time before spending power becomes broad-based. RECALL earlier chart...

🕒 We must, as said earlier not use the current recession, to debunk valid issues related to the retail market and its financing which we discussed earlier.

Challenges Facing Retail Trade in Nigeria /3



❗ The challenges included shortage of liquidity in the economy which resulted in low sales due to depressed consumer demand. In turn low sales negatively affected the profitability of the SMEs. High interest rates constrained the ability of SMEs to raise finance through bank loans and overdrafts.

❗ The use of personal savings and retained profits as sources of finance implies that SMEs could only raise limited amounts of capital. The financial position of the SMEs was also worsened by high operating expenses and lack of trade credit.

❗ Others are:

- ❗ Mismatch of Finance Markets Funds and Retail Trade Model Requirements
- ❗ Poor Ease of Doing Business Regulatory Environment
- ❗ Market Access and Land Related Matters
- ❗ Infrastructure - Transportation, low broad-band and power constraints
- ❗ Corruption raises cost of doing business by an estimated 3.2% of sales

Challenges Facing Retail Trade in Nigeria /4



Silver Lining - DATA

● According to the World Bank, from 2000 to 2013 household consumption in Nigeria grew at a compound annual growth rate of 23.4%, faster than all African countries save Angola. However, the data also show the **growth rate slowing** significantly from 21.1% in 2013 to 2% in 2014.

● Still, the sheer size of Nigeria's population makes it a compelling market. By 2025, according to the UN, there will be at least 84 urban areas in Africa with at least 1m people, and 17% of them will be in Nigeria.

● Even individual income segments within the country's demographics are larger than many countries' entire populations. With 24m people earning \$2-4 a day, that makes this demographic on its own roughly equal to the populations of Ghana and more than double that of Rwanda.

● In addition to that income bracket, Nigeria has 115m people earning less than \$2 per day, 18m at \$4-20 and **27m above \$20**. That last figure is almost double the amount in South Africa, at 14m, an indication of the sheer scale of Nigeria's market.

Challenges Facing Retail Trade in Nigeria /5



Silver Lining – LUXURY / HIGH END MKT

- Having the biggest group in the wealthiest income bracket helps to explain why Nigeria, and Lagos in particular, increasingly pops up as a destination in the luxury segment of the global retail market.
- That demographic means making a choice, however, between malls, which are aimed at a broader group than just high-net-worth individuals, or going it alone. Ermenegildo Zegna established a standalone boutique on Victoria Island, for example, whereas brands like Hugo Boss, TM Lewin and Thomas Pink are found in malls and imported by franchisees.
- Nigeria's population-based investment logic is a long-term proposition, however.

Source: Oxford Business Group, Nigerian Retail Industry Analysis

Challenges Facing Retail Trade in Nigeria /5B



Silver Lining – LUXURY / HIGH END MKT

🕒 For the short term, the foreign exchange issue has highlighted the risks to investors of expecting too much too soon.

🕒 The drop in footfall at the malls, such as the 8% slump seen in **The Palms**, which is the country's flagship mall, indicates that customers are having as much difficulty spending as retailers are having in importing raw materials and inputs.

🕒 Yet as Nielsen's polling shows, Nigerians are among the **most optimistic consumer groups in Africa**, with a more positive collective outlook about job prospects and personal finances despite the currently restrained atmosphere. One thing that would help retailers would be more growth in the market for credit cards, which is currently in its early stages.

Source: Oxford Business Group, Nigerian Retail Industry Analysis

Challenges Facing Retail Trade in Nigeria /6



Free Trade Negotiations & Retail Trade:

📍 Nigeria's push to increase import substitution, which is intended to reverse a decline in FX and reduce the non-oil trade deficit, is being rolled out at the same time as the economy is engaged in negotiations on new trade agreements.

📍 Successive administrations in Nigeria have pushed for more open trade relationships with bilateral partners, as articulated in the 2014 ***Nigeria Industrial Revolution Plan***, which states: *“Increased openness in the global economy is inevitable, and well industrialised countries are better positioned to take advantage of increased access to new markets.”*

📍 Nigeria has been a part of the discussions on a trade pact with the EU, and already has committed to gradual tariff reduction as part of its membership in the regional integration organisation ECOWAS. However, **these reciprocal deals for market access run counter to Nigeria's hope to replace imports with domestic manufacturing**, if those local products are not able to compete on cost and quality with imported options.

Challenges Facing Retail Trade in Nigeria /7



Some Examples:

📍 **CHINA** – Not much is clear in terms of the **strategic advantage** Nigeria seeks here with regards to boosting its retail trade sector. The adoption of the Yuan as a strategic reserve currency will work to boost trade from China in the SML term.

📍 **EU** - The potential EPA, if ratified, would offer non-EU signatories immediate tariff-free access to EU countries, and in return they would be required to gradually open up 75% of their markets to European importers in a 20-year process. With Nigeria's manufacturing sector currently focused on domestic markets, exports seem like a far-off goal, and Nigerian products may not be able to compete.

📍 **West AFRICA** – leading growth African nations are also regional leaders, thus regional level integration initiatives may help Nigeria prepare for an eventual EPA with the EU. For example, the ECOWAS CET controls taxation for goods in four categories. **Essential social goods** can move between countries untaxed, while those of **primary necessity**, raw materials and specific inputs have under a 5% rate. **Intermediate goods** are taxed at 10%, and those for **final consumption** at 20%.

Challenges Facing Retail Trade in Nigeria /8



Some Examples:

💡 **West AFRICA contd'** – Nigeria's reliance on import, which cannot be stopped in the short term (*simple economics*) is also seen as a factor in the Naira's slide (*apart from the gaming/arbitrage game going on*), and monetary policy currently may offer clues regarding the government's approach to trade – support Naira i.e. trade and MAN through a policy of limited support for imports.

💡 **AGOA** - Through the African Growth and Opportunity Act (AGOA) Nigeria has access to the US market. Initially passed in 2000, it provides tariff- and quota-free access to the US market for 7000 types of exports. In June 2015 the programme was extended a further 10 years to 2025.

4. Financing Retail Trade in Nigeria





" Edison's electric light did not come about from the continuous improvement of the candle..."

Financing Retail Trade / 2



- 💡 To effectively finance retail trade, we will have to do the following:
- recognise the disruptions currently taking place;
 - Accept the limitations of our financial markets and help them create new appreciation for the retail trade ecosystem which posits that all growth will be reflected in the commerce that takes place B2B, B2C and C2C;
 - Understand the nature of FDI and the preferred sectors that allows it to mitigate country risks as well as policy and currency risks;
 - Appreciate that at its core, the retail business is fundamentally now skewed to commercial real estate with a new set of value propositions that reflect economic realities;
 - Adjust for the limited enthusiasm for new channels such as e-commerce businesses who struggle to make profit by opening up SEC related laws on such areas as crowd funding, venture capital, angel investing, credit service agents etc;
 - Establish a link between the success of retailers with that of producers and suppliers; and franchisees; and
 - Work with companies i.e. manufacturers to design effective credit schemes that ameliorates the limitations of owner capital.

Thank You



Credits: Oxford Business Group, Nigerian Retail Industry Analysis Report

M: 0700PROSHARE **T:** 01-454 3811

E: info@proshareng.com **W:** www.proshareng.com

[@proshare](https://twitter.com/proshare) [f ProshareNG](https://www.facebook.com/ProshareNG) [in Proshare](https://www.linkedin.com/company/proshare)