Investing in Nigeria 'the Tangy Potato'

By Graeme Pitt

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Setting up or growing your business interests in Nigeria may present a myriad of challenges, but it is a country that you simply cannot ignore. A visit to Lagos will immediately reveal the most vibrant and seemingly chaotic business culture, but underlying all of this is a fresh well of unlimited opportunity, synergy and wealth creation.

Lagos, Nigeria

The World Bank website states, “With a population of about 173 million people, Nigeria is the largest country in Africa and accounts for 47% of West Africa’s population. It is also the biggest oil exporter in Africa, with the largest natural gas reserves in the continent.”

The real gross domestic product (GDP) is estimated to have grown by 6.1% owing to continued strong performance mainly in services, but also industry (apart from oil mining) and agriculture, according to the World Bank.

The oil sector was in decline, albeit at a slower rate than in the previous year, seeing as oil accounts for close to 90% of exports and roughly 75% of the country’s consolidated budgetary revenues, the GDP growth can be attributed to other industry sectors such as telecommunications, real estate, manufacturing, construction and entertainment.

According to the African Development Bank Group, “The non-oil sector has been the main driver of growth, with services contributing about 57%, while manufacturing and agriculture, respectively contributed about 9% and 21%. The economy is thus diversifying and is becoming more services-oriented, in particular through retail and wholesale trade, real estate, information and communication."

Nigeria has for some time been a strong economic player in Africa and has been seen as fertile ground for foreign investment and business growth. However, the decline of the global oil market and tensions across the six geopolitical regions has resulted in a degree of reservation. As is often the case in African markets, an in-depth, on-the-ground understanding of the complex cultural, political and regional dynamics and how they affect consumer behaviour, mind-set and the local supply and demand chain is critical before setting-up shop in a new territory.

Investment

Pick n Pay is moving into Nigeria with 51% of a joint venture with an experienced local player AG Leventis. Alec Hogg writes in a recent article on Biznews, "We can only imagine the weeks of board deliberations that went into South African retailer Pick n Pay's decision to take the plunge into Nigeria. With competitor Woolworths and major supplier Tiger Brands recently having beaten speedy retreats – and MTN trying to understand why it has been levied with a punitive fine – the knee-jerk response would be why now? Especially as the Nigerian economy is contracting on a lower oil price and the war against extremists Boko Haram is intensifying, sparking multinational divestment."

Hogg goes on to say, "Instead of parachuting its own troops, Pick n Pay has formed a joint venture with a local player with almost a century of Nigerian trading experience. The business due diligence, therefore, would have been on the integrity and competence of AG Leventis – not trickier assumptions around distribution, pricing and demand which outsiders always struggle to answer with any competence. Timing wise, you also have to like a company entering after the hype has evaporated. Nigeria's potential is well documented, but as MTN will attest, risks for investors remain high. Pick n Pay seems to have found the right business approach. Its shareholders will be hoping an equal amount of homework has been conducted in the socio-political arena."

Time has yet to tell if Pick n Pay will be successful in the Nigerian market. Companies such as Shoprite, who have survived and even thrived under difficult economic times in Nigeria, managed to build a fluid and sustainable supply chain to achieve success. To get around the challenges posed by red tape on imports, Shoprite built the local market, sourcing 76% of its products from local suppliers, according to CEO Whitey Basson in an article in the Sunday Times.

Woolworths pulled out of Nigeria in 2013 due to high rental costs and duties and a complex supply chain. Reflecting on the difficulties in operating in Nigeria, Woolworths CEO Ian Moir said in a Sunday Times article, "Nigeria is a really tough market and we were having real difficulty getting the flow of goods right."

Tigerbrands, whose Dangote Flour Mills initiative failed after two years, the company's former CEO, Peter Matlare, admits management's failings in another Sunday Times article, "I think we got some things wrong as a management team, certainly on the go-to-market side of that business. We didn't have the right models operating in that business."

Many companies trading in Africa rely on the local knowledge and expertise of distributors to reach their markets. This may be a good strategy for some of the larger FMCG companies who consistently monitor and measure performance, but it can be a risky business. Companies are often left exposed and vulnerable to incompetent and under-performing agents.

Opportunities

One of the most reliable ways of testing the waters when entering a new territory is through market research. This provides critical measures to monitor the performance of the distributor in terms of actual sales, market share data in terms of how its brands were performing against other brands, and insight into how to engage with the informal trade. At Freshly Ground Insights (FGI) we specialise in identifying barriers to entry and opportunities for improvement.

This is especially important for smaller companies who do not have the resources or infrastructure to make mistakes. We provide cost effective indicators through electronic data collection to measure critical areas of business performance along the supply and demand chains, for example snap audits on sell through data, stock levels, pricing, and point of sale (POS) material at the retail outlet level in formal and informal stores.

The companies that have got the supply of goods right and those that haven't in Nigeria are evidence of the fine line between success and failure in the African markets. Besides the opportunities for identifying and realising growth opportunities in Nigeria, what we have experienced is a passionate, entrepreneurial business fraternity that continually looks for collaborative opportunities to grow, to innovate and to create wealth.

If you are prepared to not just sample 'the tangy potato' that is Nigeria, but to understand it, to go deeper and really experience the unknown flavours of this business market, you will be richer for the journey.

ABOUT GRAEME PITT

Graeme Pitt, MD of FGI Africa, an innovative data collection and reporting company, has for the past six years been working in a research and advisory capacity with companies and organisations in various stages of business maturity. His experience spans start-ups, established blue chip companies, donor-funding organisations, government parastatals, global research houses and esteemed business consultancies, covering 24 countries across the continent.

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