

Africa's growing giant: Nigeria's new retail economy



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Mention the words 'Nigeria' and 'economy' and you're likely to conjure up images of sprawling oil fields and vast sums of petrodollars. Nigeria has an enviable supply of the world's most valuable commodity, and the country's oil and gas sector has been the key driver of the economy for many decades, constituting more than 14 percent of Nigeria's GDP and 95 percent of its foreign exchange earnings.¹

But today, new engines are helping to power Africa's most populous nation. Consumer-facing industries have quietly grown into a significant economic force and are poised to continue growing. Over the last decade, the Nigerian telecommunications and banking industries have experienced rapid expansion, serving pent-up demand and a fast growing middle class.

We expect that the next chapter of emerging middle class growth will be in the retail sector. Fueled by a new generation of Nigerian consumers, wholesale and retail sales are already the third largest contributors to Nigeria's GDP,² contributing 16 percent to the total, albeit mostly through informal markets.

We estimate that between 2008 and 2020, there is a \$40 billion growth opportunity in food and consumer goods in Nigeria, the highest of any African nation. Despite the fact that Nigeria's GDP per capita is \$1,443, we believe that formal retail chains have a significant opportunity to capture the growth in this market. Three key factors have led us to this conclusion:

Nigeria's GDP is growing

Real GDP (2005 based) is growing at an accelerated rate of 7 percent (compound annual growth rate) and is expected to hit \$294 billion by 2020,³ up from \$178 billion in 2012. This compares to a growth rate of just 4 percent in South Africa.⁴

The country's middle class is at scale

In Nigeria, which is known as "the giant of Africa" in part because one out of every four Africans is Nigerian, the trend toward a more prosperous consumer class is unmistakable. Although 90 percent of Nigerians have limited discretionary income, there is an important and growing opportunity within a subset of the population. Given the country's large population (174 million,⁵ 37 million households), the

1 Nigeria Bureau of Statistics

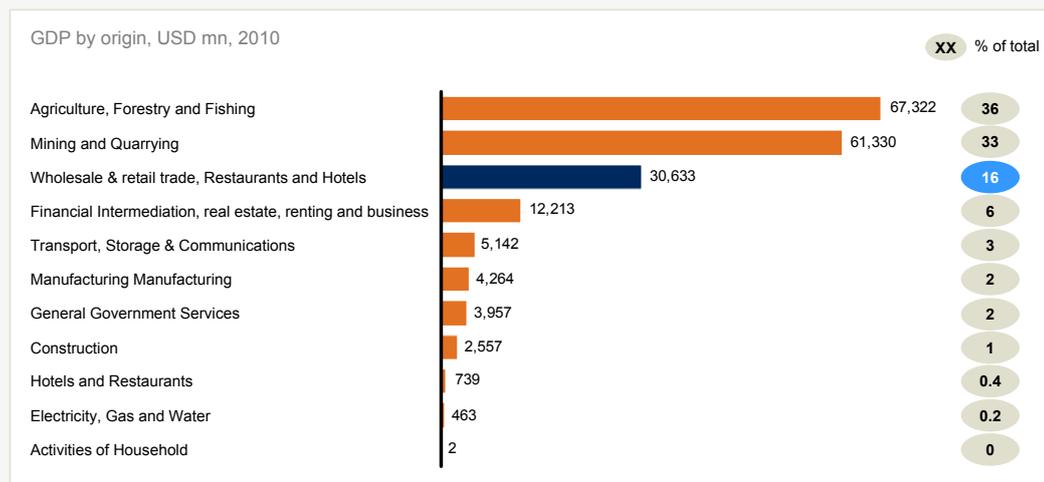
2 In 2010. Source: Euromonitor International's African Marketing Data and Statistics

3 This is based on current projections and is likely to be higher following the release of the latest data from the Nigerian Bureau of Statistics

4 Global Insight World Market Monitor

5 2013 estimate, CIA World Fact Book

Exhibit 1:
Retail is a very important industry in Nigeria



SOURCE: African Marketing Data and Statistics

portion of people defined as middle and upper class represent a sizeable pool of potential consumers. A significant 11 to 18 percent of urban households—numbering over 2 million—have purchasing power and annual incomes over \$10,000, which puts them in the modest affluent class.⁶ Half of the country’s growth in wealth will come from these households.

On the next rung of the income ladder—the emerging middle class—there is also considerable growth. Nigerian households with incomes of more than \$5,000 a year will increase from a current 20 percent of the population to 27 percent by 2020, putting them within the target customer base of formal retail chains.

Much of this growth is due to a trend of migration from rural areas toward cities, where job opportunities are more plentiful. Nigeria’s rate of urbanization is one of the fastest in the world, with almost half of the population living in urban areas in 2011 and an ongoing urbanization rate of 4 percent a year. Eight Nigerian cities containing 16 percent of the nation’s population will drive 36 percent of its growth, as per capita consumption in large cities is much higher than in Nigeria as a whole. In Lagos, for instance, consumption is 134 percent greater than the country average.⁷

Also driving consumer spending is the growing presence of women working outside the home, a trend that’s prompting an increased demand for foods offering convenience and time savings. We are already seeing a decline in the consumption of complex ethnic dishes, which often take more effort and time to prepare. Many workers prefer to buy their lunch out rather than bring it from home.⁸

The retail opportunity has been captured elsewhere

Kenya, with a GDP per capita that’s only 70 percent of Nigeria’s, has three large retailers (Nakumatt, Tusky’s and Uchumi) with a combined 107 stores and almost \$1 billion annual revenue between them. These stores offer not only a standard, formal retail experience, but have also started online shopping. Some are open 24 hours a day.

A profile of the Nigerian consumer

Nigeria’s retail market is both capturable and too large to ignore. Companies that act now to build a winning business model will be getting in on the ground floor of one of Africa’s biggest growth opportunities. Here are six insights⁹ that companies will need to take into consideration when starting or expanding their consumer business in Nigeria:

1. Nigerians are very optimistic about their future

When asked if they think they will be better off financially two years from now, 74 percent say yes, which is one of the most positive responses to this question among African countries.

6 C-GIDD 2012

7 C-GIDD 2012

8 Impact of globalization on food consumption, health and nutrition in Nigeria: FAO

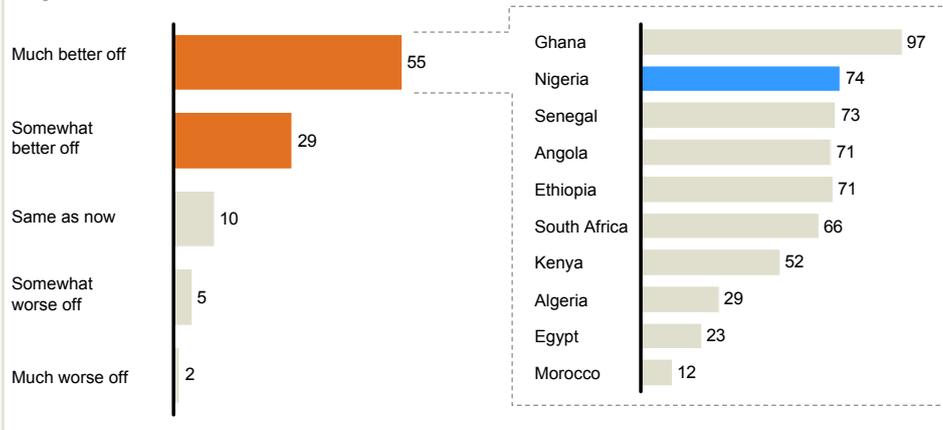
9 Based on McKinsey’s Africa Consumer Insights Center’s survey of 13,000 consumers in various cities in ten countries across the continent

Exhibit 2:
Nigerian consumers are very optimistic about their future

84% of Africans feel that they will be better off in 2 years

2 years from now, I expect my household to be ...

% agree with statement



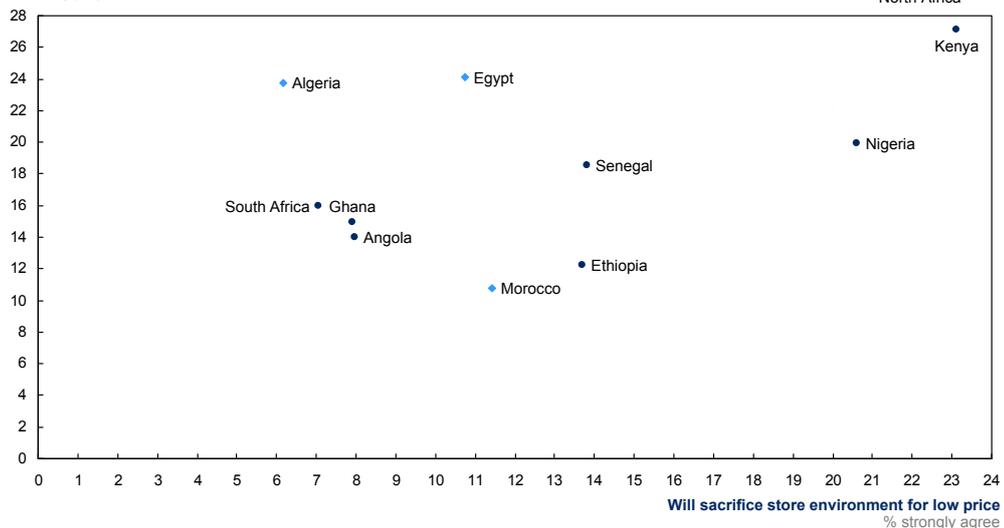
SOURCE: ACIC 2011 survey

2. Nigerians are price sensitive and love deals

Intuitively, price is important to the majority of African consumers, but it's particularly crucial for Nigerians, especially when it comes to food. When choosing a grocery store, 21 percent of Nigerians say they are willing to sacrifice store environment for low prices, compared to 16 percent of South Africans and 12 percent of Ethiopians. As a result, Nigerians are apt to spend a lot of time ensuring they get the lowest prices on groceries. Rice is the top product used as a benchmark for checking prices. Upper income Nigerians also look at red meat and beverages.

Exhibit 3:
Nigerians are more price sensitive than most other African countries

Will sacrifice store range for low price
 % strongly agree



SOURCE: ACIC

3. But it's not just about price

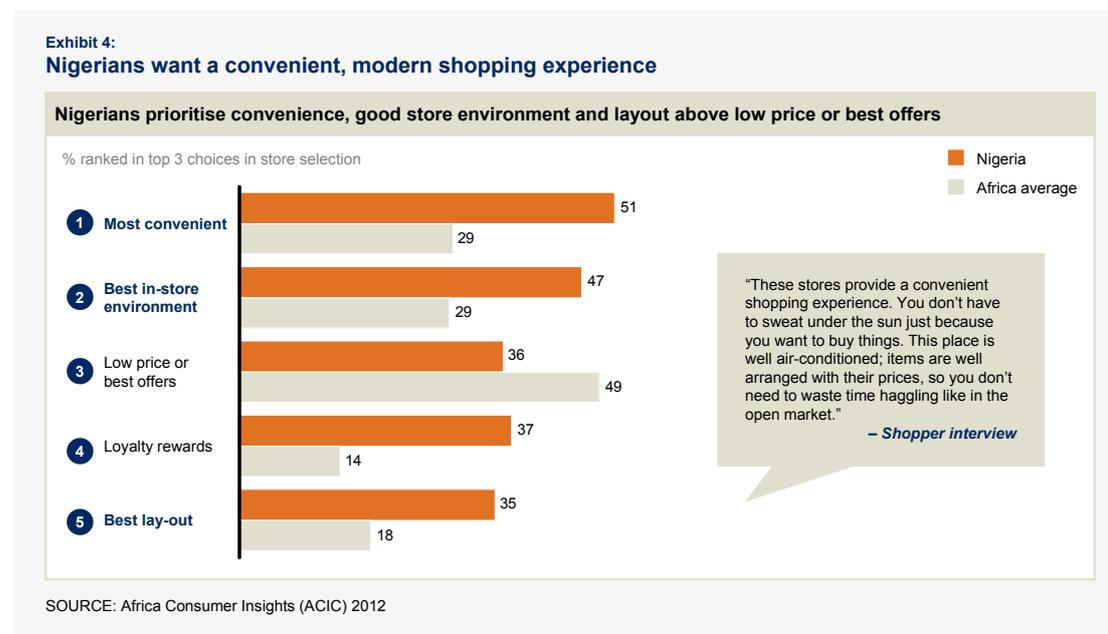
Brand loyalty is high among Nigerians. Seventy percent say they are brand loyal versus 59 percent in Africa as a whole. For higher income consumers this is driven by the perceived quality of brands—51 percent of these shoppers say that well-known brands are always of higher quality. For lower income consumers, brand loyalty tends to be driven by an unwillingness to try new things. Despite such loyalty, Nigerians are open to buying store brands, although the perception of poor quality and limited choice often holds them back.

Fashion, comfort and quality also play a role in driving the choices Nigerians make in stores, especially when shopping for apparel. Sixty-nine percent of respondents ranked fashion as one of the top three reasons for choosing a clothing item. Those ranking comfort and high quality in the top three totaled 63 and 60 percent respectively. Also when shopping for apparel, Nigerians view local brands, which exist at all economic levels, as just as fashionable as international brands. Only 11 percent say they think that international brands are more fashionable than local brands, versus 29 percent in Africa as a whole.

When shopping for food, *freshness is a key concern*. Forty-six percent of respondents agreed with the statement, “My main concern when buying food is how fresh it is.” This is understandable in a country where a third of the land is arable and where the tropical climate allows for the growing of many different types of fruits, vegetables and other edible crops.

4. Nigerians desire a convenient, well laid out, modern shopping experience

Although price is important, some Nigerians prioritize modern shopping experiences. Said one shopper: “[In these modern stores] you don’t have to sweat under the sun just because you want to buy things. This place is well air-conditioned; items are well arranged with their prices, so you don’t need to waste time haggling like in the open market.” Higher income consumers are particularly interested in stores with a wide range of products and a comfortable environment, and are willing to pay for these features. Lower income consumers primarily choose stores based on price offers, but item selection and in-store experience are still important.



5. Media habits are changing

In Nigeria, TV dominates. Ninety-eight percent of the people McKinsey surveyed across the country said that they had watched TV in last 7 days; 84 percent said they use TV to get information about brands, and 65 percent said they trust TV as an information source. At the same time though, digital media sources are growing, as is the use of mobile technology. Half of all Nigerians have accessed the internet over the past four weeks, and 21 percent of Nigerian mobile phone users are using the internet on a daily basis, with 37 percent accessing it monthly. Social networking leads as the top reason for internet access on mobile phones, but Nigerians are also using their smart phones for a broad range of activities, including reading news, watching music videos, and doing email and instant messaging. The primary reason Nigerians cite for not using mobile internet is that it’s too slow. Forty-four percent have this complaint.

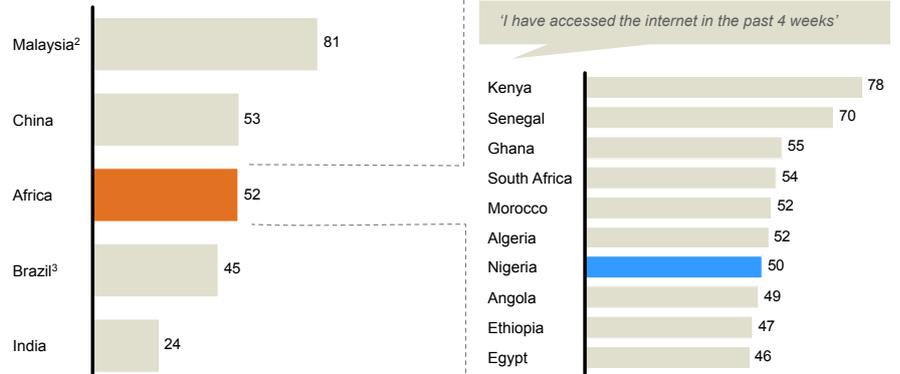
Despite such increased internet use, a significant trust gap persists. Only 5 percent of those who turn to online sources for brand information say they trust them.

Exhibit 5:

50% of Nigerians have accessed the internet over the past 4 weeks

Urban African internet penetration is higher than in Brazil or India and on par with that of China

Urban Internet penetration (used in past 4 weeks)¹
% of surveyed population



1 Unless otherwise specified

2 Proportion of households with broadband subscription in 3 most urbanized provinces

3 Proportion of urban population having accessed the Internet in the last 3 months

SOURCE: ACIC 2011 Survey; CNICC; I-Cube; TIC; MCMC

6. Regional, age and consumer differences must be understood

Across different regions we found significant attitudinal differences that influence Nigerian's purchasing decisions. For example:

- Residents of Lagos are more than twice as likely to try new things as their peers in Kano (45 percent of Nigerians responded positively to this question vs. 18 percent of Kano residents).
- Lagos residents are also more price conscious, with 55 percent favoring low prices over a large selection of products, as compared to 20 percent choosing low prices in Abuja and 17 percent in Kano.
- In Abuja, only 14 percent of consumers prefer to wear traditional dress over Western clothing. This preference is higher in Lagos (30 percent) and Kano (31 percent).
- Residents of Abuja are most likely to view clothes as a statement about who they are, with 64 percent agreeing with this statement, compared to just 39 percent in Lagos.

Within the apparel category, for example, we have identified eight distinct consumer profiles in Nigeria:

1. *Quality brand lovers* are the most brand loyal of Nigerian shoppers, although they have no patience for over-priced brands. They know what they want and are quick to decide on quality clothing. Seventy-seven percent say they only shop for well-known brands even if it means paying more. These shoppers often equate price with quality and 44 percent say they often treat themselves by buying more expensive products. Quality brand lovers also trust larger retailers more than smaller ones. They choose stores based on the range and quality of the product offerings.
2. *Social fashionistas* love shopping, especially with their friends. Eight-five percent say they always go shopping with friends and family. They identify with clothing and will pay a premium for fashion. They also value convenient, modern stores that reward them for their loyalty. They aren't inclined to travel far to stores.
3. *Low price hunters* are careful with money and 49 percent say they spend a lot of time and effort ensuring they get the lowest price. While this group wants convenience, they are willing to travel long distances to stores offering variety and the lowest price. They are also prone to impulse buying, despite their concerns about the potential inferior quality or outdatedness of such items.
4. *Quality convenience lovers* buy quality but not brands. They value convenient, modern, hassle-free shopping and loyalty rewards. To them, retailer financing is more important than low prices.

5. *Aspirational brand buyers* are very status-conscious and are interested in projecting the right image.
6. *Grudging value shoppers* do not enjoy shopping and do not identify with clothing.
7. *Local store devotees* trust local stores over large retailers and like to frequent the stores their family favors

Exhibit 6:
7 distinct shopper segments exist within Nigeria

Cross-Africa segments		Price importance ¹	Fashion importance ²	Brand importance ³	Identify with clothing ⁴	Segment prevalence Percent
Social fashionista	<ul style="list-style-type: none"> ▪ Loves shopping, especially with friends ▪ Buys fashion 	36	73	20	52	18
Low price hunter	<ul style="list-style-type: none"> ▪ Careful with money ▪ Shops at informal markets 	49	39	19	38	20
Quality convenience lover	<ul style="list-style-type: none"> ▪ Buys quality but not brand ▪ Values convenient, hassle-free shopping 	44	40	25	38	11
Quality brand lover	<ul style="list-style-type: none"> ▪ Values quality and fashion from best brands ▪ Most brand loyal 	20	40	77	41	11
Aspirational brand buyer	<ul style="list-style-type: none"> ▪ The "right" image and status very important ▪ Price sensitive 	44	27	23	52	10
Grudging value shopper	<ul style="list-style-type: none"> ▪ Does not enjoy shopping or identify with clothing 	26	19	11	51	18
Local store devotee	<ul style="list-style-type: none"> ▪ Trusts local stores over large retailers especially family favourites 	26	13	19	59	12

1 Price importance is % of respondents who agree "When clothes shopping I spend lot of time & effort ensuring I get the lowest price possible"
 2 Fashion importance is % of respondents who agree "It is very important to me to follow the latest fashions and trends"
 3 Brand importance is % of respondents who agree "I only shop for well known brands even if it means paying more"
 4 Identify with clothing is % of respondents who agree "The clothes I own say a lot about who I am"

SOURCE: Africa Consumer Insights (ACIC) 2012

Execution considerations

In addition to the above insights, a few key factors should be considered in your strategy:

- Understand the "s-curve" for your category and let this influence your decision about when to enter each category. The s-curve refers to a time-bound phase of rapid growth that categories undergo, often corresponding to the point at which a country's GDP per capita reaches levels required to sustain significant consumption within that category. For example, the air freshener market typically enters a period of rapid growth when real GDP per capita exceeds \$5,000, which suggests that many African countries will still experience growth in this category.
- Carefully consider establishing a local partnership in order to gain expertise in navigating the local terrain. KFC, for instance, launched in Nigeria in late 2009 by partnering with the Nigerian conglomerate Chellerams. By late 2013, they had in excess of 20 stores.
- Don't expect to find a ready-made pool of qualified, experienced staff. Expect a set of eager go-getters who need to be trained in technical capabilities and introduced to your company culture. Procter and Gamble set up a 'Top Development Candidate' program into which they hire graduates with clear career goals, helping them earn promotions and acquire locally relevant leadership skills.
- Anticipate complications with the day-to-day management of the business. Nigeria is ranked 131 (out of 185 countries) on the World Bank's Doing Business index. To clear imported goods through customs in Nigeria, for instance, takes an average of 39 days at an average cost of \$1,540 per container.¹⁰
- Like just about everywhere else in the world, location is key. Find the right real estate agents and market research firms who will help identify optimal store sites. One significant complication is Nigeria's vast shortage of commercial property. Outside of the very few malls in Lagos, only a handful of sites can

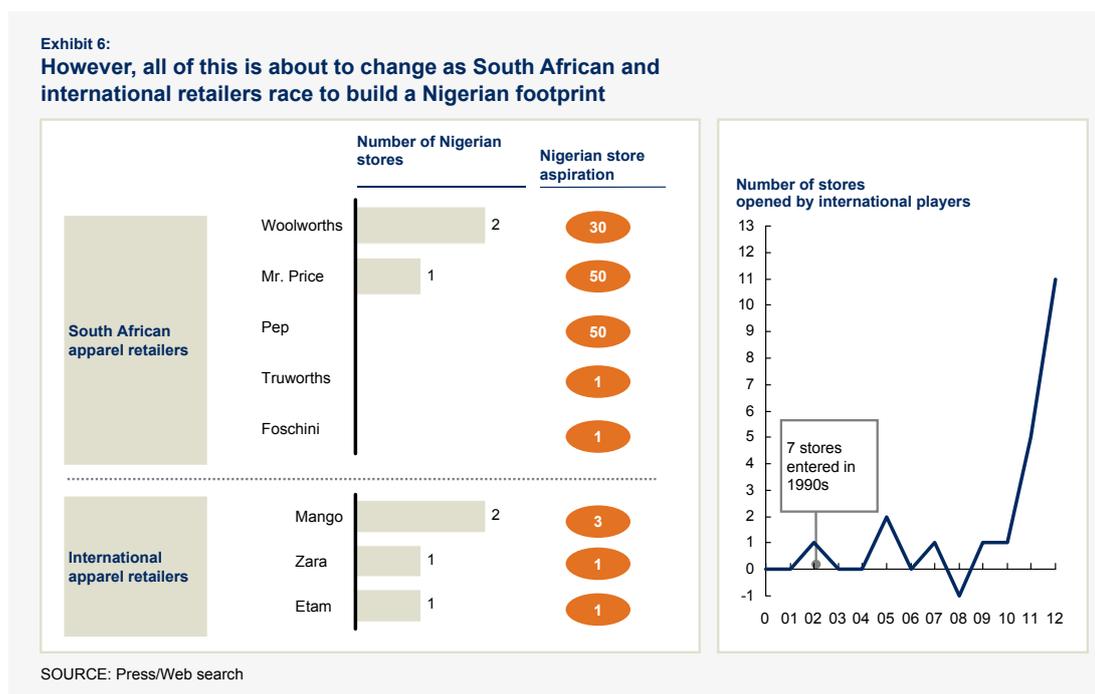
¹⁰ World Bank Ease of Doing Business report, cost of clearing includes document prep, customs, port & handling and handling

accommodate retail stores of 2,000+ square meters. Companies that innovate with their store formats in response to the shortage of commercial real estate will accelerate their growth.

- Enter and refine your format and offerings before undertaking a large scale rollout. The South African retailer Shoprite, for instance, opened just one store during its first four years in Nigeria. It followed that with 11 stores in the last four years and now aims to open 37 stores over the next 3 to 4 years.

Conclusion

In its early stages of modernization, Nigeria's retail industry is set for dramatic change. For multinational retailers or African companies wanting to capture new potential, there is a unique opportunity to seize an early mover advantage and create brand loyalty while consumers are young and media is relatively inexpensive. It's too soon to say how long this retail explosion will last, but it's likely that the window of opportunity could be small. Fast food chains in Nigeria for example swelled from almost nothing in 2003 to \$1.3 billion in 2009.



Already, some players are moving rapidly and aggressively. The South African retailer PEP has opened 30 Nigerian stores in its three years in the country. In the last five years, South African retailers have opened almost 100 stores in Nigeria and that pace is set to increase. Companies who want to gain a foothold should act quickly and decisively since the market may support only a few winners. Here again, Nigeria's previous consumer expansions can serve as a guide. A banking boom produced five winners, and the same for fast food.¹¹ Telecom yielded four.^{12,13} Shoprite is quickly staking out its claim as one of the retail champions in Nigeria. Who will take up the remaining top spots?

<http://csi.mckinsey.com>

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¹¹ Ciuci consulting.

¹² Biztech Africa Nigeria: still Africa's largest mobile market

¹³ For banking winning is defined as growing assets and revenues with no bottom line loss in 2012; for telecom and fast food it is defined as above market growth