AfCFTA
Thriving in a New Africa

Part 3

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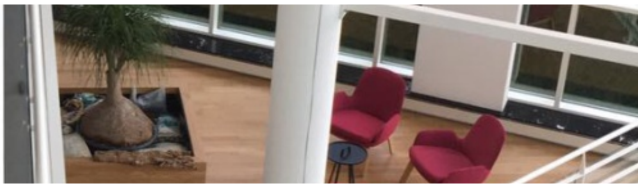
Introduction



In this three-part series, we explore the African Continental Free Trade Agreement (AfCFTA), its potential impact on Nigerian businesses, and provide recommendations for Nigerian businesses to thrive on the back on the new trade environments created by the agreement.

In the first part, we discussed the current state of intra-African trade, the AfCFTA and its importance, and highlighted businesses that have successfully leveraged regional integration in ASEAN. In the second part, we discussed the current state of trade in Nigeria, and highlighted countries with the capacity to compete with Nigerian businesses.

The assessment identified Morocco as a large economy with the comparative advantage to compete with Nigerian Agribusinesses. In the Retail and Trade Sector, Kenya was identified as a leading competitor for Nigerian Retail businesses. Finally, South Africa was identified as the leading competitor for Nigerian businesses in the FMCG sector.

In this part, we seek to provide deeper insight into three sectors - Processed Agriculture, Retail and Trade and FMCGs, highlighting the strategies of leading competitors in these sectors, and providing recommendations for Nigerian businesses to thrive in the Continental Free Trade Area (CFTA).

Processed Agriculture Sector

Processed Agriculture firms in Morocco pose a big threat to Nigerian businesses, due to their current production and export capacity, and adherence to global standards. In this part, we profile a potential competitor for Nigerian businesses, highlight its strategies for success, and provide recommendations that would enable key local companies compete in the CFTA.

Sector Profile

The Agriculture sector in Morocco contributes around 15% of the GDP, 30% to export earnings, and accounts for 40% of the country's employment. In 2017, value-added agriculture as a percentage of GDP stood at 12.4%, according to World Bank data. In 2018, Moroccan industrial manufacturing production increased by 3.6% in 2018, according to the production index. The manufacturing industries, including the food industry grew by 4.9%. The sector contributes about 20% to GDP and 30% to export earnings.

Leading Company Profile

The leading Moroccan Agro-Industrial company operates in two sectors: the triturating of oleaginous seeds, and refining of oils from using sunflower seeds, peanuts, olives, coleseed, maize, soybeans and cotton seeds. The company also manufactures and markets soaps, and packaging materials.

Company Performance: The Company's revenues grew by 4% to MAD 2.1 billion (USD 571 million) for the year ended 31 December 2017. Revenues reflected an increase in demand for the company's products and services due to favorable market conditions. Revenues from the fats and oils business grew by 14% to MAD 4.6 billion (USD 480 million) for FY2017.

Competitive Advantage: This player currently has the capacity to export its products to approximately 40 countries, primarily in Africa and the Mediterranean. Now that the AFCFTA has become effective, the firm is poised to successfully export its products and compete for market share in Nigeria.

Local Competition: This company could potentially serve as competition to market offerings of key local players in Nigeria including: Mamador and Devon King, Grand Oil, Power Oil and Famili Pure Vegetable Oil, among others.

Strategy: This leading player focuses on four strategic areas: securing and optimising purchases; defending its market share through the development of its leading brands; rationalising its distribution channels; and improving its operational costs.

The company focuses on the development of its core business to secure and stabilise its olive oil upstream activity. Simultaneously, the company continues to pursue a policy of purchasing proactively to cushion the effects of volatility and consumer price shocks. The company also sees quality improvement as a strategic lever for sustainable development of its activities. Innovation, Research & Development are key to constantly providing consumers with a diverse range of products of high quality.

In 2016, the company updated its 2020 strategic plan, which has innovation and diversification at the heart of its development. Since 2013, the company has initiated a strategy of agricultural vertical integration and new product development, with the objective of adding 3 to 4 new products annually, as well as aiming to align its operations with consumers' needs from conceptualisation to production.

Going forward, the major player continues to invest in modernising its processes in line with international standards. The company's strategy in the medium term encompasses energy optimisation, refinery development, soaping re-engineering and quality management through automating systems. In addition, the player is staying socially responsible towards its environment. For instance, the company reduced 16,000tonnes of CO_2 emissions and substituted 60% of its fossil energies with renewables.

Recommendations for the Agribusinesses in Nigeria

1. Introduce technology-based innovations into agriculture processes:
Adoption of innovative systems, technologies and products by agribusiness players can improve agricultural productivity; increase the supply of food output; aid local farmers to produce cheaper and more accessible products; reduce post-harvest losses and enhance storage capabilities. Advances in innovation and technologies are key to the future of agriculture, as farmers strive to feed the world with limited natural resources. Over $19 million has been invested in agriculture technology in Africa from 2016 till date. Partnering with, or investing directly in agri-tech start-ups will enhance and develop the agriculture sector in a sustainable manner.

2. Improve on product quality:
There are modern technologies that enable high quality of agricultural produce at low costs. For instance, complete automation of the visual inspection and sorting of produce promises significant benefits for commercial producers in terms of reduced labor costs, reduced time to market and improved quality.

3. Invest in enhanced storage and distribution capabilities:
Lack of adequate storage and distribution facilities has resulted in food scarcity during periods of bumper harvests due to the increased perishability of agricultural products. Investing in enhanced storage and distribution capabilities is important in order to be able to compete in a new free-trade environment. This will help to reduce wastages, improve quality and maximise output. Furthermore, it will help reduce production costs and enhance price competitiveness. There are low-cost technologies and methods that can be benchmarked and adopted locally.

4. Explore and exploit the country's comparative and competitive advantages in agricultural products:
Players in the sector can focus on exploring the country's competitive advantage in agriculture products, possibly by processing and exporting. Nigeria is the largest rice producing country in West Africa. In addition, the country grows about 50% of grain crops produced in West Africa. Nigeria is also the 3rd largest millet producing country in the world after India and China. The country is the world largest producer of cassava and yams; the 2nd world largest producer of sweet potatoes and the 4th world largest producer of groundnut and cocoa, among other agricultural output rankings.

Retail and Trade Sector

Retail stores in Kenya have developed strong competitive advantage, including the availability of e-commerce channels, adherence to global standards and experience with regional expansion. In this part, we profile a leading competitor for Nigerian businesses in the Retail and Trade sector, highlight its strategies for success, and provide recommendations that would enable Nigerian businesses compete in the CFTA.

Sector Profile

The retail sector in Kenya is the second-largest retail sector in Africa after South Africa, as well as one of the most advanced, contributing about 8.2% to the total GDP of Kenya in 2018. According to a report by Kenya National Bureau of Statistics (KNBS) in 2018, the formal retail industry employs more than 300,000 people throughout the supply chain. The latest KNBS GDP report for 2018 showed that the wholesale and retail trade sector contributed Ksh 619 billion (USD 6 billion) in 2017, and Ksh 500 billion (USD 5 billion) from first quarter to the third quarter of 2018.

Leading Company Profile

Of the top 3 players, only one is an indigenous company, which holds the largest portfolio of outlets in the country with over 60 stores with 7 located in neighboring Uganda; and controls approximately 29% of industry market share.

This indigenous player, founded in 1985, started off as a mattress store and grew from a single wholesale shop to a chain of branches across Kenya and Uganda offering a wide range of products. The supermarket chain also offers online retail services.

Competitive Advantage: This company's major advantage is its experience in expanding to a neighboring country, indicating the ability to replicate its success outside its home country. This suggests that this company has the experience required to expand its footprint to Nigeria, now that the AfCFTA is effective.

Local Competition: This company could potentially serve as competition to key local players in the market including: Park 'n' Shop, Prince Ebeano, Grand Square, Domino Supermarket, CCD Superstores, Genesis Supermarket, etc.

Strategy: The company's strategy is to diversify its products and services in order to reach a wider audience. The chain plans to open more branches in the next 3 years. It also plans on achieving further growth through partnerships, technology and innovation, which are expected to cost the retailer at least Ksh3 billion (USD 300,000). The partnerships include introducing solutions with suppliers to reduce costs.

Furthermore, it introduced new clothing stores to increase its revenue and diversify its products. In addition to the new clothing stores, the supermarket chain launched Ksh200 million (USD 2 million) worth of electric stores within its outlets around the country and injected a further Sh150 million (USD 1.5 million) to open a new outlet in one of the country's shopping complex.

It has also taken steps to remain relevant in Kenya and continue increasing its market share by launching an e-commerce platform. The platform was established in 2018 in order to scale the business for online users. The store costs about Ksh30million (USD 297,000) and features 11 departments ranging from furniture, electronics, crockery, clothing, mobile accessories and home appliances, among others.

Recommendations for the Retail and Trade businesses in Nigeria

1. Backward Integration:
Like its Kenyan counterparts, Nigerian supermarket chains can introduce backward integration by partnering with local farmers, acquiring shares of these farmers' enterprises and introducing their produce into the supermarkets at a cheaper rate. Achieving good relationships with suppliers will reduce the cost of sourcing fresh produce.

2. Private labelled merchandise:
Globally, supermarket chains provide a variety of their own branded products for consumers at good quality and affordable prices. The leading player in Kenya has its own brand of deli products, which is great for consumers on-the-go. This recommendation also ties in nicely with introducing backward integration, where supermarket chains can produce at lower costs to develop their own brands. If properly implemented, this could reduce costs and improve profits in the long run.

3. Diversification & e-commerce:
Diversifying products and services offerings will help supermarket chains attract more consumers. The leading market player in Kenya has been able to build and attract a wide range of consumers because of its ability to stock up on a wide range of products. In addition to improving in-store experience for customers, Kenyan supermarket chains have built an online presence which allows them access new consumer groups to expand and develop brand loyalty. Nigerian companies can expand their online presence by introducing and developing their e-commerce platforms.

Fast Moving Consumer Goods (FMCG) Sector

In this part, we profile a leading a South African competitor for Nigerian businesses in the FMCG sector, highlight their strategies for success, and provide recommendations that would enable Nigerian companies compete in the CFTA.

Sector Profile

South Africa, the second largest economy in Africa, also boasted of intra-Africa exports that accounted for 26% of its total exports in 2018. South Africa's food industry is the most advanced in Africa, with food production contributing about 15% of total domestic production.

Leading Company Profile

A leading company in this industry is a South African producer and distributor of a range of branded food and beverage products. The company engages in wholesale and retail trade, and exports to more than 60 countries internationally.

The company operates across three main divisions: essentials, which includes wheat & maize products, pasta, rice, beans; groceries, including breakfast cereals, cake mixes, spreads, etc.; and an international division which handles its export business model across Africa and the rest of the world.

Company Performance: The company experienced a 3% y/y positive growth in revenue in 2018 amidst the volatility of the Rand and increased inflation. The company's gross profit margin increased to 28.8%, up from 26.3% in 2017, with its profit for the year increasing by 48.3% to R 1 billion (USD 68.1 million) from R 726 million (USD 49.6 million) in 2017.

Competitive Advantage: This company's advantage includes having a wide selection of brands with products that have not yet been introduced to the Nigerian market. In addition, existing joint ventures with other African businesses also puts the company at an advantage in the CFTA, as it can leverage these partnerships to increase its presence in Africa.

Local Competition: With its essentials and groceries products, this Company’s products could potentially serve as competition to market offerings of key local players including Golden Penny Pasta, Dangote Pasta, Dangote Flour Honeywell Pasta and Honeywell Flour.

Strategy: This company's strategy includes exploring alternative routes to market; growing its businesses through mergers and acquisitions; and increasing its global presence through geographical expansions. Additionally, it enhances competitiveness and profitability by improving its operational efficiency and reducing costs.

Recommendations for the FMCG Sector in Nigeria

1. Invest in processes and quality management, in line with international standards:
Adopting quality management systems that are in line with global best practices will enhance the competitiveness of local companies by ensuring better process integration, which will result in improvements in efficiency.

2. Pursue a policy of purchasing inventory proactively to cushion the effects of volatility and consumer price shocks:
Price will be a significant factor in product competitiveness in the new CFTA market. In order to favorably compete with other FMCG markets in Africa, local players will have to develop and maintain a policy of purchasing inventory proactively to cushion the effects of volatility in the currency markets. This will allow them to keep prices competitively lower for longer periods.

3. In new product development, consumer engagement is key from the conceptualisation to production stage:
To compete internationally, Nigerian companies need to invest in data collection, to better understand and cater to the needs of the new markets. This will enable them develop products that fit the consumer's needs.

4. Invest in research & development on product and processes enhancement:
In the medium to long term, local FMCG operators will need to adopt a culture of continuous improvements in products and processes by investing in Research and Development. Product and process innovations will provide competitive edge to players seeking to compete both locally and regionally.

5. Explore partnerships with global and local companies to strengthen value-chain:
Alliances or affiliations with companies across the value-chain, whether they are from a different part of the globe or different parts of the supply-chain could help to upgrade and strengthen the competitiveness of local producers.

6. Introduce quality standards and methodologies in raw material utilisation of agricultural resources:
The quality of the raw materials used in production processes, especially for food and beverages companies, is the starting point to ensuring that they can compete favorably in the CFTA. Developing strategies to enhance the ability to secure a sustainable quality agricultural resources, especially for companies investing in backward integration provides a basis for the quality of the semi-processed or finished products.

7. Rationalisation of distribution strategies:
Finding the right distribution strategies or models that increase the growth potential and enhance the competitiveness of local FMCGs is important. The ability to rationalise the distribution processes will improve costs and efficiencies in the supply-chain, ensure advantageous price competitiveness and faster delivery turn-around time that will enhance local and regional competitiveness.

In this part of the series, we provided recommendations for Nigerian businesses to thrive in the CFTA. While Nigeria has several successful companies across the explored sectors, the message here is simple: The AfCFTA will introduce new trade environments in Africa, exposing the Nigerian market to fierce competition. Nigerian businesses need to step up their game in order to be competitive in a new Africa.

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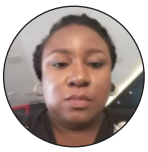

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