enabling new business

SWITZERLAND GLOBAL ENTERPRISE

RISING MIDDLE CLASS – AFRICA OUTLOOK AND GROWTH POTENTIAL

The Swiss perspective on the example of Nigeria

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Foreword

In early 2015, through a study drafted in cooperation with PwC, S-GE drew attention to the phenomenon of the Rising Middle Class, especially in Asia. Now, turning to examine Africa, how is the middle class developing in Africa and what opportunities does this create? Will Africa become a favored destination of growth opportunities for Swiss companies? And what are the obstacles to business success in Africa that need to be overcome?

Even though the absolute numbers are much smaller compared with Asian markets, the Rising Middle Class is a reality in Africa, too. While the vast proportion of poor inhabitants remains the main challenge facing Africa, some 21%–36% (depending upon the definition applied) of the population of Africa belong to the new middle class.

To understand better the phenomenon of the Rising Middle Class, it is suggested to focus on Nigeria: of the 54 states that make up the African continent, it represents the market with the largest economy and it with a strong average growth in the last years (around 8% p.a). With 174 million inhabitants, it is one of the most highly populated countries in the world having an enormous growth potential in the next years.

Nigeria aims at being one of the top 20 economies in the world within five years at the latest. At the same time, like all other RMC markets, it has a lot of ground to catch up in terms of infrastructure, ICT, health, transport and retail. To date, Swiss companies have been few in this important market. A few selected examples, however, show that some large businesses are already successfully established and thriving in Nigeria. This also creates opportunities for Swiss SMEs to venture into this market.

Africa is not an easy market for SMEs. The key success factors include a local presence to understand the market, a careful choice of market-entry strategy and stamina. But the potential rewards for entrepreneurs are high margins, strong growth and interesting perspectives.

Daniel Küng,

CEO Switzerland Global Enterprise

Chris Watts,

Regional Director Africa

1. Executive Summary

Executive summary (1/2)

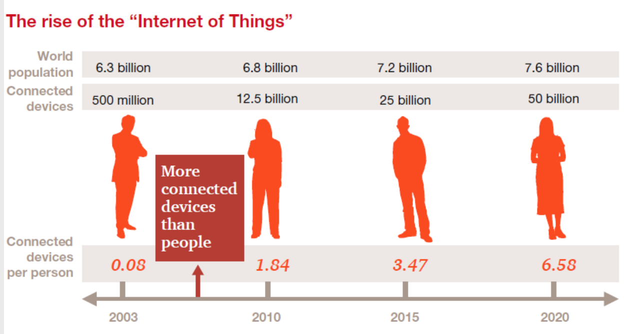
1 The rising middle class (RMC) globally has high growth potential

– The **global middle class** is expected to **double in size** within the next 10-15 years from today's 2.5bn people to almost 5bn people by 2030. This **growth is driven by Asia and Africa**.

– **Global consumption is increasing**, resulting in annual global consumption worth over USD 9.5 trillion (in USD PPP).

– A large part of this consumption stems from **the global middle class, accounting for 64% of total consumption** and a value of approx. USD 6.3 trillion, of which USD 3.1 trillion is consumed annually by the RMC sub-segment.

2 Internet connectivity and population growth drives the RMC



Source: Cisco Internet Business Solutions Group, April 2011.

3 Africa as the key RMC continent

– The middle class will drive global population growth, with Asia clearly outperforming and **Africa** showing **strong absolute growth**.

– Northern Africa has on average a higher GDP p.c. than **Sub-Saharan Africa** which in turn shows **stronger growth rates**.

– Depending on the definition, the actual size of the **RMC** varies between **21% and 36%** of the total African population.

– Strong population and economic growth creates a **springboard** to a sizeable **RMC** and puts Africa in the spotlight globally.

4 Nigeria as a RMC champion

– Nigeria is the **largest economy** in Africa and its GDP growth has been notable (7.6% CAGR 2000-2014). Nigeria's GDP is forecast to continue growing at 6.8% CAGR until 2017.

– With 174m inhabitants, Nigeria also has the **largest population** in Africa which is expected to continue growing at 2-3% per annum for the next 20 years.

– Through **Vision 20:2020**, Nigeria has stated its intention to join the league of the top 20 economies by 2020. Nigeria will need a strong RMC to achieve this goal.

Executive summary (2/2)

5 Picking the right RMC segments and partners

- With **increasing wealth** levels, consumption patterns and **preferences** change and start to include ‘nice to have’ products.
- Some segments are impacted more by the RMC than others. Key examples **are ICT, health, transportation and general retail**, such as clothing and footwear.
- In order to benefit the most from growing RMC demand levels, companies should **pick their RMC target audience and segment** as well as **local partners wisely**.

6 Swiss companies are in a favourable position

- Swiss companies will benefit from the **excellent reputation** of Swiss products and services, especially in a situation where **more consumers will be able to afford them**.
- The traditional key success factors of Swiss companies will play a vital role in RMC markets.
- **Joint offerings and solutions** instead of single product strategies will become ever more important to enable peer-to-peer learning.

+ The pros

- Strong growth of consumption due to the RMC, millions of people are coming out of poverty with a higher purchasing power.
- Due to its size and economic power, Nigeria is already considered the Sub-Saharan economic powerhouse.
- As RMC consumers gain purchasing power, interest in new product categories such as, for example, ‘nice-to-have’ products, increases.
- Swiss companies with excellent product reputation will benefit from the RMC.

- The cons

- Especially in terms of ease of doing business, Nigeria still lags behind its peers. Other areas requiring further improvement are economic and political stability, security and corruption.
- Difficulties in finding the right local partner.
- Nigeria’s infrastructure is still sub-optimal but it outperforms other Sub-Saharan countries.
- Demand for complex and high-end products and services is not yet fully developed.
- Several companies from Asia have already entered Nigeria to benefit from first-mover advantages.

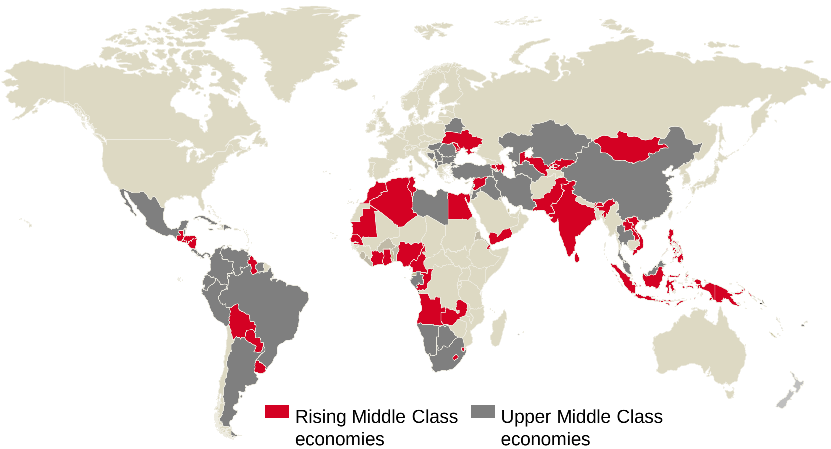
2. The global Rising Middle Class (RMC)

Goals of this section:

- Defining the global Rising Middle Class (RMC)
- Highlighting drivers that fuel the rise of the global RMC and the economic impact of this development

The Rising Middle Class accounts for the largest economic class segment worldwide with 2.6bn people

Rising and Upper Middle Class economies, 2014



Class	Low	Rising Middle	Upper Middle	Wealthy
Annual income per capita (USD)	<1,046	1,047–4,125	4,126–12,745	>12,745
Global population	0.8bn	2.6bn	2.4bn	1.3bn
% of global population	12%	36%	34%	18%

Middle class

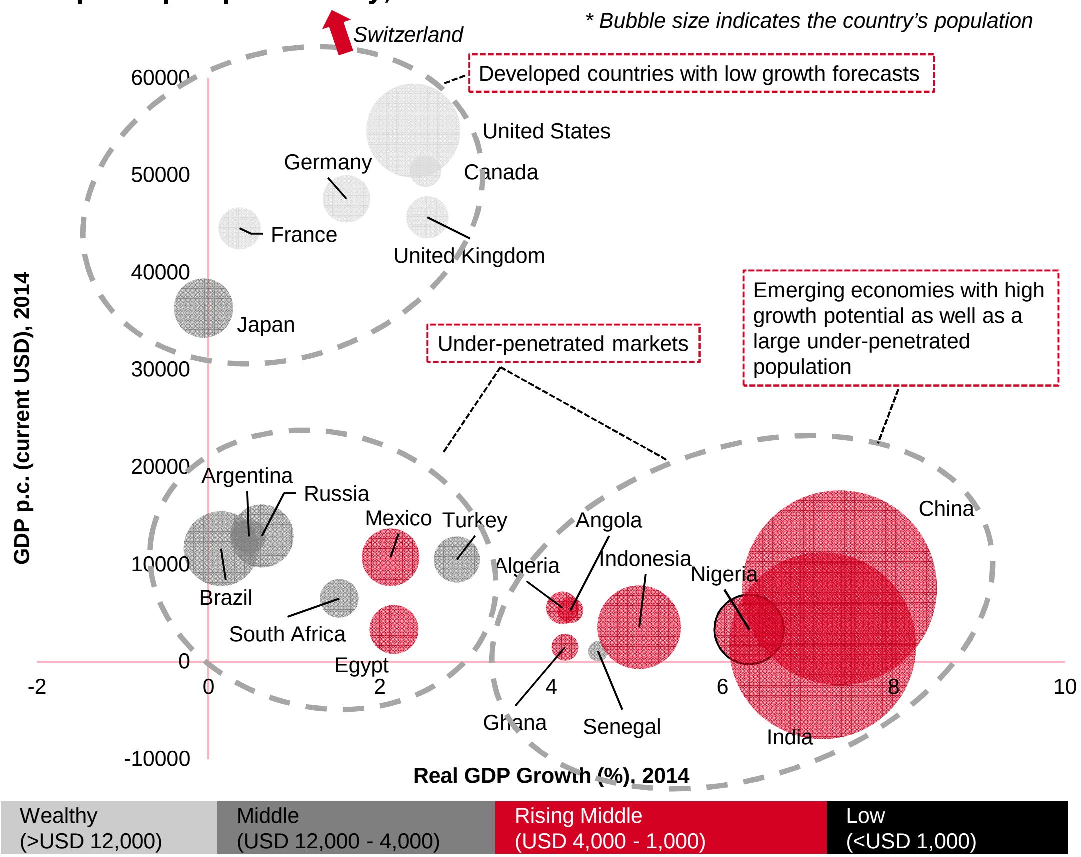
[1] The Rising Middle is called the Emerging Middle by the World Bank
Source: World Bank, AfDB, OECD

Definition and remarks

- Economies are categorised using **annual income per capita**
- **Economic classes** are segmented into **four categories**:
  1. Low, 2. Rising Middle, 3. Upper Middle and 4. Wealthy
- There are many definitions of the **Rising Middle Class (RMC)**. The pre-eminent ones are from the **World Bank**, the **African Development Bank (AfDB)** and the **OECD**:
  - **World Bank[1]**: Defines the **RMC** as economies with annual **income** per capita (p.c.) of **USD 1,047–4,125** in purchasing power parity
  - **AfDB:** Defines the **RMC** as economies with an annual income p.c. of **USD 730 – 3,650** in purchasing power parity
  - **OECD:** Defines the **RMC** as economies with annual income p.c. between **USD 3,600 – 36,000**
- The global **RMC** consists today of over **2.6bn individuals**, accounting for 36% of the global population
  - Together with the Upper Middle, the total middle class population is 5bn
- The geographical presence of both RMC economies and Upper Middle Class economies is strongest in South/Central America, **Africa and across Asia**

By comparing GDP per capita and GDP growth, certain Rising Middle economies particularly stand out

GDP per capita per country, 2014



- When **comparing** GDP growth between developed and **under-penetrated markets**, the latter often show **higher growth rates**. Some under-penetrated markets have growth rates that are up to **3-4 times higher** than developed countries
- When looking at population size and growth, **emerging economies** vastly **outperform the rest**, e.g. China, India, Indonesia and Nigeria
- The RMC countries in particular are expected to **become some of the top economic powers** in the world, with large consumer populations and increasing purchasing power
- E.g. **Nigeria** intends to become one of the top 20 economies in the world. Nigeria developed a vision and a plan called **Vision 20:2020**

Source: PwC Analysis, IMF, World Bank

The RMC is driven by population and GDP growth as well as global shifts in economic power and demographics

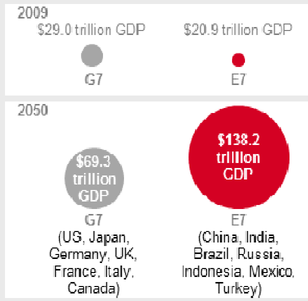
Population growth and demographic shifts

- Population growth is the highest in developing countries, while mature economies are experiencing an aging population
- As the global population increases, more persons are shifting into the middle class segment, which is known for its relatively high purchasing power
- By 2025, almost 50% of this growth is expected to come from Rising Middle economies, and the total middle class will account for c.80% of the global population

GDP growth and shift in economic power

- Western economic dominance is fading and recent developments have shown a rebalancing of global economies
- When income per capita increases, individuals will shift from lower classes into the Rising and Upper Middle class
- In addition, GDP affects consumption confidence and consumer spending, which in turn has an effect on market growth and opportunities

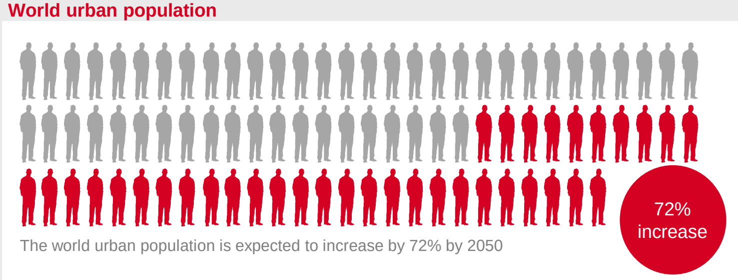
GDP of G7 and E7 countries at USD PPP



Accelerating urbanisation

The UN estimates that by 2015 there will be 22 mega-cities with a population of 10 million or more –17 of which will be located in developing economies

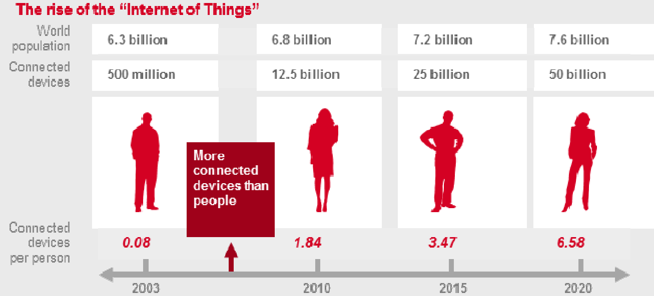
World urban population



Technological breakthrough

The combination of the internet, mobile devices, data analytics and cloud computing will continue to be a key driver of transformation

The rise of the "Internet of Things"



Source: PwC Global Megatrend Outlook 2013 "Five megatrends and possible implications"

3. The African RMC – definitions, drivers and trends

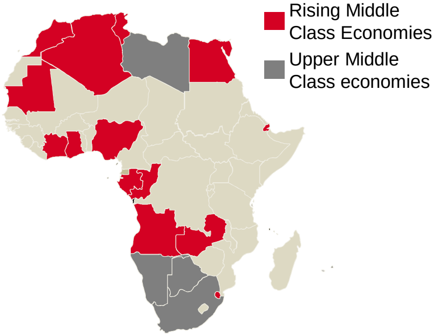
Goals of this section:

- Examining the actual size of the RMC in Africa using various definitions
- Comparing the RMC with key African economic and social measures

Depending on the definition, the actual size of the African RMC varies between 21% and 36% of the total African population

World Bank definition

RMC/UMC countries, 2014



RMC, actual size, 2011*

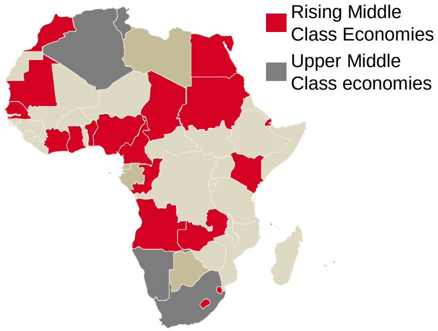
Class	Low	Rising Middle	Upper Middle	Wealthy
Daily income p.c. (USD)	< 3	3–11	11–35	> 35
Annual income p.c. (USD)	< 1,046	1,047–4,125	4,126–12,745	> 12,745
African population (m)	766	215	24	4
% of African population	76%	21%	2.5%	0.5%

Middle class

- Using the World Bank's definition, the size of the RMC is smaller than using the AfDB RMC definition
- Due to the increase of the population since 2011 (e.g. Nigeria by c.20m), the middle class shown here is somewhat underestimated

AfDB definition

RMC/UMC countries, 2014



RMC, actual size, 2011*

Class (2011)	Low	Rising Middle**	Upper Middle	Wealthy
Daily income p.c. (USD)	< 2	2–10	10–20	> 20
Annual income p.c. (USD)	< 730	730–3,650	3,651–7,300	> 7,300
African population (m)	609	367	23	10
% of African population	61%	36%	2%	1%

Middle class

- Compared with the World Bank's definition, the AfDB has a slightly lower annual income bracket
- Moreover, the AfDB introduces five classes: Low, Floating, Middle, Upper Middle and Wealthy
- The Floating class can fall back into poverty easily. It is thus more exposed to economic shocks**

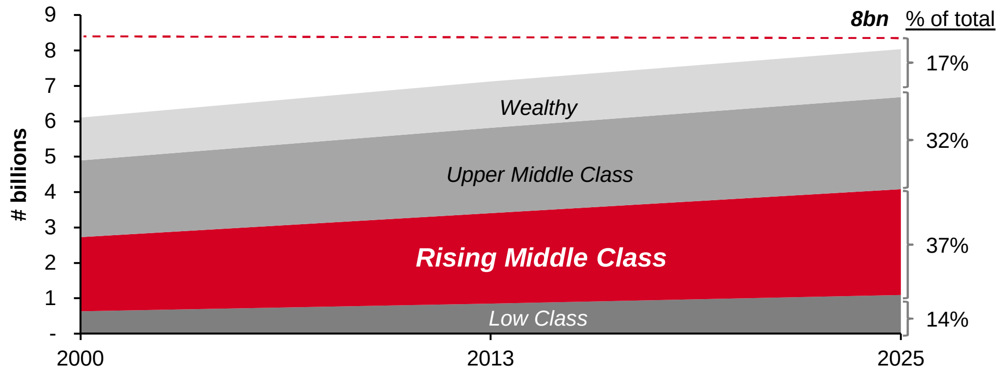
Source: PwC Analysis, World Bank, AfDB Database

* 2011 data is the latest data available. The Povcal database shows percentage of people living under the respective poverty lines. These numbers are provided in constant 2005 USD

** The floating and middle income class combined are referred to as the Rising Middle Class

The middle class will drive global population growth with Asia clearly outperforming and Africa showing strong absolute growth

Global population 2000-25



Source: PwC Analysis, World Bank, OECD

- The **global population** is expected to grow by almost 2bn between 2000 and 2025, reaching a population of over **8bn** people by **2025**
- The **strongest growth drivers** are the Rising Middle and the Upper Middle Class which by 2025 are expected to account for c.70% of the global population

Share of the global middle class by region 2009-30

Region	2009		2020		2030	
North America	338	18%	333	10%	322	7%
Europe	664	36%	703	22%	680	14%
Central and South America	181	10%	251	8%	313	6%
Asia Pacific	525	28%	1'740	54%	3'228	66%
Sub-Sahara	32	2%	57	2%	107	2%
Middle East and North Africa	105	6%	165	5%	234	5%
World	1'845	100%	3'249	100%	4'884	100%

Source: OECD Development Centre, Working Paper No. 285 (2010)

- Compared with other continents and regions, Africa's middle class, as defined by the OECD, **is not yet as well established**
- However, by 2030 the African middle class is expected to grow to an absolute size of **over 300m**
- Africa's middle class is expected to grow at the same speed as the global middle class, which can be seen by its **relative share** staying constant over time

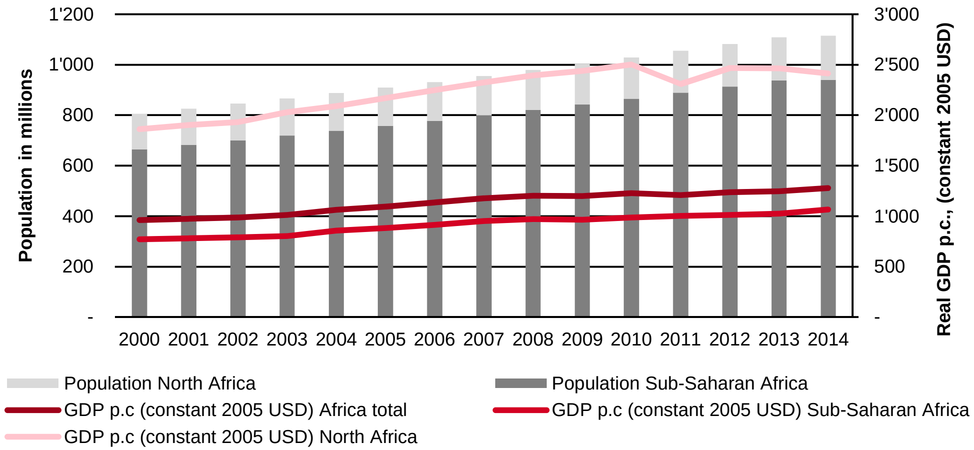
On average, Northern Africa has a higher GDP per capita than Sub-Saharan Africa which, in turn, shows stronger growth rates

Population growth and real GDP, 2000-2014

Region	Population 2014	Population growth 2000-2014		GDP 2014 (current USD)	Real economic growth 2000-2014 (constant 2005 USD)	
		Overall	CAGR		Overall	CAGR
Africa total	1,115m	37%	2.3%	2,450bn	81%	4.4%
Sub-Saharan Africa	939m	40%	2.5%	1,723bn	92%	4.9%
Northern Africa	176m	24%	1.5%	699bn	59%	3.5%

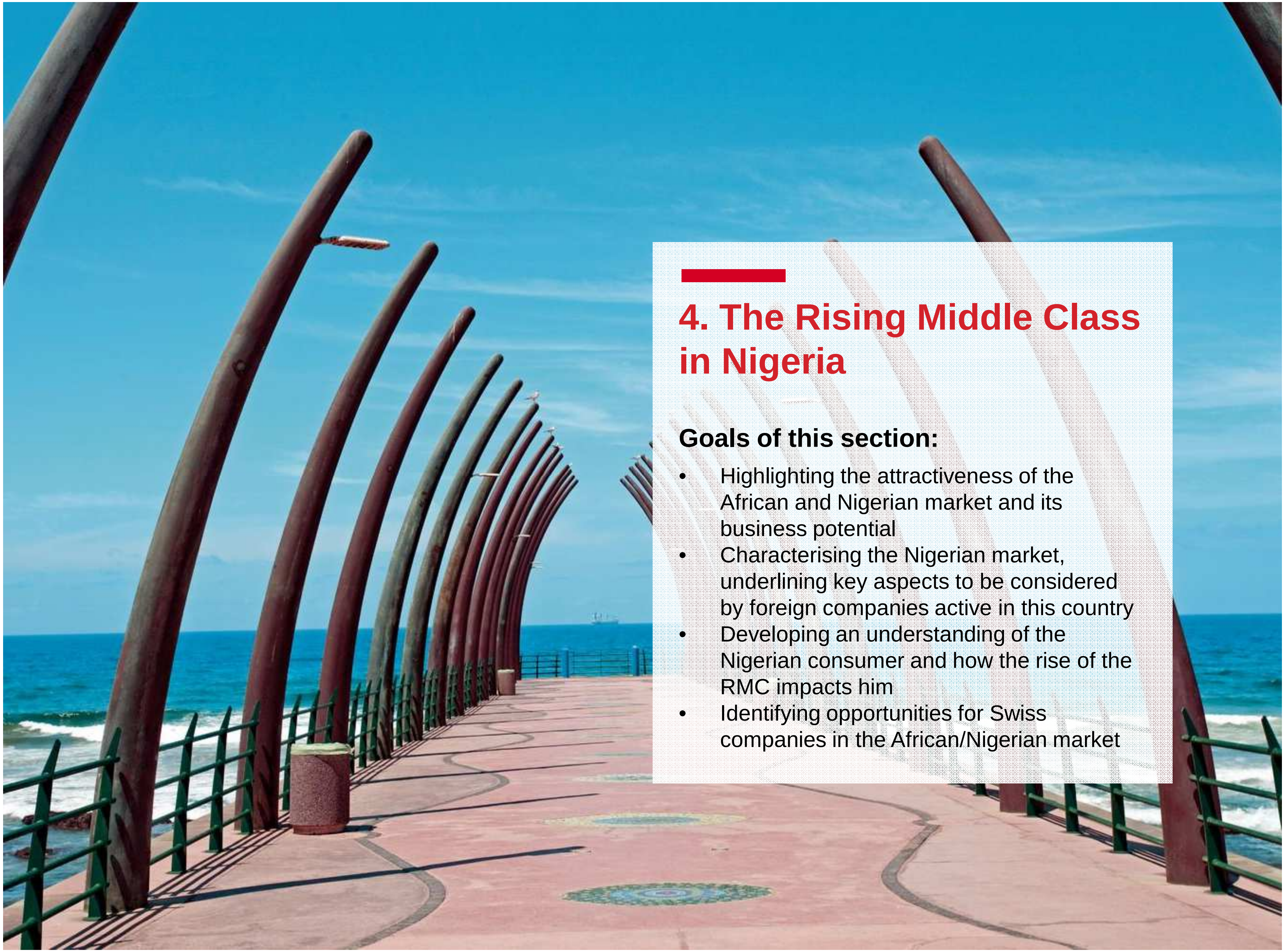
- In order to reflect Africa's diversity and regional differences, the continent has been split into two regions, i.e. Sub-Saharan Africa and North Africa
- Over a period of 14 years, Africa has had significant population and economic growth
- A more detailed analysis shows that, over the same time period, Sub-Saharan Africa grew much faster both in terms of population and economic growth, compared with Northern Africa

Population growth and real GDP p.c. growth, 2000-2014



- Real and nominal GDP p.c. in Northern Africa is more than double that of Sub-Saharan Africa
- The decline of Northern African real GDP p.c. since 2010 can be explained by the conflicts in the north eastern part of Africa

Source: World Bank, AfDB Database



4. The Rising Middle Class in Nigeria

Goals of this section:

- Highlighting the attractiveness of the African and Nigerian market and its business potential
- Characterising the Nigerian market, underlining key aspects to be considered by foreign companies active in this country
- Developing an understanding of the Nigerian consumer and how the rise of the RMC impacts him
- Identifying opportunities for Swiss companies in the African/Nigerian market

4.1
Nigeria at a glance

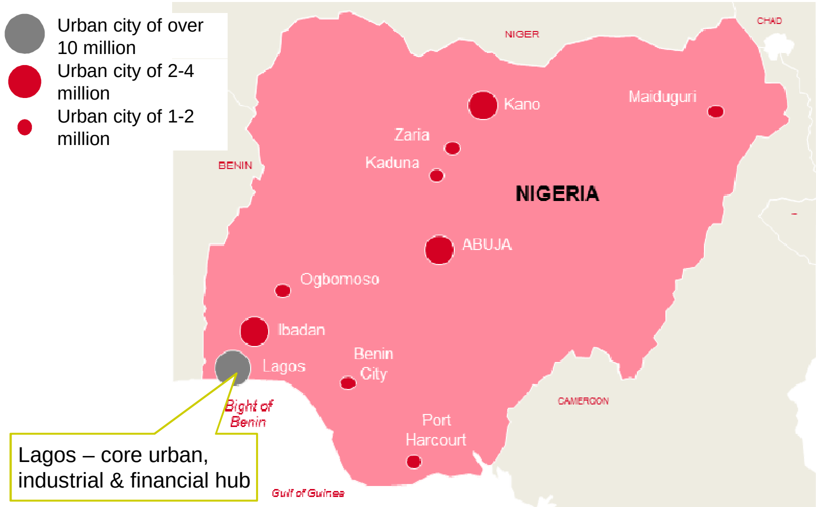
Nigeria at a glance – key indicators show strong growth and a significant market size …

Key demographic and economic indicators

Population size (2014)	174m
Population growth (CAGR 2000-2014)	2.5%
Population growth (forecast avg. p.a. 2012-2035)	2.7%
GDP (2014)	USD 573bn
GDP growth (CAGR 2000 - 2014)	7.6%
GDP growth (forecast, avg. y/y rate, 2012-2017)	6.8%
GDP p.c. (2014)	USD 3,293
Corporate income tax rate	30%
Top exports	Petroleum oils and oils obtained from bituminous minerals, crude (85.9%); natural gas, liquefied (6.9%), rubber

Source: PwC Logistics and Transportation Report, IMF, World Bank, AfDB

Urban centres



- Nigeria has the largest population in Africa, which is expected to continue growing at 2–3% per annum for the next 20 years. Combined with the expected economic growth, this will further boost the local middle class
- Lagos is the largest city in Nigeria with over 13m inhabitants. The population density in the Lagos area as well as in the Port Harcourt area is far above the country’s average
- Especially in the high-density areas, consumer demand is more sophisticated, which further pushes the economy, particularly in the areas of retail, consumer goods and infrastructure

… which highlights Nigeria's business potential

Population 2014

No.	Region	# 2014 million
1	Nigeria	174
2	Ethiopia	91
3	Egypt	86
4	Congo, Dem. Rep	79
5	South Africa	54
	Switzerland	*8*
	China	*1,367*

GDP 2014 (current USD)

No.	Region	USD bn 2014
1	Nigeria	573
2	South Africa	350
3	Egypt	286
4	Algeria	214
5	Angola	128
	Switzerland	*712*
	China	*10,380*

Population growth

No.	Region	CAGR (2000-2014)
1	Angola	4.1%
2	South Sudan	3.9%
3	Congo, Dem. Rep.	3.8%
4	Eritrea	3.7%
22	Nigeria	2.5%
	Switzerland	*0.9%*
	China	*0.6%*

Real economic growth[1]

No.	Region	CAGR (2000-2014)
1	Equatorial Guinea	10.3%
2	Angola	9.5%
3	Ethiopia	9.1%
4	Chad	9.0%
5	Nigeria	7.8%
	Switzerland	*1.8%*
	China	*9.8%*

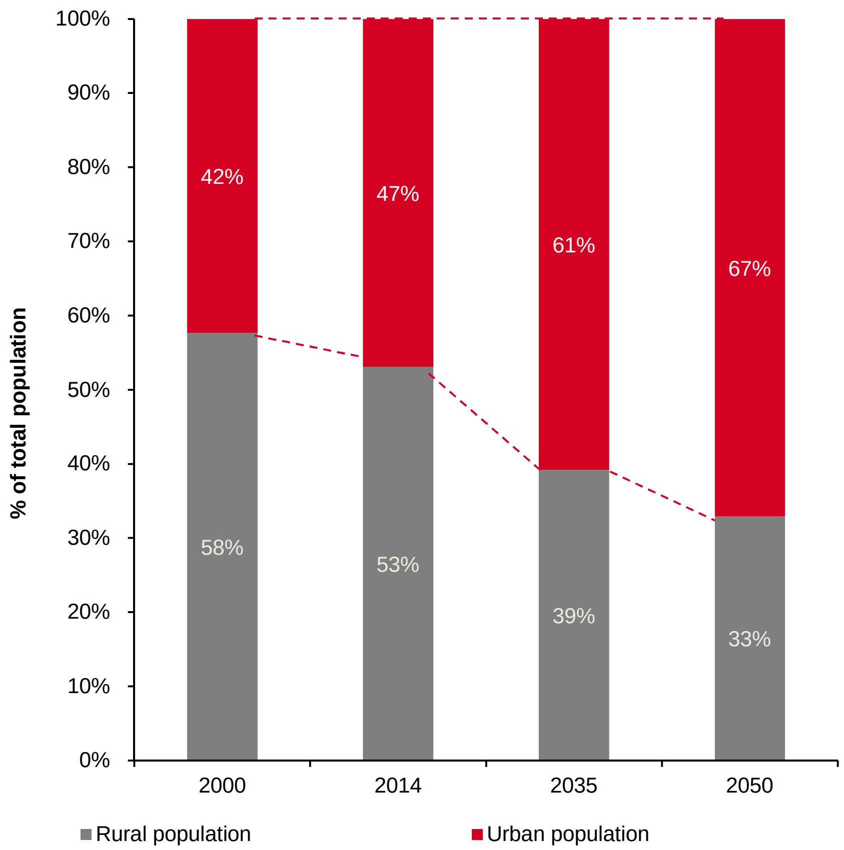
- In terms of population growth, Nigeria – notwithstanding its size – is still in the 'midfield' of African countries
- Nigeria's economic growth is notable, considering the size of its market. This puts Nigeria in the spotlight globally and creates a springboard to a sizeable RMC
- Across the majority of African countries, income distribution is uneven. Interestingly, the richer the country in terms of income per capita, the more unequal the distribution (higher GINI); e.g. South Africa, Botswana
  - In Nigeria, 80% of the population has an income share of 50%

[1] Real economic growth based on value of USD in 2005

Source: World Bank, IMF

By 2050, two thirds of Nigeria's population is expected to live in urban centres

Urbanisation in Nigeria, 2000-2050



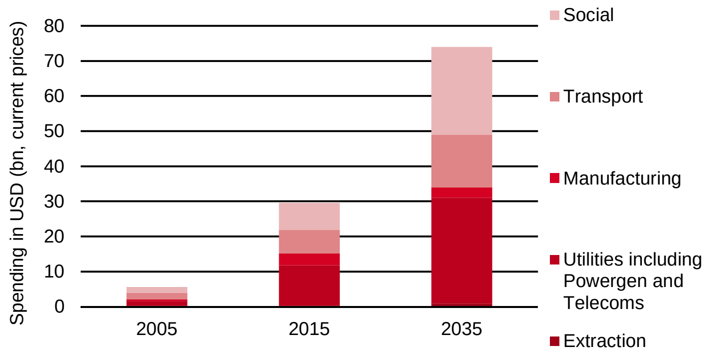
Source: World Bank

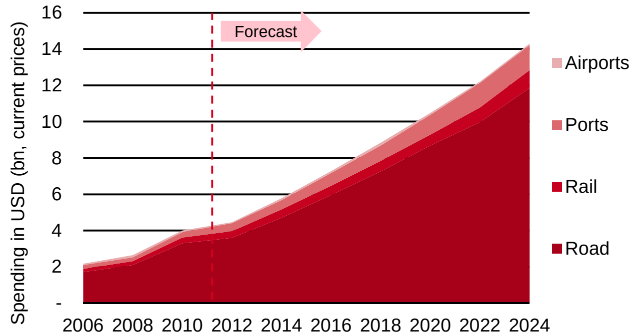
- Nigeria's population is expected to continue growing in the upcoming years
- Urbanisation leads to increasing consumption and stronger demand for basic infrastructure
- Urbanisation is also likely to create even more multi-million urban clusters, most of them situated in proximity to Nigeria's coast line and economic centre from Lagos to Port Harcourt
- In the period 2000 to 2014, Nigeria's population grew from 123m to 173m

> *"Only a few countries globally can show such a market size. Some key infrastructure is not in a business-friendly condition. Especially in urban centres, the infrastructure development cannot keep up with the growing urban population."*
>
> ***Colin Cummings, Nigeria CEO, Swipha***

Nigeria's infrastructure is still in a sub-optimal condition, but outperforms other Sub-Saharan countries

Infrastructure spending by sector, 2005-35





Infrastructure forecast

- As more individuals move to cities, more infrastructure capacity is required to avoid capacity shortages
- The improvement of electricity production and network facilities is key for the manufacturing sector in order to be competitive
- Spending on infrastructure is expected to grow significantly in the next decade. The positive side effects on the economy will improve the economic situation and benefit the RMC
- Nigeria is expected to outperform its peers by a large extent. Whilst Nigeria's annual investment is expected to exceed USD 80bn in 2025, other Sub-Saharan countries will be far below USD 15bn per year

Key statistics and figures

Electricity*:*

- *Unreliable grids – 89 percent of businesses own a generator to overcome daily blackouts that can last up to 7 hours*
- *Only 40% of private households have access to electricity*

Transportation*:*

- *Road: ~190,000 km (of which 18% are paved)*
- *Rail: 4,500 km*
- *20 federal airports, out of which only 4 are international*

Social

- *Spending on health and education is regarded as very important and thus expected to grow disproportionally*

Source: Oxford Economics, PwC Analysis, PwC Transportation Infrastructure Report (2012), World Bank

To achieve the Vision 20:2020 goals, Nigeria needs to improve its policies on economic freedom, infrastructure, security and, especially, corruption

Comparison of Nigeria with other developing countries

Measure (2013/2014)	Nigeria	Historical development	Brazil	India	China
Ease of doing business (globally)	147th	→	116th	134th	96th
Economic freedom (globally)	120th	→	118th	128th	139th
Corruption (globally)	136th	→	69th	85th	100th
Global Competitive Index 2014-2015	127th	↘	57th	71th	28th
Global Competitive Index 2014-2015 – Infrastructure	133th Score[1]: 2.67	↘	120th Score[1]: 3.11	90th Score[1]: 3.75	64th Score[1]: 4.36

Source: IMF, World Bank, World Economic Forum (Global Competitive Index 2014-2015)

[1] Score from 1 - 7

Nigerian Vision 20:2020

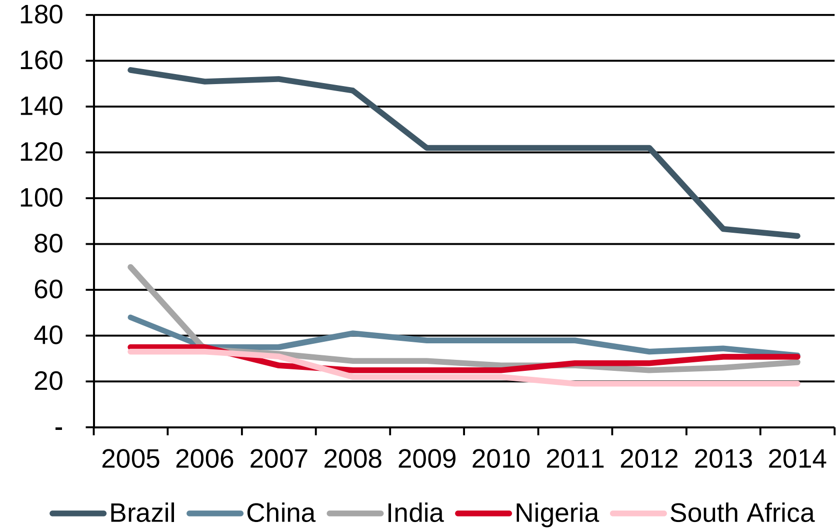
- Nigeria is one of the fastest growing economies in the world. In combination with the size of the population, Nigeria's economy reveals its potential for the future
- **Nigerian Vision 20:2020:** Nigeria's undertaking to join the league of the top 20 economies in 2020. This vision is driven by the assessment of Nigeria's abundant natural and human resources, assuming that these resources will be managed effectively
- The implementation of policies – particularly concerning economic freedom, infrastructure and corruption – in addition to improving security is crucial to achieving the goals of Vision 20:2020
- Yet, there are improvements regarding doing business, economic freedom as well as corruption that are not reflected by the measures. E.g. days required to open a business, cost of business start-up procedures, etc.

"The political situation has been challenging and the difficulties in Nigeria cannot be overseen. However, the elections earlier this year give us hope that Nigeria will experience improvements. We in Nigeria need the change and we are optimistic that this change is going to affect the people and the economy in a positive way."

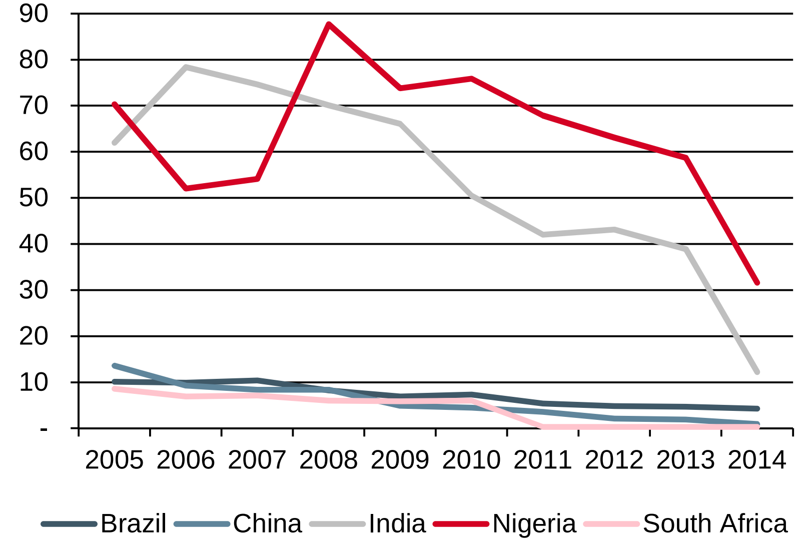
Oladapo Olaiya, Sales Manager, Watchgalleries.ng, General importer of Tissot in Nigeria

Ease of doing business in Nigeria – time and costs required to open a business have reduced significantly since 2005

Days required to open a business



Cost of business start-up procedures (% of GNI per capita)



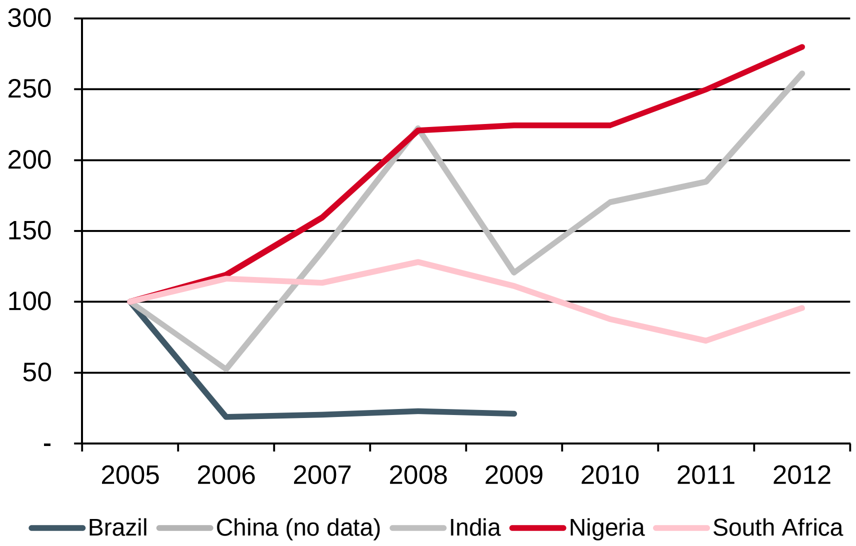
- In 2014, it required 31 days on average to open a business in Nigeria
- Compared with other developing countries, this can be assessed as positive
- In this sample, the country with the shortest period to open a business is South Africa with 19 days

- Since 2005, Nigeria has improved significantly the cost of its business start-up procedures
- Nonetheless, Nigeria still has relatively high costs for start-up procedures as a percentage of GNI per capita, which is an indicator of relatively high bureaucracy levels

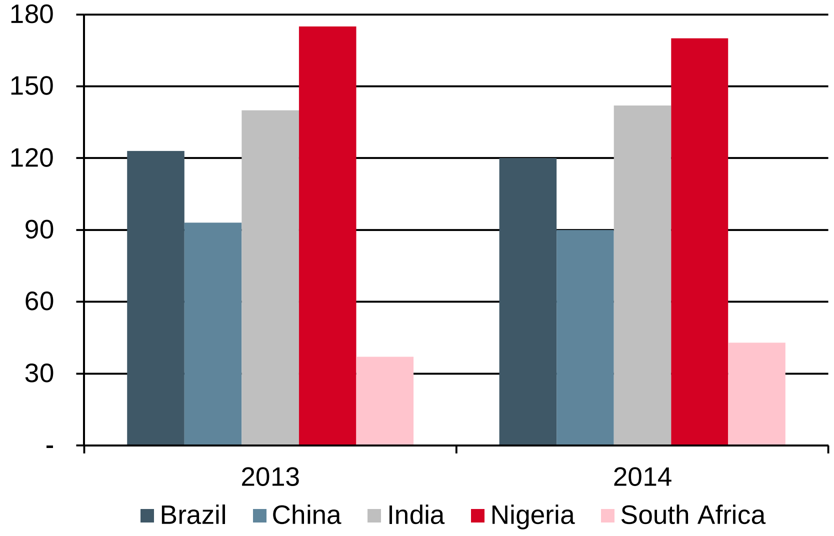
Source: PwC Analysis, World Bank

Nigeria outperforms its peers in terms of newly registered businesses, but underperforms on ease of doing business

New registered businesses, indexed (100=2005)



Ease of doing business, World Bank indicator (1= best)



– The number of newly registered businesses in Nigeria has grown significantly compared with the other countries in this sample

– According to the World Bank indicator, Nigeria had the lowest value regarding ease of doing business among its peer group in 2013 as well as in 2014. But, there is a sign of improvement

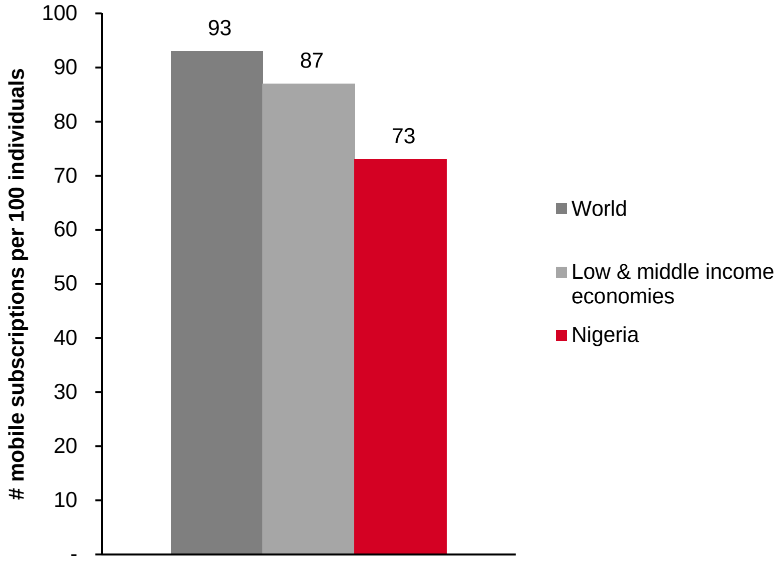
"Notwithstanding all the difficulties and the complexity in Africa, we believe in its potential in achieving over average growth and new opportunities to arise."

Julian Artopé, Africa Manager, Ringier AG

Source: PwC Analysis, World Bank, Interview

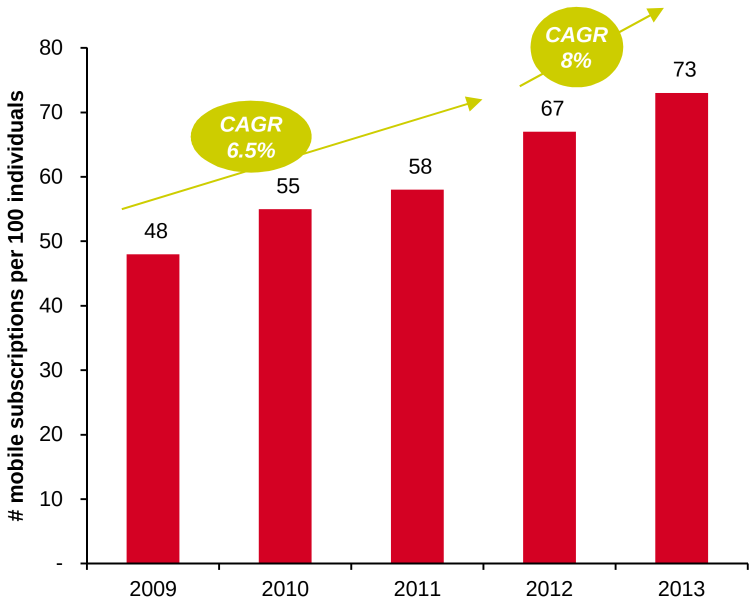
Mobile subscriptions in Nigeria have experienced strong growth, but are still low compared globally

Mobile subscriptions per 100 individuals 2013



– Connectivity in Africa as a whole – and in Nigeria in particular – is still partly underdeveloped
– Internet and mobile connections are available in urban centres and agglomerations, but frequently not available in remote locations

Mobile subscription development, Nigeria 2009-2013

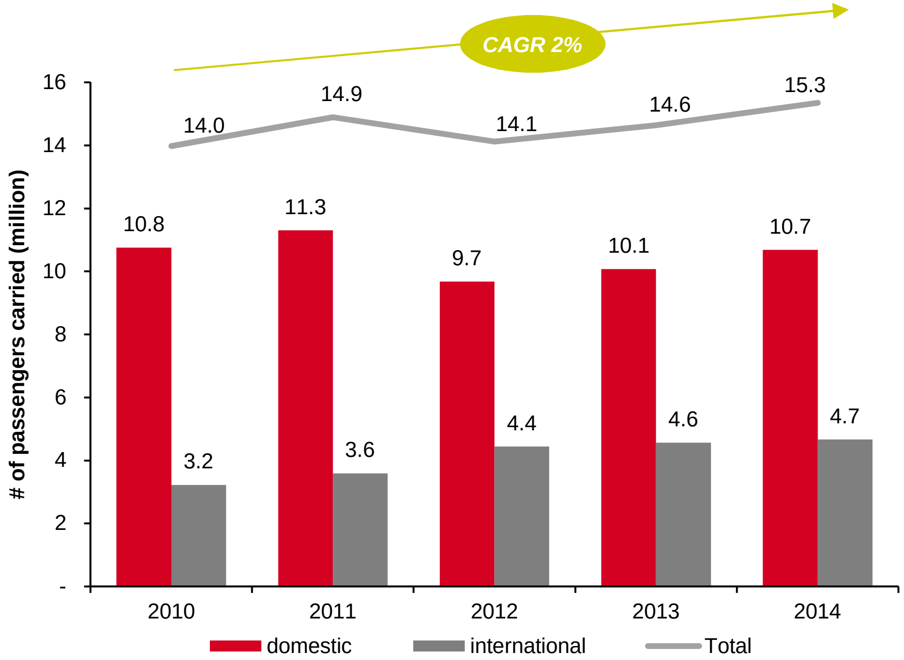


– Mobile subscriptions have grown steadily between 2009 and 2013
– In 2009, less than half of the population had subscribed to a mobile contract. By 2013, almost ¾ of the Nigerian population had a mobile subscription. This corresponds to an absolute growth rate of 52% in just 4 years

Source: PwC Analysis, World Bank

Air passenger traffic in Nigeria continues to grow –international traffic especially has experienced steady growth since 2010

Air transport development in Nigeria 2010-2014 (# of passengers carried)



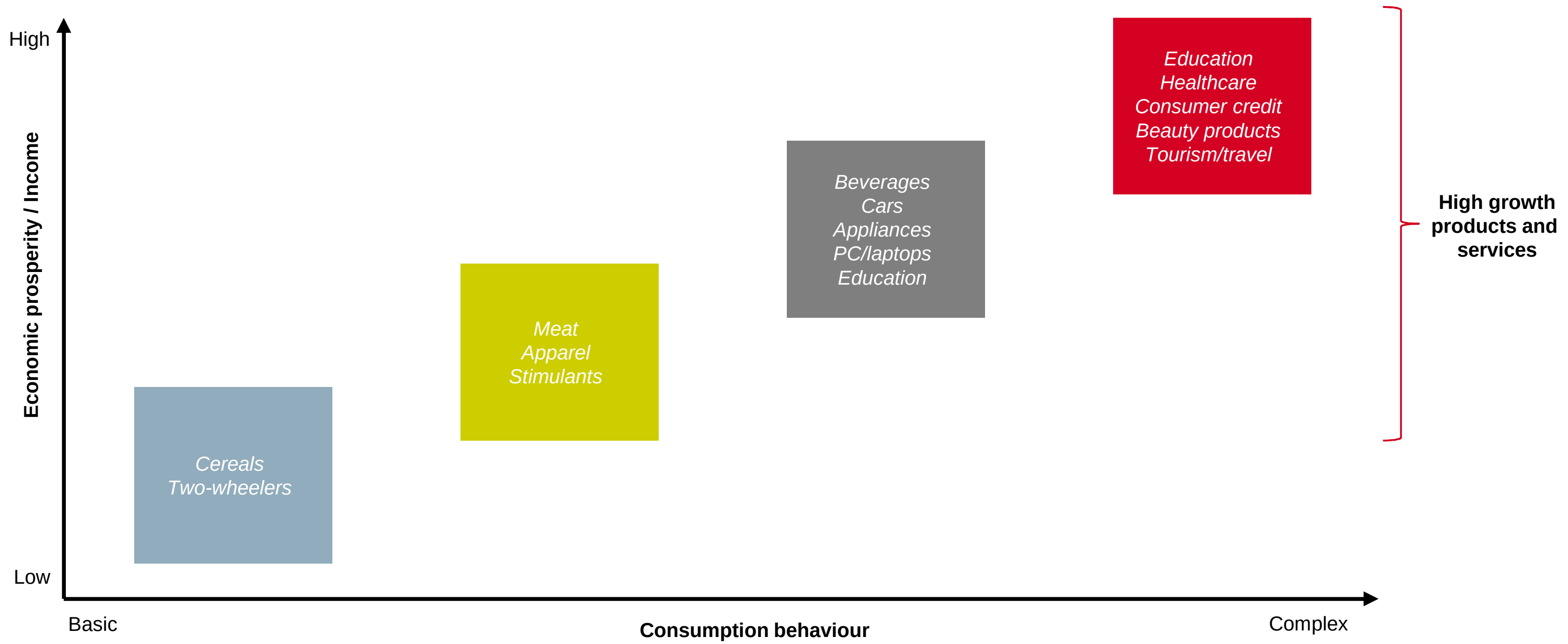
- International air traffic to and from Nigeria has been growing steadily since 2010, boosted by foreign air carriers increasing their Nigerian exposure
- The air transport market is expected to grow further due to improvement in regulations and increasing demand
- The busiest airport is Murtala Muhammed airport in Lagos, with 1.6m passengers
- However, the lack of fuel and infrastructure is currently restricting higher growth
- Growth in domestic air traffic experienced a dip in 2012, partly due to a flight crash

Source: PwC Analysis, Nigeria National Bureau of Statistics: Nigerian Aviation Sector

4.2
Industry insights and RMC opportunities

When purchasing power increases, consumption patterns move away from basic products and services

Changing demand with increasing prosperity

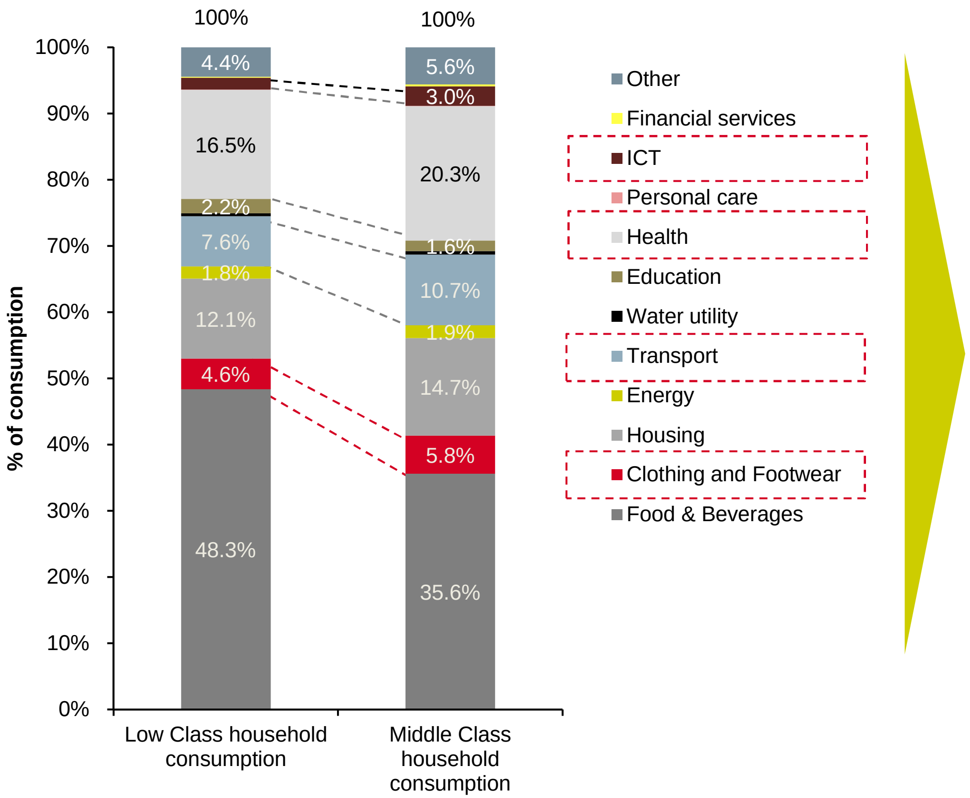


- Historical evidence shows that increases in economic prosperity (e.g. higher income) drives the consumption of non-basic products and/or services
- Within the next decade many people are expected to benefit from higher income levels, which will drive industries such as education, healthcare, beauty products, services and tourism

Source: PwC Analysis, World Bank, IMF, Credit Suisse

Key middle class consumption sectors are ICT, health, transport and general retail

Consumption comparison by sector - Nigeria's low and middle class



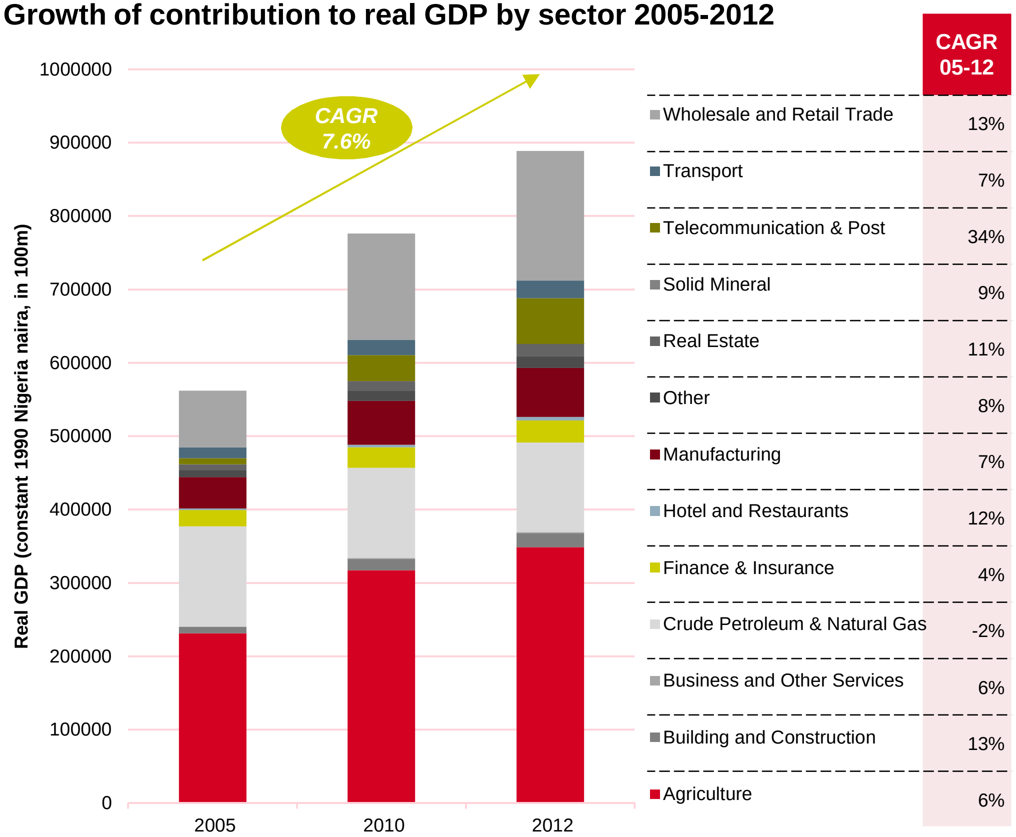
- Comparing Nigeria's middle class to its lower class with regard to consumption distribution, significant **increases in expenditure** in sectors such as ICT, health, transport and clothing and footwear can be identified (retail consumption goods) in the middle class
- This indicates that, although nutrition and other basic necessities are still important, the middle class is spending more on **'nice to have'** products and services

Note: The definition of classes is based on the World Bank definition of lowest to high consumption segments
The total middle class (Rising and Upper Middle Class) is defined as both the low and middle consumption segments

Source: PwC Analysis, World Bank

Nigeria's overall GDP experienced strong growth between 2005 and 2012, mainly driven by middle class consumption segments

Growth of contribution to real GDP by sector 2005-2012



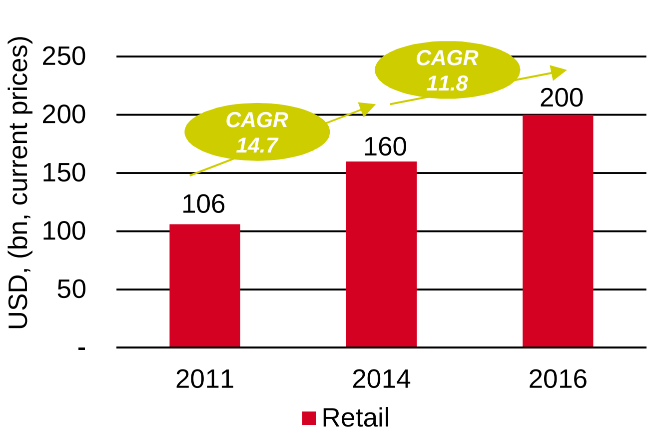
- The data shows that **middle class consumption is growing,** as typical middle income consumption segments are significantly more important in 2012 than they used to be in 2005
- **Key examples** are:
  - **Telecommunication and post** shows the highest growth rate of all industries (34%)
  - **Wholesale and retail trade** grew by **13% CAGR**
- **Infrastructure spending** in absolute terms is still relatively low, but has experienced strong growth
- **Transport and power** are sectors needed to support the country's economic growth
- The **strong growth in the hotel and restaurant industry** is the outcome of increasing traveller numbers, local dining and hoteling
- Nigeria's economy shows a high dependency on **the agriculture and oil industry.** Oil is still the most important export good and source of money for the Nigerian government. Recent oil price shocks and a high inflation have significantly impacted the funds generated by this industry

Note: GDP is expressed in constant 1990 Nigerian naira to reflect real growth of the different industries

Source: PwC Analysis, Statistical Bureau of Nigeria

Nigeria's retail and consumer goods industry is expected to reach USD 200bn in 2016, experiencing double-digit CAGR growth

Market volume of retail, since 2011



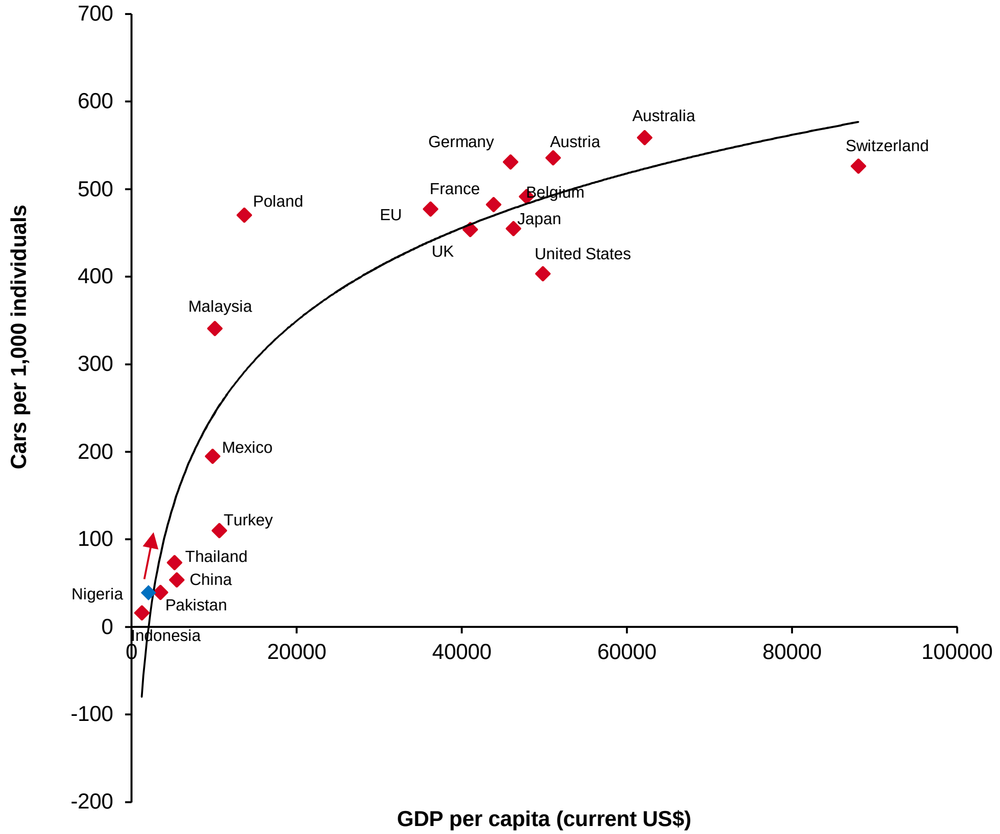
- Between 2011 and 2014 the **retail sector** grew by approx. 50%. With a **CAGR of 14.7 percent,** retail outperformed the country's GDP growth, which is partly a result of the **growing purchasing power of the middle class** as well as rapid **urbanisation**
- Going forward, the retail sector is expected to grow at 12% CAGR from 2014 to 2016. Sales of **non-food goods**, such as personal care products, **will grow by 10.5%** per annum through to 2030, compared to 6.8% for food products over the same period
- Informal retailing will not be eliminated by modern retailing. A co-existing relationship is expected to develop. In recent years, Nigeria's traditional grocery retailers have **increased** the range of their offer of **non-grocery items**
- In addition to groceries, many grocery retailers now also sell items such as apparel and footwear, consumer electronics, consumer appliances and other non-food items

Presence of foreign shopping malls	Spread of local retail outlets	Internet retail boom	Demand for non-grocery items	Economic expectations
• In the last five years, South African retailers have opened nearly 100 stores in Nigeria (including Shoprite and Spar stores). This pace is set to double by 2020 • US retail giant Walmart, invested USD2.4 billion acquiring a majority stake in South African grocery retailer Massmart with a vision to grow across Africa, starting in Nigeria with the Game store	Examples include: • The Palms, Lagos (first western-style mall in Nigeria) • Lagos City Mall • Ikeja Mall (Lagos) • Silverbird Galleria (Lagos, Abuja, Uyo, Port Harcourt) Addide Ltd also established local stores on recognising their potential in densely populated urban areas dominated by the middle class	• This channel has recorded significant growth since 2012, with Konga and Jumia as the forerunners • Smaller players, including supermart.ng, addiba.com, webmall, ngternet retailing. buyam.com.ng, and drinks.ng, have since followed in the footsteps of these giants	• Due to increased purchasing power of some middle-income and high-income Nigerians, demand for non-grocery items has grown • For example, apparel and footwear, consumer electronics, consumer appliances, books, toys and games, beauty personal and home care products, furniture and furnishings	• Companies are expected to strive to develop new ways to reach out to Nigerian customers • This initiative bears in mind that, despite positive GDP growth, the majority of the Nigerian population has a low level of discretionary spending • This situation could worsen in the future due to the oil price slump and the devaluation of the naira

Source: PwC Analysis (Report PwC Nigeria), AT Kearney, National Bureau of Statistics Nigeria, Euromonitor

Examples of increasing purchasing power can also be observed in the automotive industry

Changing consumer demand through economic growth – example: cars

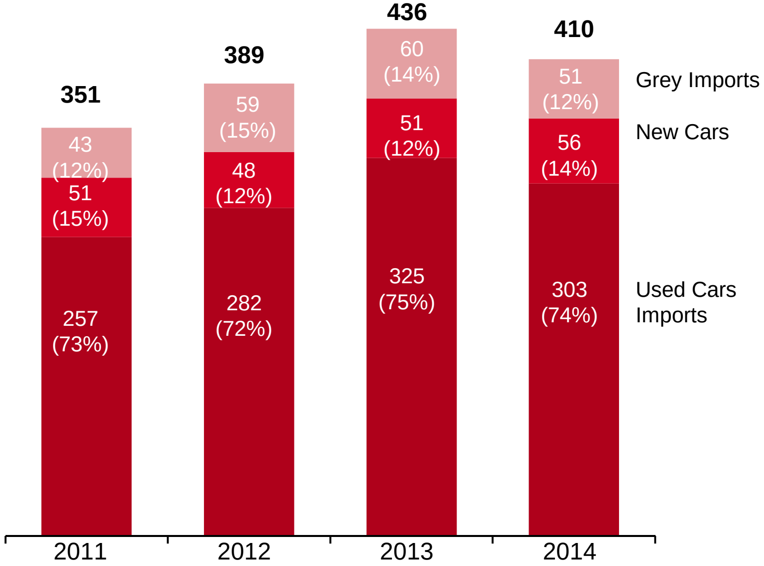


- A population's level of **wealth directly influences the types of goods and services bought**
- For example, countries such as Nigeria, Indonesia and China will see an **acceleration in automobile ownership** as income increases, whereas levels in developed countries are expected to plateau
- A similar phenomenon can be observed for **leisure travel and tourism spending per capita**
- Currently, 34% of the French population leave the country for holidays, respectively 20% in the US and 13% in Japan. In India only 1.2% leave the country for tourism, 2.7% in Brazil and 4.3% in China
- Similar changes in consumer behaviour can bee seen in sectors such as **cosmetics, fashion as well as watches and jewellery**

Source: PwC Analysis, Credit Suisse, IMF, World Bank, HSBC

Strong sales growth of used cars offers a promising business opportunity, including for Swiss companies

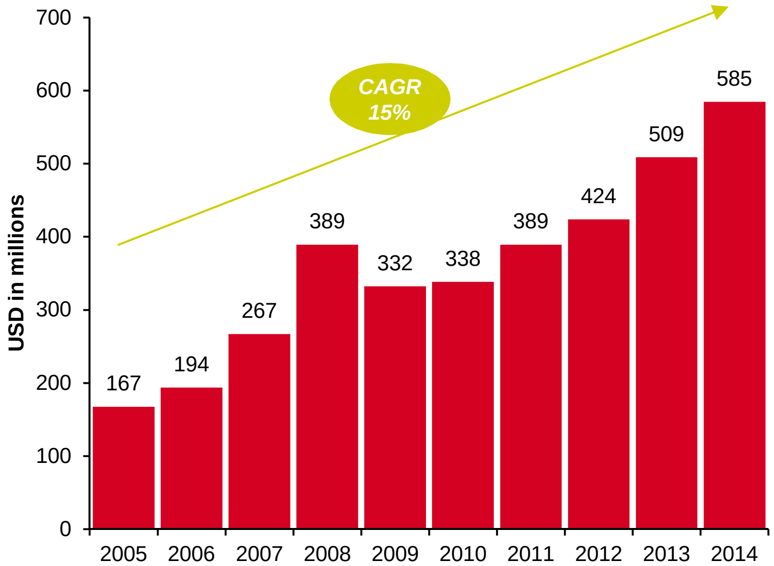
New vs. used vehicles (retail) market (2014, '000 units)



Source: NAC, PwC Analysis, Strategy& Analysis

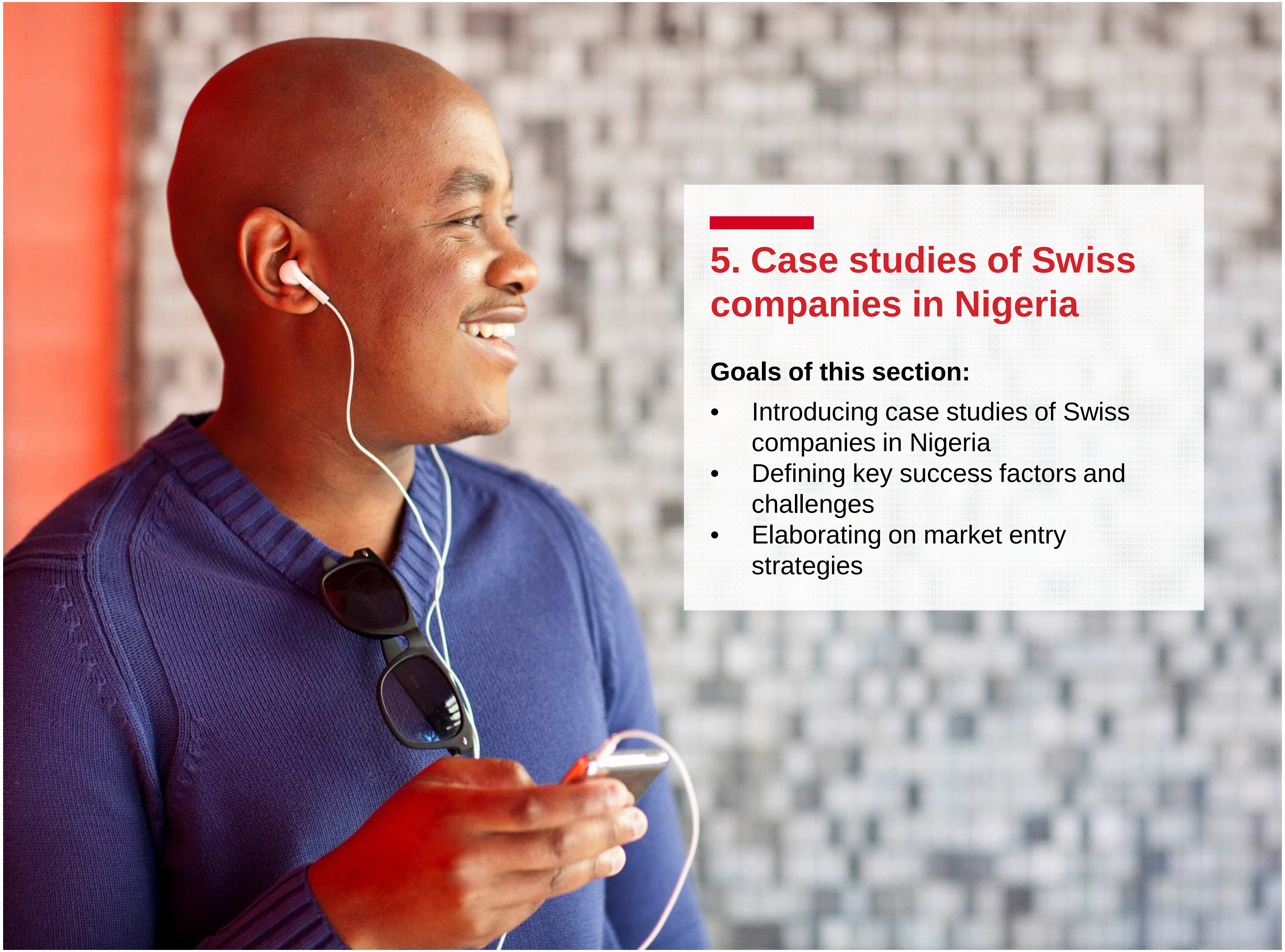
– 85% of vehicles sold in 2014 were imports, while 15% were assembled in Nigeria
– In 2013, the Government announced its Automotive Development Plan to stimulate investment in local vehicle production/assembly
– This industry is said to have the potential to create about 70k skilled and semi-skilled jobs along with 210k indirect jobs in SMEs

Spare parts growth rate, 2005–2014, USD million



Source: NAC, PwC Analysis, Strategy & Analysis

– The spare parts market benefits from the large used car market; sales of spare parts have grown significantly from 2005 to 2014 with a CAGR of 15%
– Swiss companies that are active in this space can also benefit from this high growth market
– In 2013, the spare part market was split as follows: brakes (11%), wheels (4%), shock absorbers (4%), clutches (7%), chassis and body parts (3%), tyres & fittings (6%), others including technology (64%)



5. Case studies of Swiss companies in Nigeria

Goals of this section:

- Introducing case studies of Swiss companies in Nigeria
- Defining key success factors and challenges
- Elaborating on market entry strategies

Example: Digital Market – Ringier

Ringier

We inform.
We entertain.
We connect.

Company profile

- **Industry:** Print and digital media, digital services
- **Employees:** 6,460 worldwide, 250 in Africa
- **Location:** Present in 15 countries globally, 5 countries in Africa
- **Revenue 2014:** CHF 989 million
- **Ringier websites and platforms in Africa:**

www.ady.ng	*www.pulse.com.gh*
www.rdm.ng	*www.allsports.com.gh*
www.pigiame.co.ke	*www.expat-dakar.com*
www.rupu.co.ke	*www.mamaison.sn*
www.tisu.com.gh	*www.zoomtanzania.com*

Market and opportunity

- ICT in Nigeria is very much driven by the rising expenditure levels of the Rising Middle Class. Taking part in online activities is a clear need for the population
- ICT infrastructure in Nigeria shows tremendous developments
- Ringier has been active in Nigeria since 2011 and has experienced impressive growth in these years. Online traffic growth in 2014: 800%. revenue quadrupled Q1 2015 vs. Q1 2014 for the group
- The Nigerian market is much bigger and much more aggressive than other African markets. This leads to a competitive environment which makes it sometimes difficult to navigate. Problems are also multiplied due to the market size, but these challenges are part of the African business world that have to be taken in order to address the huge opportunities
- Focus on RMC markets with a long-term view. No expectations of short-term payback (first 5 years)
- An early presence is key in order to build up customer relationships

Market strategy

- Be the first mover – become market leader by entering the market early with long-term goals and offer the right products to meet the target markets' requirements
- Mobile first: we offer short news with mobile-friendly quality information
- Technology: the technology to enter the market is extremely important. Due to the very fragmented mobile market, content needs to be able to be displayed on various devices
- Know-how transfer and training of local staff is key. Expats in Nigeria can be as expensive as staff in Zurich. Experienced local staff is rarely available since many industries are still relatively new to Nigeria and education is lagging behind
  - Hence Ringier partners with local telcos, media companies as well as with artists and small businesses (in content and creative services). Finding the right partners can take time
- Network: engage with business clubs in Nigeria to connect with business people who know the market.
- Local operations are not to be managed from abroad

> *"Markets are complex and doing business is complicated and sometimes harsh. However, I would recommend Nigeria to anybody who is looking for business opportunities. But you need to make the necessary investments and have a long-term agenda."*
>
> Julian Artopé, Africa Manager, Ringier AG

Example: Pharma – Swipha

swipha
swiss pharma nigeria limited

Company profile

- **Industry:** Pharmaceutical
- **Location:** Present in Nigeria
- **Revenue 2013:** CHF 14.5 million
- **Website**: www.swiphanigeria.com

→ Swipha is an acronym for Swiss Pharmaceuticals Limited and is a management buy-out of Roche
→ First pharmaceutical company in Nigeria to attain ISO 9001:2000 certification
→ One of the few WHO-licensed companies in Nigeria producing and selling locally

Market and opportunity

- Despite the poverty levels, this market is massive. Thanks to the population size of over 170m, there is still an addressable consumer size for Swipha of 20m. Only few countries globally have such a market size
- I see great opportunities in the retail and consumer goods space. Depending on the product, there is definitely a RMC demand. This can also be seen in the increasing number of shopping malls that seem to be doing really well
- For pharmaceuticals, higher price segments are more attractive for Swiss companies due to the fact that the generics market is very much controlled by Indian companies, with China now showing an interest
  - The market is professionalising with still very little regulation. Within the next 5 to 10 years, this market can be expected to take off
- There is a positive development in the localisation of markets. The demand for local staff, local products as well as local services is on the rise
- In Sub-Saharan Africa you have to be in Nigeria as it is a hub to get access to other western/ central African countries

Market strategy

- Swipha did not establish a new company in Nigeria, but started thanks to a management buy-out of Roche, a rebranding that worked well
- Strategy: manufacturing, marketing and distributing pharmaceutical products that meet international standards
  - Importing products from, e.g. Bio-Strath, Bayer Health
  - Manufacturing locally 16-18 products
- Success in Nigeria will depend a lot on your local business partners as well as the know-how you build up to navigate these kinds of markets
- Prior to fully entering a market, it is important to find out whether your product will sell in the target market. It is hence advisable to work with local distributors first to find out whether the product has potential. Good examples can be found in the consumer industry

"It is no secret that you have to deal with many difficulties in Nigeria. But these difficulties can be controlled. Companies entering the market have to be very clear about why they are entering. They need a solid long-term strategy, very good market knowledge, exceptional local management, perseverance and, most importantly, the right partners! If you fulfil these requirements, Nigeria is your market to go."

Colin Cummings, Chairman/CEO, Swipha

Example: Food and Beverage – Nestlé

Nestlé Good Food, Good Life

Company profile

– **Industry:** Food and beverage
– **Employees:** 2,300 in Nigeria, over 14,000 indirect jobs
– **Location:** Globally present, in 22 African countries; present in Nigeria since 1959

→ A wide range of product categories: bouillon, beverages, confectionary, infant cereal, infant formula, all family cereals, coffee, milk, water, etc.
→ 90% of Nigerian demand for Nestlé products is covered by local manufacturing

Market and opportunity

– The **consumer's resilience** to a very unstable economy is impressive. Nigerian consumers do not appear affected by the short-term volatility of local markets. Economic issues like inflation and oil price shocks do not stop consumption
– **Sharing of financial resources** is an interesting characteristic. In crises, people organise themselves to keep community/households going. This helps the consumer market, even in difficult times
– The **natural entrepreneurship of Nigerians is** unbelievable! Everybody has something going on. As a result, if investments flow into the country, the effect on the economy will be much faster and more direct than in many other countries
– With the **development of infrastructure**, the Nigerian **consumer market is expected to explode**. For example, today, people spend significant amounts of money on energy. If the energy price were to decrease, production would be cheaper and the consumer would have additional funds to spend
– Overall, one can state that there is still **little regulation** in Nigeria

Market strategy

– Nestlé is an old business in Nigeria and active since 1959. Nestlé has been growing with the market and has created a **strong local presence**
– **Being present** is a key factor to be successful in Nigeria. Local production and local sales is a big plus. There is a clear **first-mover advantage** in Nigeria
– **Overcoming risk-averse thinking** is the basis to create a successful strategy. Being risk averse can be a major issue in Nigeria
– **Choose the right management**: Expect everything to go wrong (fuel scarcity, etc.). To stay focused and to be resilient is therefore a must. The ability to network is very important because competitors also join forces. Hence, a strong leadership team with the right mindset is key
– **Nigerian consumers are well informed**: Do not try to use Nigeria as a second-hand market. The consumers are well informed and know what is going on. Products have to be world-class. Nestlé, for example, has the same standards as in Switzerland.
– **Incremental investment**: It is going to take longer than expected. Be very clear about your intentions and have a precise strategy throughout

"Swiss SMEs are still not very well established. The biggest issue is their risk-averse attitude. However, if you can overcome risk averseness and if you have a resilient management, the right strategy and a long-term view on your investments, there is definitely a huge market, huge opportunity. But don't expect fast returns."

Dharnesh Gordhon, Managing Director Nigeria, Nestlé

6. Key takeaways for SMEs

Five key success factors for RMC markets

1 Make RMC markets top of mind

- When entering RMC markets, senior management commitment, high-quality resource allocation and a local presence are absolutely key

2 Define your tailored market-entry strategy

- RMC markets will most likely require a dedicated (product) strategy for each market
- There is no ‘one-size-fits-all approach’. Consumers in Nigeria are heterogeneous and well informed. Nigeria should not be considered as a ‘second hand-market’

3 Find the right partner

- Working with the right partners is crucial in order to navigate in difficult market conditions
- Networks can be built, e.g. in business clubs; invest in proper partner screening

4 Make use of innovative new channels and social media

- Don’t underestimate the high mobile penetration and often very well-connected population
- Use social media, online communities and online channels to promote your products or services

5 Invest in the education of local staff

- Entering middle class markets is a long-term adventure and needs education and training
- It is key to learn and adapt to new market conditions

S-GE offerings

- Workshops for the development or the focusing of your internationalisation strategy – globally, for a specific region or a country
- Individual and free-of-charge consultation meetings to discuss your specific questions
- Independent and neutral consultation of your plans
- Research, market information as well as business partner screening
- Various events giving insights into market and industry trends
- Established network in over 70 countries for facilitated access to international markets

Switzerland Global Enterprise – enabling new business