

Nigeria: Small Packs For Africa's Biggest Consumer Market

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Small-Packs Nigeria is the most populated country in Africa and the 7th in the world. As in most developing countries, it has a large young population, with low but rising life expectancy, and high fertility rates.

All these factors make for a huge demand of consumer goods, since the lower the income, the higher proportion spent on essential goods, in particular housing and grocery products.

With a national average of five people per household in 2010, Nigeria would make an ideal candidate for discounters and big supermarkets; however, this is not the case. Most consumers still shop from street markets or roadside kiosks for their basic needs and there is limited penetration of supermarkets, let alone hypermarkets (only 2 hypermarkets exist in the country).

A cash economy with low purchasing power

The main reason for this is the low income of consumers, who are very sensitive to price and have limited or no credit. As such, Nigeria is a cash economy, where 84% of the population lives on USD2 a day (NGN300). For Nigerian consumers, you can only spend the cash you have in hand. Credit card payment is relatively unknown, so the decision to purchase a product is mainly based on price and convenience.

Moreover, as most of the income is taken up by housing costs, the rest goes to basic goods. This leaves almost nothing left for discretionary purchases. Cash economy also implies a short-term vision. As many do not have a bank account, they cannot plan for future spending. Only middle and upper class households, which are still a minority in Nigeria, can go to a supermarket and shop for a whole week's worth of goods. As local shops and kiosks are the vendors of choice for most Nigerians, it also doesn't make sense for manufacturers to develop large pack-sized items, as small-scale retailers would not be able to stock them and consumers would not be able to carry them due to limited means of transport.

Bulk-breaking is the rule

Retailers have long adapted to this reality, and 'bulk-breaking' is a widespread practice in most developing markets in Africa. This is exemplified by the Nigerian cigarettes sector, where you can buy by the stick instead of the whole pack; more generally, it incorporates any product that can be sold in multiple items: stock cubes, instant coffee, chocolate confectionery, gum, and even consumer healthcare products sold in capsules or lozenges. In doing so, retailers are addressing the issue of affordability, as a larger pack may be beyond what many consumers can afford to pay. As an example one stock cube is usually sold at a retail price of USD0.03 and Dano Milk Powder by Arla Foods Amba sells for as little as USD0.06.

Although manufacturers did not intend for their products to be sold by the unit, they are increasingly becoming aware of this trend and are seeking to address it. Taking matters into their own hands – as opposed to leaving it to retailers to break up packs – they are reducing their pack sizes, offering a small number of units in a pack in order to bring down the retail price. This practice has many advantages for manufacturers. First, it typically involves a basic packaging for their new product, usually a flexible sachet, getting rid of all any other packaging layer. At the same time, they can often significantly cut their operational costs and increase their profit margin. Another advantage is competition. If for instance a product experiences a surge in price due to a hike in commodities, consumers will trade down to a cheaper competitor. But if a consumer can find a cheaper variant of the exact same brand, they will likely stick to the brand they are familiar with.

A trend seen across most FMCG industries

This practice already generates a wide range of opportunities within the packaged food industry. For instance, milk in Nigeria is mostly sold in powder format, since the lack of infrastructure makes it difficult to produce and stock fresh or UHT milk on a large scale. As an example, the leader in this category, Friesland Foods Wamco Nigeria Plc, launched its iconic evaporated milk brand Peak in a single-serve 35g flexible plastic sachet in 2009, which met with huge success among consumers. This new format enabled to answer an unmet need in the milk category, where originally the smallest available pack size was 170g metal tins. The 35g sachet also fuelled value sales growth for the brand at 12% over 2010. Other players have developed the same strategy. Promasidor Nigeria Ltd developed a large array of SKU's, with its flagship brand Cowbell now available in all sizes, from 1kg metal tins to individual sachets. The same goes for Kneipe Nigeria Ltd, who sells its Dano milk powder in an 8g sachet variant. For dairy companies, this small format has the advantage of being easier to carry for small retailers and consumers and does not require any refrigeration.

We can also see this "miniaturisation" trend shaping up across many other FMCG industries. In alcoholic drinks, Diageo Plc began offerings its premium spirit brands in a 200 ml glass bottle. According to the company, this creates an incentive for consumers to try the brand and possibly develop an attachment to it. This format was already available in food service and the hospitality industry – the single serve 180 ml Champagne or Whisky bottle from the hotel room mini-

bar – which means that it did not require any major overhaul in production.

Equally, in March 2010 GlaxoSmithKline Consumer Nigeria Plc introduced a 150 ml bottle variant to its brand Ribena that sells for NGN50. It did the same in July 2010 to its leading analgesic brand Panadol, now available in a pocket-size folding carton of 20 caplets. Another example is Unilever Nigeria Plc, who offers a 4 ml sachet for its toothpaste brand Closeup. In addition to being more affordable to a wider consumer base, it provides a larger audience for the company's pledge on improving sustainability and hygiene within the country, thus boosting its image.

A threat to premiumisation?

Although many companies have been satisfied with the small pack strategy, acknowledging its positive impact on revenue so far, it could create more issues in the long term. First, the small pack can potentially cannibalize the larger format and result in less volume demand all in all. If the product is identical, then customers will more likely choose the cheapest option. It could also harm the brand's initial positioning, by luring low income consumers to adopt the product, thereby risking its image amongst upper income buyers, who often seek out upmarket brands. One way to avoid this would be to create a sub-brand that is only sold in small packs, openly positioning it as an economy brand.

Another concern is black market and counterfeit products. Legitimate manufacturers have to deal with illicit trade; their brands often get copied by local companies and sold at a lower price point. This is especially true for pillow pouch water, which is a significant market in Nigeria. Although some legitimate companies produce it, a large part of it comes from informal and unregistered businesses using low quality water. If the packaging were made simpler, than it would be easier for illegitimate traders to replicate the look of higher quality brands.

The future of small packaging

But is there a long term future for small packaging? The middle class is growing fast in Nigeria and so is disposable income. More consumers will be able to afford larger pack sizes from modern retailers, such as Shoprite and Spar, as they typically have a low unit price to start with. Modern retailers will certainly push for family-size packaging, and this could be at odds with the manufacturers' agenda. Before this happens, there is still a large majority of consumers who struggle to get by and for whom small packs are the only way to acquire a product. They have driven volume sales for consumer goods and should remain the main focus group for manufacturers, at least in the short term.

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