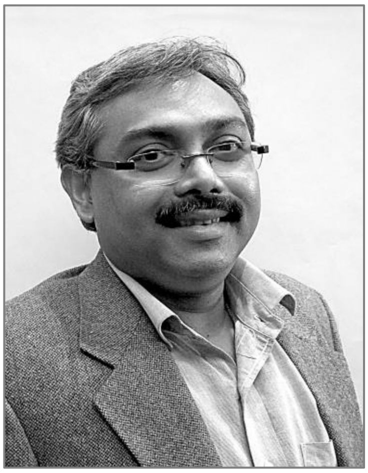
NAVIGATING THE NEW NORMAL IN NIGERIA

WHAT'S AHEAD IN 2017

WINNING IN A TIME OF DISRUPTION



ABHIK GUPTA
MANAGING DIRECTOR
EAST | WEST AFRICA
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The potential of Nigeria is undisputed. With one of the largest Sub Saharan Africa economies, an even larger population, political, economic and social advancement, growing investment in infrastructure and most importantly a rising consuming class, Nigeria is poised to offer businesses opportunities for growth unparalleled in Emerging Markets around the world.

More recent global and local turmoil has adversely affected Nigeria's economic growth and consumer spending potential, leaving businesses asking the all important questions of how to operate in the cyclical downturn, what to focus on, what do consumers want and need, and how to work with retailers to sustain the diminishing demand.

The Nielsen report **'Navigating the New Normal in Nigeria'** provides key insights into how businesses can prepare their business for what's next in Nigeria.

Sincerely,

Abhik

MACRO ECONOMIC OUTLOOK

A TURBULENT YEAR WITH HEADWINDS TO PERSIST

Nigeria's economic downturn has been widely followed in 2016 as Africa's biggest, rising economic powerhouse has been plagued by macro economic forces which have derailed the upward trajectory. The economy slipped from highly favourable growth rates less than 2 years earlier, into an economic recession in Quarter 2'2016, and the lowest rate of growth since 2005. Low commodity prices, in particular oil prices, have dragged revenues down and weakened the Naira considerably, in addition to other factors such as falling oil production, import restrictions and persistent foreign currency shortages.

Many of Sub Saharan Africa's economies have also been affected by global financial market conditions, in particular those with less diversified economies and a heavy reliance on commodities. In the latest Nielsen Africa Prospects indicators, which assesses relative country potential across a range of factors, Nigeria dropped to eighth place on the macro ranking, and seventh place on the overall ranking, reflecting the intensity of the economic crisis facing Nigeria, relative to other Africa counterparts.

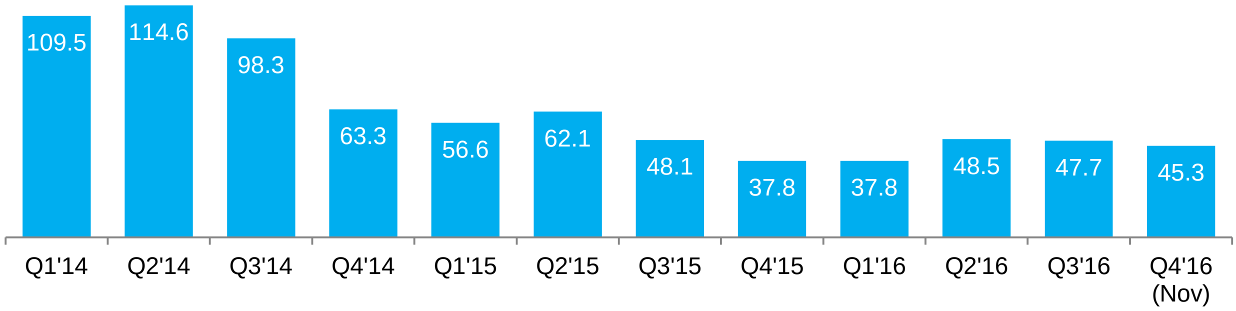
Nigerian market conditions will remain constrained into 2017, with the IMF forecasting the economy to rebound and grow at 1.2%. The strength of the recovery, however, will depend on the recovery of oil prices, improvements in liquidity conditions in the economy and the implementation of structural reforms.

What is clear is that businesses in Nigeria will continue to face challenging conditions, predictions for growth will be lower than those experienced in the previous ten to twenty years and, in order to endure the turbulent times, will require resilience, relentless adjustment and adaptation to meet consumers' altered needs in this time of uncertainty and change.

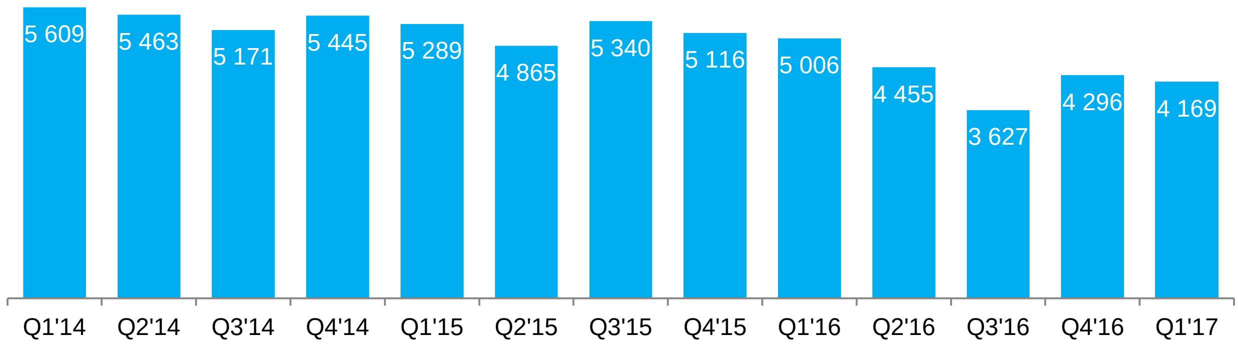
OIL PRICE AND PRODUCTION SLUMP

BUT THE WORST IS POSSIBLY OVER

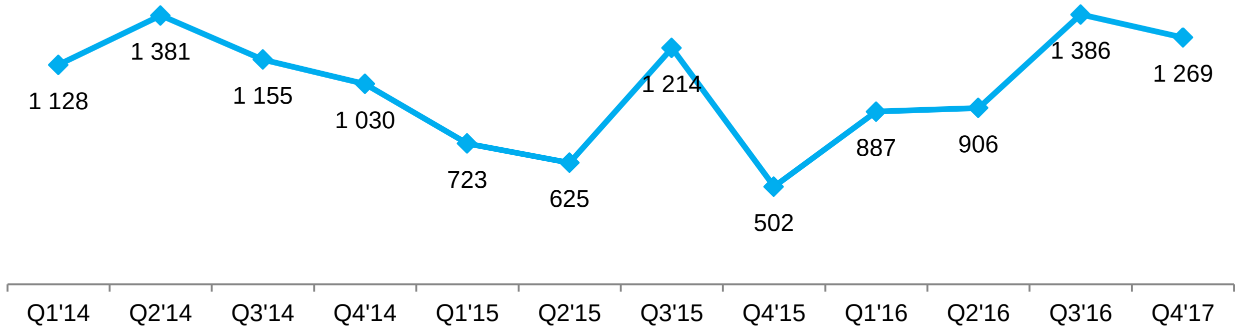
CRUDE OIL US$ PER BARREL



CRUDE OIL PRODUCTION

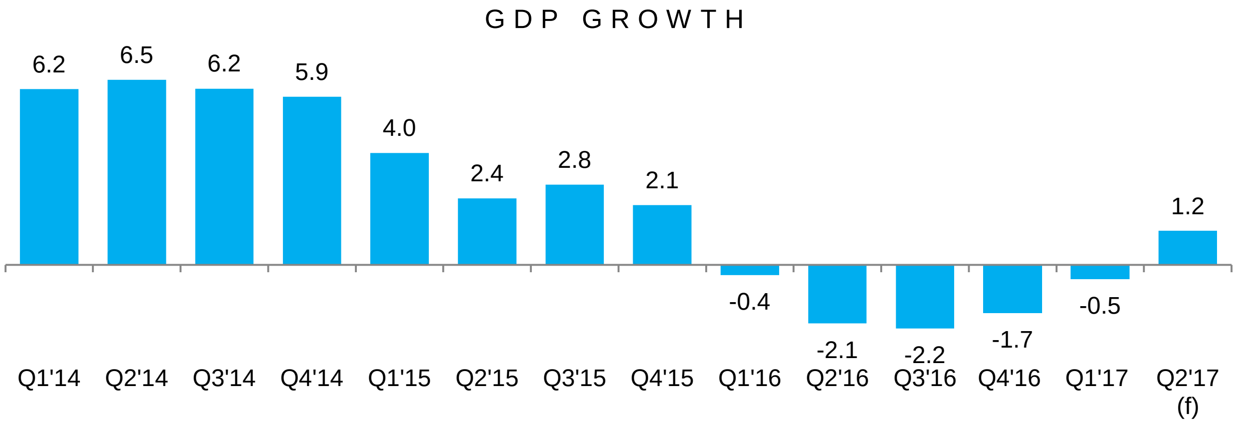


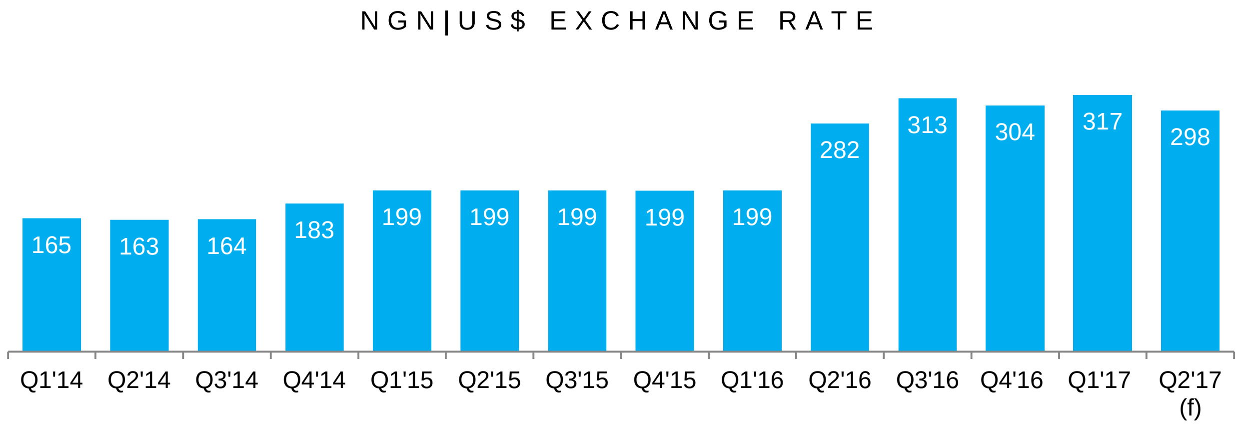
FOREIGN DIRECT INVESTMENT

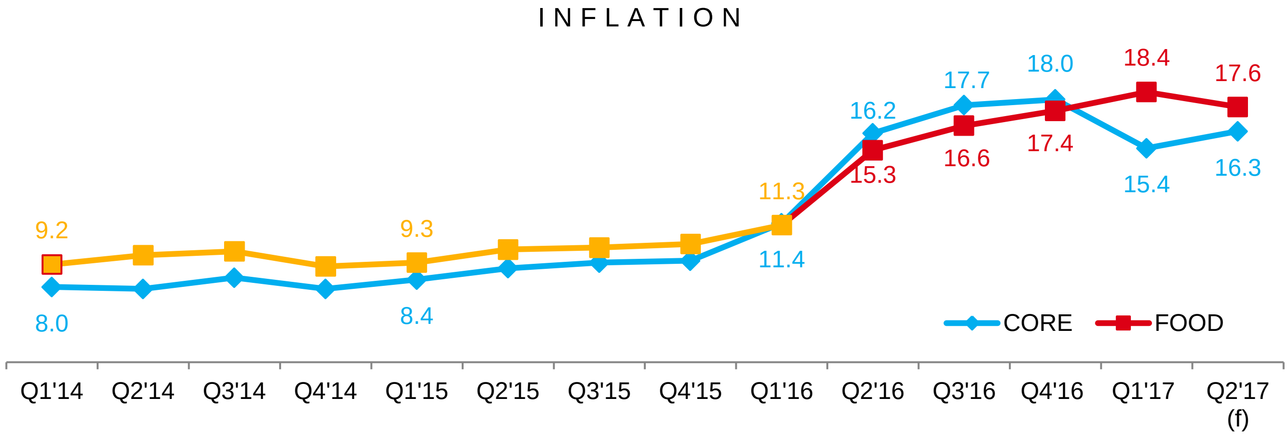


LOW GROWTH, HIGH INFLATION

GROWTH SET TO REBOUND, INFLATION WILL TAKE LONGER TO NORMALISE





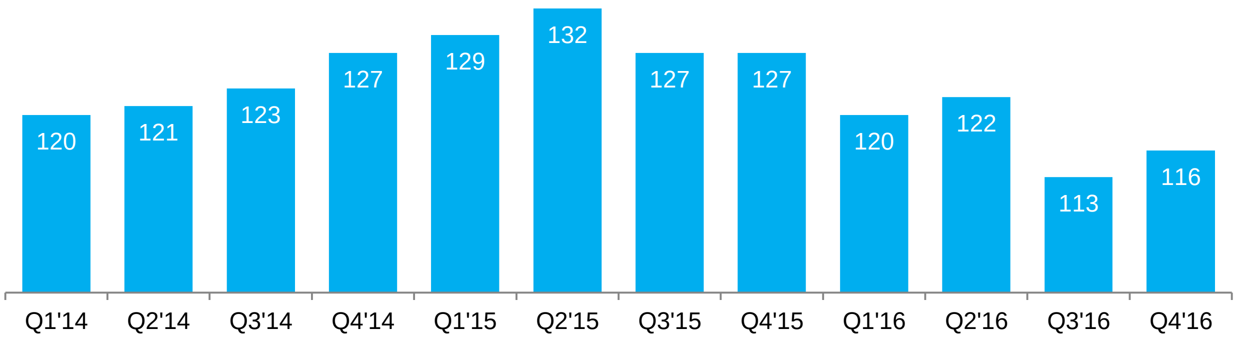


CONSUMER OUTLOOK

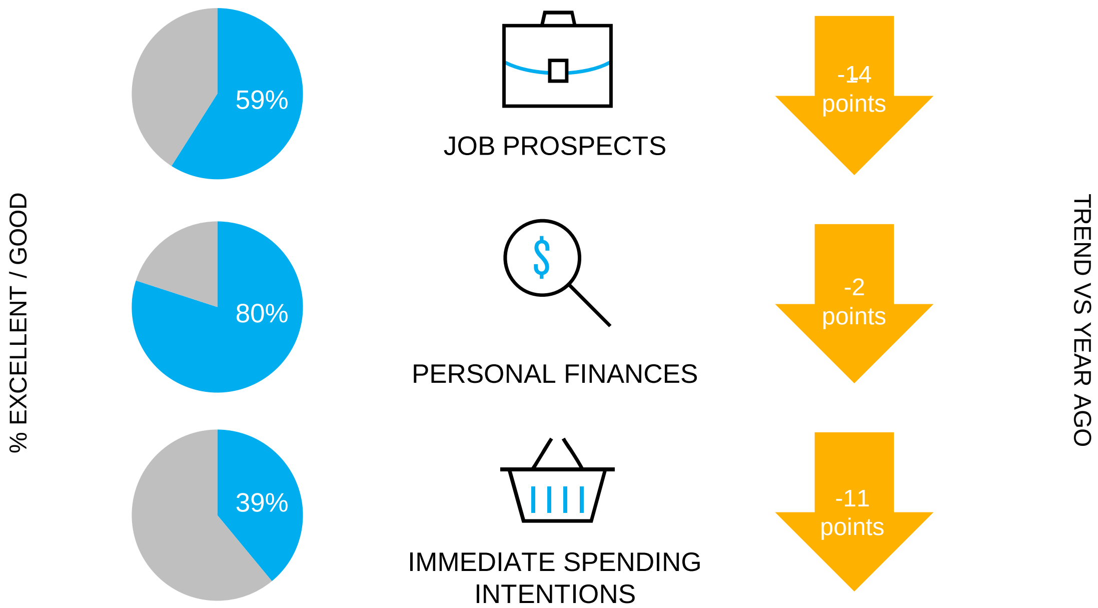
RESILIANT POSITIVITY STARTED TO WAVER, BUT LIKELY TO STRENGTHEN

Nigerian consumers have remained extremely optimistic in their outlook (scores above 100 indicate a positive outlook), despite the broader environmental pressures trickling through into their everyday lives. While the majority of consumers are hopeful for an improvement in their circumstances, they have had to adapt their spending patterns. The most recent consumer confidence score provides an early indication that sentiment for 2017 is likely to improve as macro environment factors stabilise.

CONSUMER CONFIDENCE INDEX



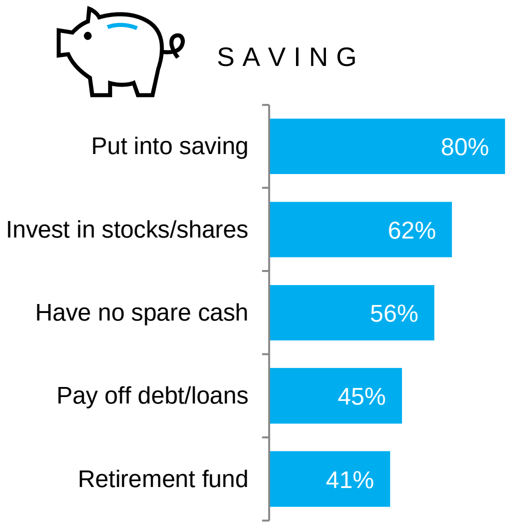
DETERIORATING CONFIDENCE INDICATORS

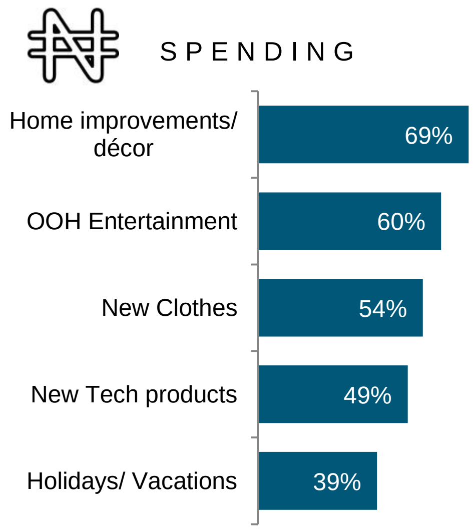


CONSUMER REACTIONS

CAUTIOUS, RISK AVERSE AND CUTBACKS

When times are tough, the ultimate expression of confidence is in what consumers do to cope within their altered constraints. Less than half (44%) of Nigerians claim to have spare cash, slightly up from 40% in Quarter 4'2015. Of those with spare cash, the majority adopt more cautionary approaches opting to save or service debt rather than spend, cutting back on discretionary buying, as they struggle to cover essential daily living expenses.





While sentiment in 2017 is expected to remain positive, and with some improvement, immediate spending intentions will continue to be subdued. Consumers will spend cautiously as incomes remain strained and variable on a day to day basis. As higher levels of inflation will continue to prevail throughout 2017, consumers will find efficiency in multiple ways: non essential items will be further pressurized and additional trade offs will be required, even within essential food products, as certain staple items become more critical than others.

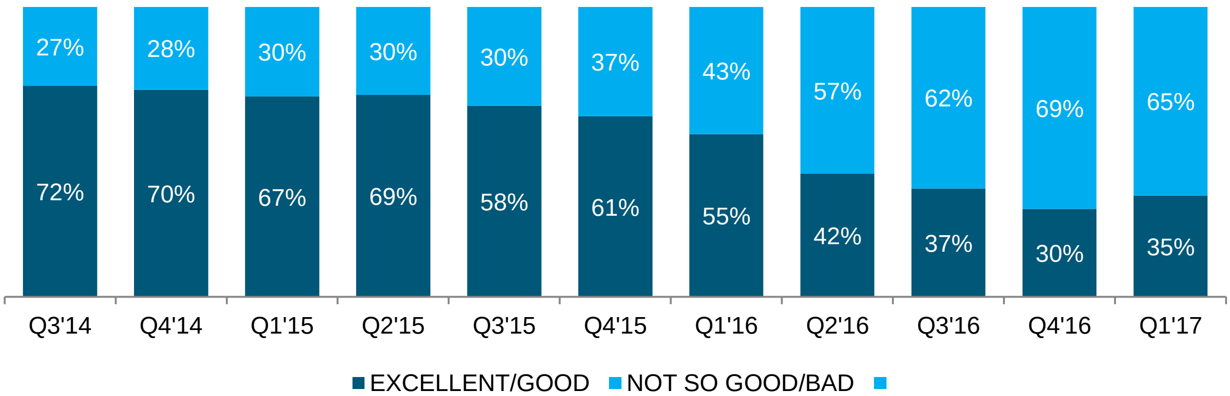
Consumers will continue to adopt different, category-specific tactics from shopping less frequently to reducing quantities (smaller packs or larger bulk packs if incomes permit), switching to cheaper brands or looking for better deals. Manufacturers and retailers will need to understand the various approaches to match the consumers' needs with viable offerings.

THE RETAILERS' REALITY

DETERIORATING GROWTH AND SPEND OUTLOOK SET TO IMPROVE

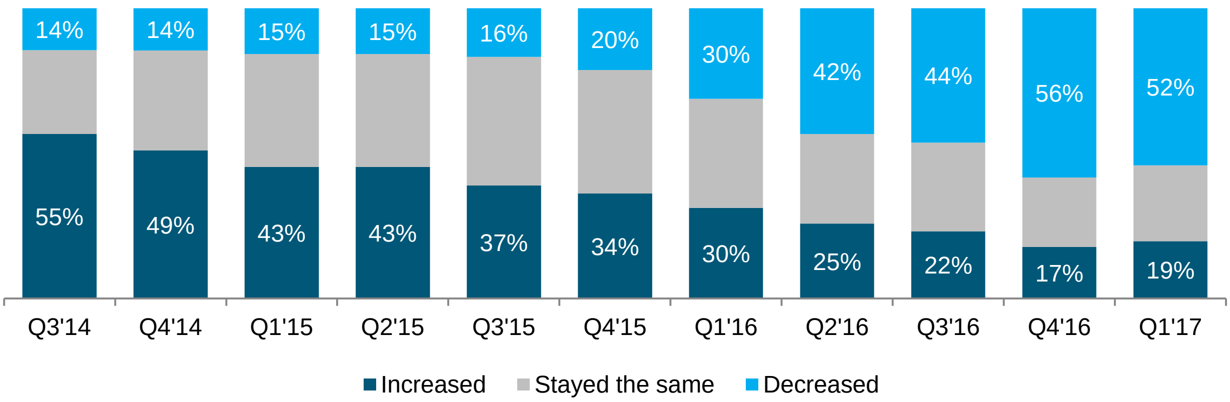
Similarly retailers have expressed waning sentiment about the country growth outlook. The proportion of retailers with a positive view (excellent/good) regarding country growth has diminished from 55% a year ago to 35% currently. Retailers are operating in a significantly more challenging environment where they are struggling to sustain consumer demand and manage optimal stock levels. The worst, however, appears to be over as retailer sentiment, following consumer sentiment, shows signs of recovery into Quarter 1'2017.

RETAILER VIEW ON GROWTH



Retailer sentiment regarding growth is also founded in the declining consumer spend in store. Currently, the majority (52%) of retailers expressed weakening in-store spend compared to one third in Quarter 1'2016 and only 15% of retailers who held this view two years ago. Retailer opinion in the current quarter confirms a slightly more favourable outlook heading into 2017, which will bring much needed relief to retailers.

RETAILER VIEW ON CONSUMER SPEND IN STORE



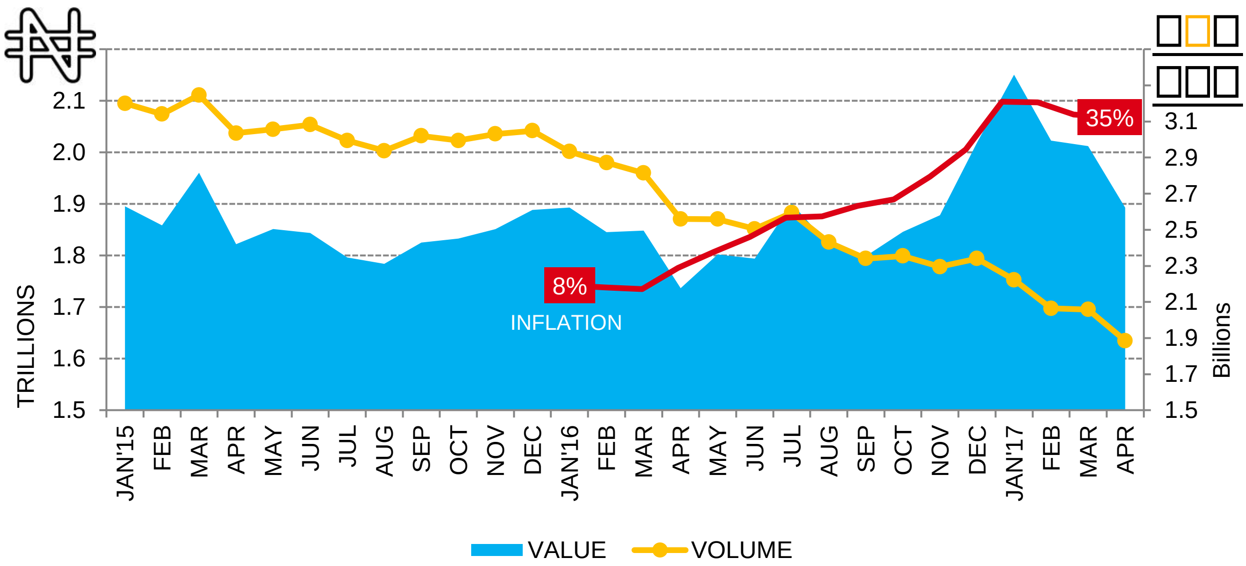
REFLECTED IN SPENDING

SHIFTING SHOPPING DYNAMICS

Nigeria's retail market was estimated at US$123 billion in 2013, with the second fastest annualised growth of 13.3% in the region. Over the past few years the momentum has been reversed, however, 2017 holds promise for restoring the pace of growth to positive strides once again. Consumer Packaged Goods (CPG) including food, beverages, confectionery, personal, health and home care products, which account for nearly 40% of the overall Nigerian wallet, have been in decline since Quarter 1'2015, but show early signs of recovery, mostly due to inflation, as overall volumes continue to slow.

Quarterly spend through to mid 2016 showed progressive declines over previous years in value and volume. Quarter 3 and 4'2016 spend remained fairly flat versus 2015, but Quarter 1'2017 shows a marked recovery, up +10.7% over Quarter 1'2016. Volumes remain under pressure due to rising inflation which has climbed from 8% in early 2016 to current levels of 35%.

TOTAL BASKET TRENDS



While spend rebounds as a result of sky rocketing inflation, consumers are still faced with paying 'more for less' and will continue to alter their shopping patterns to meet this reality. What is evident is that the shopping dynamics across areas, categories and channels have changed, and manufacturers and retailers will need to continue to adjust their strategies to what matters most to consumers. .

STAPLES CAPTURE MORE SPEND

BASKET RE-MIX

Consumers have been compelled to divert more of their spend to staple, non-packaged (loose) food products to feed their families, and of packaged goods, edible products account for the majority of spend (75%). As prices have risen more money is required to cover the essential living items, taking away from the non-essential categories such as Confectionery, Personal and Home Care products. In more recent months, packaged goods reflect growth in spend at +7.7% versus Q4'2016, and a slower rate of decline in volume (-9.2%). Beverages have remained resilient in the face of rising prices as new, cheaper alternatives have become available.

	SPEND CONTRIBUTION QTR 1'2017	VALUE GROWTH YEAR	VALUE GROWTH QTR	VOLUME GROWTH YEAR	VOLUME GROWTH QTR
Food	41.3%	+3.1%	+8.9%	-25.7%	-9.3%
Confectionery	2.8%	-4.8%	+6.8%	-34.2%	-11.4%
Beverages	31.7%	+6.0%	+6.7%	+13.7%	+6.4%
Personal Care	8.8%	+8.6%	+10.5%	-12.7%	-5.6%
Health Care	3.6%	+2.3%	-6.8%	-12.0%	-12.4%
Baby Care	3.0%	+17.9%	+14.7%	-5.8%	-0.1%
Home Care	8.9%	-0.4%	+7.9%	-18.1%	-5.9%

Annual growth for the 12 months to April 2017, Quarter growth versus previous quarter (Q4'2016)

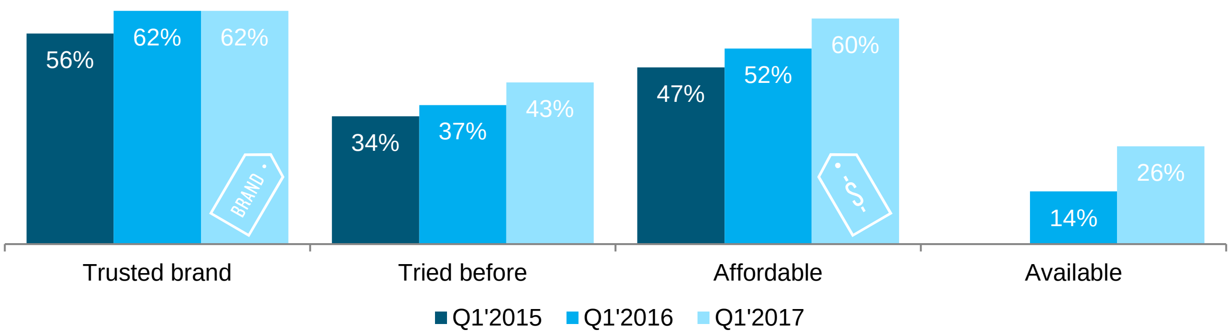
Rural areas account for 13% of the national sales and reflected greater loss in spending in earlier periods. While annual growth in Rural areas is still flat, into the short term both Rural and Urban areas show signs of recovery with positive growth .

MORE PARTICULAR ABOUT PRODUCTS

MORE RISK AVERSE CHOICES

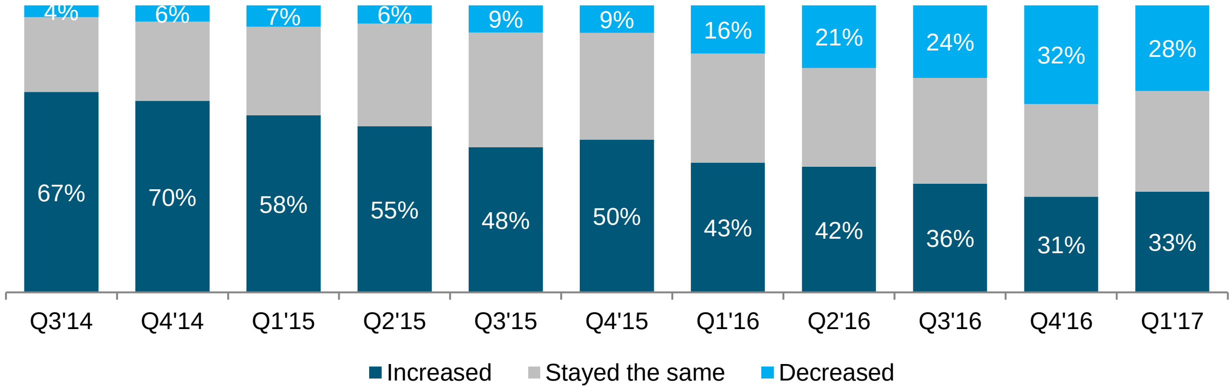
The decreasing ability to spend is followed by more risk averse shopping behaviour. Consumers revert to tried and trusted brands in tough times, but are also forced to consider more affordable brands, usually of lower quality or brands which are available, due to variable stock supply.

HOW CONSUMERS CHOOSE PRODUCTS



Consumers also become less likely to try new products, reverting to choices rooted in familiarity and recommendation. In this climate, manufacturers will struggle to convince retailers to range or promote new products which are unfamiliar to their customers, as they focus on the products that are the top sellers and critical to consumers.

CONSUMER WILLINGNESS TO TRY NEW PRODUCTS



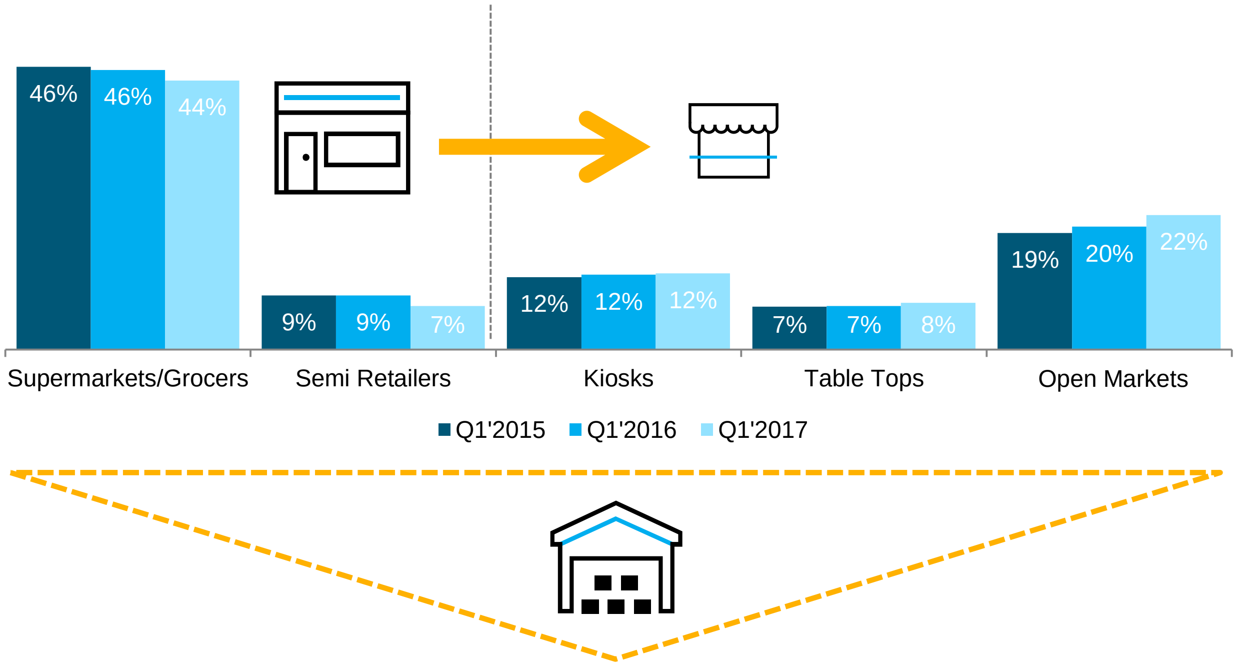
MORE SHOPPING AROUND

MORE FREQUENT, MORE FLEXIBILITY

Shoppers have adapted what they're putting into their baskets to accommodate their wallets, and have also adjusted where and how often they are shopping. There is a trend towards more frequent shopping due to the decline in disposable income. As incomes vary on a daily basis, consumers are shopping on an immediate-needs basis, often visiting stores more than once per day due to their fluctuating earnings.

Channel importance has shifted as shoppers shop around in search of more cost effective products, pricing and available products. Consumers have reverted to Open Markets and smaller format stores, away from Supermarkets/Grocers, where there is greater flexibility in the quantity and packaging which can be obtained.

The implication for manufacturers is ensuring that their products are available in the pack size, format and price denominations which consumers can afford, and in the channels and locations where consumers are now shopping.



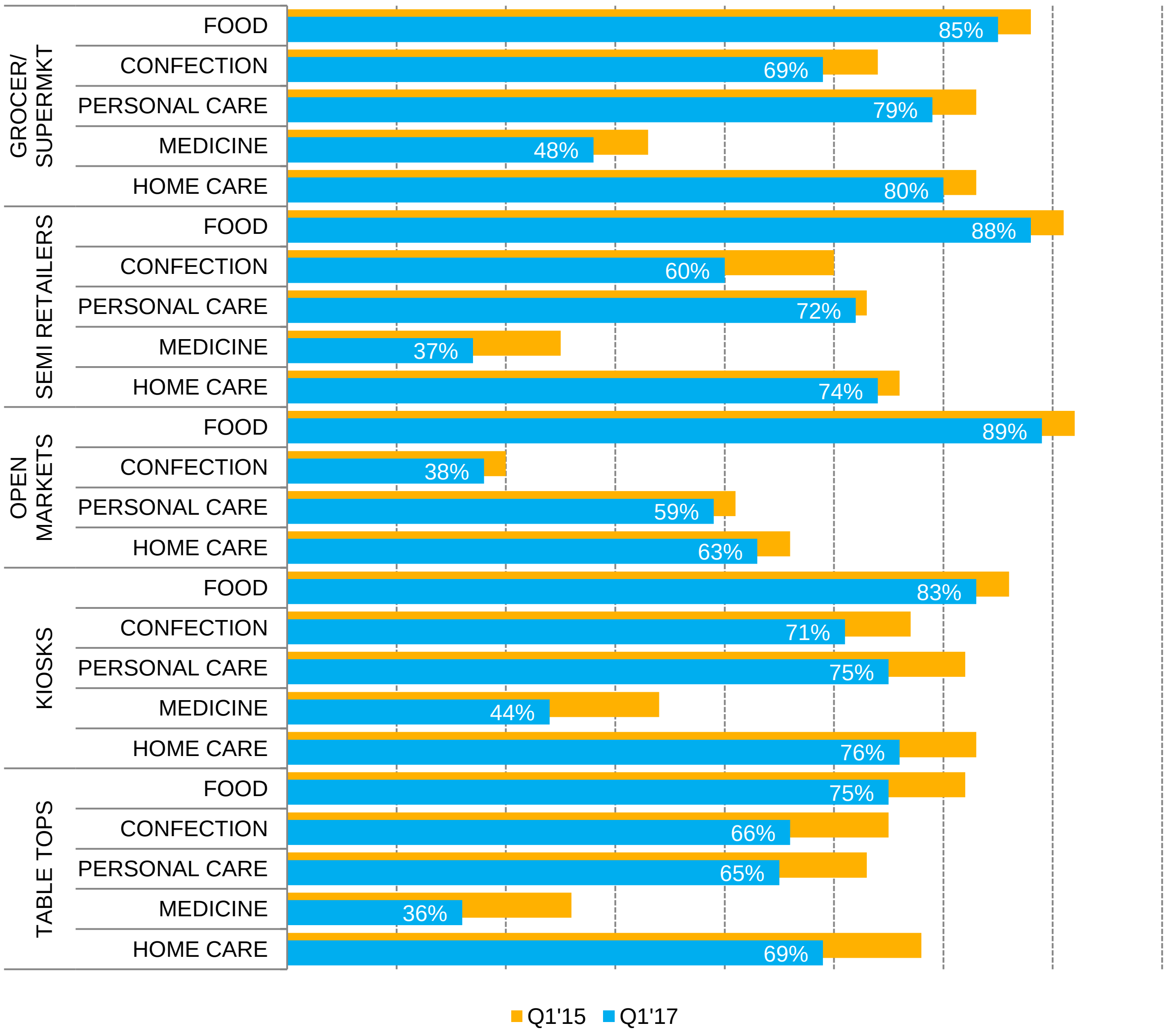
In addition, Wholesalers are fulfilling a more important function, with direct influence on retailer's product handling and direct-to-consumer trading. They have continued to grow despite the tougher market conditions, but report changes in their customers' purchasing behaviour: increased preference for foreign products of higher quality, slower movement of locally produced and inferior quality products, higher turnover of 'value for money' products and greater demand for quality, cheaper alternatives.

FEWER OPTIONS, LESS AVAILABILITY

ASSORTMENT AND STOCK SUFFERS

Retailers face many additional challenges which impact their business. Compounded by the macro economic conditions, rising energy costs and deteriorating ease of doing business (sourcing stock, managing pricing, credit from suppliers etc.) there is a lack of capital to run their businesses, which has led to rising levels of out-of-stock and fewer categories and products stocked by retailers, and available to consumers. In addition to lower and declining sales, retailers are losing valuable sales due to inadequate and variable stock supply.

% OF STORE STOCKING



LOYALTY TO LOCATIONS

WILLING TO SUBSTITUTE BRANDS

Across all channels and categories there is a drop in the number of stores (penetration) stocking packaged consumer goods. The Open Market channel has maintained the most consistent range of product categories, with fewer losses in distribution as compared to other channels.

Confectionery, Personal Care and Home Care categories have been the most adversely affected with fewer channels stocking these products, as the demand for discretionary products has declined.

When a product is unavailable, shoppers are more store (location) loyal than they are brand loyal, opting to buy substitute brands rather than visit another store or retail location to find their brand of choice.

31% visit another store
More store loyal

68% buy a substitute brand
More brand disloyal

For manufacturers it becomes even more critical to ensure products are available in the right channels and stores to avoid the risk of losing a sale. Manufacturers will need to identify the wholesaler and retailer catchment areas which service the greatest proportion of consumers, in order to optimise supply. This could mean more regular supply of smaller quantities to support retailers with strained income levels, or alternative pack size variations to suit retailer and consumer budgets.

OPEN MARKET PURCHASE DRIVERS

HOW THEY ARE WINNING

Open Markets account for a greater proportion of sales at 22% versus 19% two years ago. They are the second most prominent channel for packaged goods after Grocers/ Supermarkets, as consumers have reverted to more informal trading environments that are more flexible in tailoring their offerings to meet consumers' fluctuating income and demand.

While price is an important discriminator, open markets also offer a greater selection of products in a single location, and are flexible in adjusting offerings to suit strained budgets.

Source: Nielsen Emerging Market Insights II

THE ADJUSTED REALITY

KEY TAKEAWAYS FOR WHAT'S AHEAD IN 2017

1

CONSUMERS

Cautiously confident consumers cut back on spending as income was squeezed, with any spare cash saved for future uncertainties, rather than immediate spending. Sentiment is likely to improve in 2017, providing much needed relief to manufacturers and retailers as consumers are able to add items back into their repertoire.

2

PRODUCTS

More discerning consumers rebalanced their basket, trading back on products less essential, and within essentials. As conditions improve consumers will aspire to better quality products, but require more flexibility in price and quantity to meet immediate daily needs. Product portfolios should be reassessed to suit consumers altered needs to rebuild brand loyalty.

3

SHOPPING

Shopping has shifted to proximity-based, smaller, informal channels, with more frequent trips, as consumers search for the best deals to match their wallets. Manufacturers need to match product (format and price) to place, with optimal levels of supply to avoid missing vital sales.

4

RETAIL

Retailers are highly influential in stocking and ranging decisions. Manufacturers need to optmise distribution, stock supply and retail execution through greater collaboration with retailers to sustain diminishing demand.

SOURCES

- **Nielsen Global Survey of Consumer Confidence and Spending Intentions** is conducted quarterly, and polls more than 30,000 consumers in 63 countries throughout Asia-Pacific, Europe, Latin America, North America and Middle East Africa. The Sub Saharan African countries are compiled using a separate mobile technology among respondents in Nigeria, Kenya and Ghana.
- **Nielsen Africa Prospects Indicator Report,** is produced bi-annually across Sub Saharan Africa countries. Multiple sets of comparative data is integrated across Macro Economic, Business, Consumer and Retail dimensions and weighted to produce prospects indicators for 8 countries, with extended metrics available for a further 20 countries.
- **Nielsen Wholesale Survey**, conducted in Nigeria
- **Nielsen Retail Measurement Services** in Nigeria is based on a defined universe of retail outlets, updated to reflect the current universe evolution and channels as at April 2017. Retail trends are based on a defined basket of categories including Consumer Packaged Food, Beverages, Confectionery, Medicine, Personal Care, Home Care and Baby Care. Value is reported in Naira and volumes are reported in packages.
- **Nielsen Emerging Marketing Insights**, is a 2-part, syndicated series, which surveyed consumers on lifestyle, attitudes, shopping and buying behaviour, media usage, brand drivers and advertising influence.
- **Central Bank of Nigeria** - Crude Oil US$ per barrel
- **Trading Economics** - Crude Oil Production, Foreign Direct Investment, GDP Growth, Inflation
- **XE.com** – Naira/US Dollar exchange rate

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ABOUT NIELSEN

Nielsen Holdings plc (NYSE: NLSN) is a global performance management company that provides a comprehensive understanding of what consumers watch and buy. Nielsen's Watch segment provides media and advertising clients with Nielsen Total Audience measurement services for all devices on which content — video, audio and text — is consumed. The Buy segment offers consumer packaged goods manufacturers and retailers the industry's only global view of retail performance measurement. By integrating information from its Watch and Buy segments and other data sources, Nielsen also provides its clients with analytics that help improve performance. Nielsen, an S&P 500 company, has operations in over 100 countries, covering more than 90% of the world's population. For more information, visit www.nielsen.com.