# The brewery industry in nigeria

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The brewery industry belongs to the manufacturing sector under the Nigerian Stock Exchange (This Day, 2011). It dates back to over six decades with the birth of the pioneer company; Nigerian Breweries in 1949 with of star larger beer, followed by Guinness Nigeria in 1962 with Guinness stout. The major products in the brewery industry are beer, stout and non-alcoholic drinks (Corporate Nigeria, 2010/2011). For the purpose of this paper, beer will be used to connote lager and stout.

The industry experienced a boom in the 1970s due to the fledging oil industry and rapidly increased from less than five n 1970 to over thirty by 1980 (Obot, 2000).

The ownership of the firms in the industry are either public or state-owned with or without foreign partnership. There are challenges of high operational costs due to importation, expert-skilled labour, maintenance of machinery and equipments. These challenges have lead to the closure of quite a number of the smaller firms in the early 80s' leaving only the large firms with strong financial base..

At present, there are thirteen brewery (Nigerian Custom Service, 2011) companies left with only four listed under the Nigerian Stock Exchange (This Day, 2011).

The industry is at the maturity stage of its life cycle but still remains one of the striving industry in the Nigerian manufacturing sector. It has a direct employment of over 30, 000 personnel and an indirect employment of over 300, 000 thousand personnel as a result of the firms providing ancillary services to the industry (Equity Research report, 2006).

Nigerian Breweries and Guinness Nigeria are the two major players in the industry with . Nigerian Breweries leading the market with about 65% market share while Guinness Nigeria follows with about 25%. They both enjoy economies of scale and have good return on their investment (Corporate Nigeria, 2010/2011).

Analyses of Macro-environmental factors

Every industry is affected by factors in the environment in which they operate. These factors which they have no direct control over, may either impact positively or negatively on the industry. The factors used for this analysis are Political, Economic, Social and Technology.

Political

The Nigerian political history after independence in 1960 has been characterized by a compendium of military and civilian governments. The military regimes had adversely affected the real sector, an example was the ban placed on importation of barley; the raw material for production of beer, by the military government of Buhari in 1987 (Porter & Phillips-Howard, 1994). However the past twelve years of civilian government has witnessed relative stability in most parts of the country except for the restiveness in the Niger Delta region, which has dwindled the country's crude oil revenue. It is expected that the on-going elections will successfully usher in a new civilian government that will further stabilize the polity and create an enabling environment that will attract foreign investors and stimulate the resuscitation of the real sector (Corporate Nigeria, 2010/2011).

Economic

Nigeria operates a mixed economy which encourages the co-existence of both the private sectors and the state in the market place. It is an emerging economy with potential economic power given the abundant resources. The country's economy is well diversified along sectoral classification with the oil sector accounting for over 80% of its GDP, through crude oil export thereby making its revenue highly susceptible to the vagaries of the trends in the international market (Corporate Nigeria, 2010/2011).

The economy is supported by a very resilient and strictly regulated financial system that has gone through several reforms within the past decade. While the exchange rate has been relatively stable in the past two years, interest rates have been closely regulated by the Central Bank of Nigeria while efforts to bring inflation rate below single digit has been elusive.

Other factors that have contributed to the harsh economic climate in Nigeria are lack of power and inadequate infrastructure. The period between years 2000 and 2010 has witnessed the closure of more than 850 industries. However, with the trend of increase in the manufacturing GDP over the past years (i. e. 2008: 3. 6%, 2009: 4. 2%), it is expected that a stable terrain will continue to attract investors in years to come (Corporate Nigeria, 2010/2011).

Social

Nigeria with its population of about 150 million is a huge potential market for investors. The country is the second largest beer market in Africa after South Africa. South Africa with a population of 47. 9million according to 2007 statistical data, has a beer consumption per capita of 50 hectolitres while Nigeria has 10 hectolitres per capita. Industry operators are of the view that the existing firms’ capacity are not enough to meet the demand of the market, and there is therefore room for expansion (Momoh, 2009).

Nigeria is a diverse country with over 250 ethnic groups. The population of the country gives a religious spread of Muslims(50%), Christians(40%) and indigenous religions(10%). The Muslims and Pentecostal Christians do not indulge in beer consumption due to their religious beliefs (Corporate Nigeria, 2010/2011)

The above notwithstanding, beer consumption remains a social activity in Nigeria and the sale of the commodity has continued to increase from year to year..

Technology

The brewery industry is highly capital intensive. This accounts for the reason why the ownership structure is either public and/or state-owned with/without foreign partnership. The technology for the industry, spare parts and expert technicians are not available in country and therefore highly dependent on foreign exchange. Guinness for example has Diego of Ireland as its foreign partner (Trade Invest, 2009).

The ban on importation of barley in 1987 necessitated the industry to settle for local substitute of maize and sorghum as raw materials for its production. The resultant plant conversion to accommodate the new raw material input-mix cost Nigerian Brewery a whopping sum of 100million naira! (Equity Research report, 2006).

One of the major challenges facing the industry is the maintenance of equipments and machinery. The players commit huge financial resources in technology and upgrades in order to remain competitive (Equity Research report, 2006).

Analysis of Industry Competitiveness using Porter Five Forces

Industry competitiveness is said to determined by bargaining power of buyers, power of suppliers, threats of new competitors, threat of substitute products and rivalry among existing firms. The profitability of the industry is determined by these five Forces as they influence prices, costs and required investment (Porter, 1985).

Bargaining Power of Buyers

Buyers create demand in the market and their bargaining power would represent a strong competitive force if they have sufficient bargaining leverage to influence and obtain price concessions and other favourable terms and conditions of sale (Thompson et al, 2010). In the case of the brewery industry, consumers are scattered across specific regions in the country. Some states in the Northern part of Nigeria do not permit the sale of alcoholic beverages due to religious beliefs.

The price elasticity demand for sales of brewery products is inelastic, an increase in price may not have a significant impact on demand. A decrease in consumer disposable income may have a small impact on demand, as buyers may go for cheaper brands or substitute products. The introduction of a new product into market that is not related to the brewery industry may compete with brewery products for consumer disposable income. The introduction of GSM service into the Nigerian market in 2003 created a serious competition for the brewery industry (Equity Research report, 2006).

The industry has good distribution networks, in fact, they are the buyers in the industry as they control movement of the products from the producer to the retailers, and thus determine the price of the products to a certain extent. This unfortunately does not allow interaction between the producers and the consumers, however the players in the industry especially the two big players strive to maintain contact with their consumers by advertisements, promotion of events and also sponsorships of various programmes and activities (Jernigan & Obot, 2006).

Bargaining Power of Suppliers

Suppliers in the industry include distributors of raw materials, components and finished products. Such components include bottles, crown corks, labels e. t. c. These services are outsourced because the Nigerian law does not permit the brewery firms to produce them (Equity Research report, 2006).

There are more distributors and suppliers than existing brewery firms in existence. The raw materials and components being undifferentiated give the manufacturers the luxury to chose their suppliers at will (Equity Research report, 2006). Nigerian Breweries alone has about 147 distributors and wholesalers within the country (Famurewa & Orekoya, 2008). However the distributors may pose a threat to the industry during industrial actions.

Threat of new Entrants

According to Porter, the threat of new entrants will affect the profitability of an industry (Porter, 1985) as the incumbents may be forced to lower their prices in order to discourage new entrants thereby reducing profitability. In the Nigerian Brewery industry, some factors which help to raise barrier to entry include capital requirements, legal costs, economies of scale, distribution networks (oppapers. com, 2011). Nigerian Breweries and Guinness both have foreign technical partners who provide the needed technical and financial assistance (Corporate Nigeria, 2010/2011). The other companies are mainly public or state owned and are localised within their region.

There were no new entrant into the business, until 2009 when SABMiller a South African company came on stream with the acquisition of Peabody Breweries and Standard Breweries. SABMiller strategy in gaining part of the market share was to produce low cost beer for a segment of the market who could not afford the premium brand of the existing market. However Nigeria Breweries was already producing such through Consolidated Breweries one of its subsidiary (Corporate Nigeria, 2010/2011).

Threat of Substitute

The availability of substitute may impact an industry's profitability as consumers may decide to switch to a substitute product (Boeing et al, 2008). In Nigeria the consumption of traditional drinks such as burukutu, palm wine and ogogoro has a cultural affinity among consumers in the rural and urban areas. Other potential substitutes include alcoholic drinks such as wine, brandy, vodka and non alcoholic drinks such as malt, juice, soft and energy drinks. The alcoholic drinks are known to be consumed by a higher segment of the society (Jernigan & Obot, 2006), while the non-alcoholic drinks are to target the non-beer consuming religious groups.

Beer however remains the beverage of choice as some studies carried out have shown its predominant preference over other alcoholic beverages (Obot, 2000). Beer is known to account for 96% of alcoholic sales in Nigeria (Corporate Nigeria, 2010/2011).

Intensity of Rivalry among existing firms

This is a measure of the extent to which existing firms compete among each other for customers, this could be price and non-price based (Boeing et al, 2008).

In the industry as mentioned earlier, competition is between the two major players, however there are no price wars as the products are differentiated and price differences are insignificant. The industry produces 22 brands of lager and 4 brands of stout besides other non-alcoholic drinks, Nigerian Breweries dominates the market in the larger (Star) segment while Guinness dominates the stout (Guinness) segment (Corporate Nigeria, 2010/2011).

For non-priced based competition, the two companies compete on product innovations, such as packaging, branding and advertisements. Consumers have witnessed innovation of packaging from bottle to can and sip-it packs.

Summary of Five Forces

A summary of the five forces is hereby presented in the table below using key drivers and resultant effect on industry (Boeing et al, 2008).

Table 1

# Force

# Key drivers

# Effect

Power of buyers

Concentration is high, no bargaining leverage

Low

Power of suppliers

Suppliers more than Producers

Low

Threat of substitute

Increased growth in substitute industry

High

Threat of new Entrant

High barrier to entry

Low

Intensity of rivalry

Two major competitors

Moderate

Overall analysis

Moderate

SWOT Analysis

SWOT analysis will be used to measure an organization's strengths and weaknesses, opportunities and threats in the industry on a four cell chart (Dibb et al, 2006).

Figure 1

Strength

Economies of scale

Strong financial base

Experience

High staff turn-over

Inflexible technology

Cost Control

Weakness

Opportunity

Technology

Market growth

Good distribution network

Govt legislation

Continued low margin

Failure to capture mkt growth

Threat

(Dibbs et al, 2006)

Recommendations

With strength and opportunity, an organization in the industry can capitalize by expansion or acquisition of weaker firms. An organization with opportunity and internal weakness should watch the market slowly and formulate a strategy to build on its weakness. A weak organization facing threat should take the strategic turn-around required, by exiting the business or allow itself to be taken over by a bigger firm. An organization with strength but facing threat should use its strength to overcome its weakness (Dibb et al, 2006)

Hirschmann Herfindahl Index (HHI)

HHI is a measurement of the concentration of an industry. It is measured by squaring the sum of the market share within that industry . A HHI figure greater than 1800 imply an industry that is considerably concentrated (Boeing et al, 2008).

Table 2

# Company

# Revenue (2009)m

# Market share

# Market share^2

Nigerian Breweries

$1, 100

65%

4, 225

Guinness Nigeria

$ 587. 7

25%

625

Others

10%

100

Total

4, 950

(Corporate Nigeria, 2010/2011).

The HHI measure gives a figure of 4, 950 which shows a highly concentrated industry tending towards an oligopoly (Boeing et al, 2008).

Conclusion

The brewery industry has proved to be a sustainable business in Nigeria with over six (6) decades of operation and having survived years of unstable polity, economic downturns and different government policy and reforms.

The industry has been consistently dominated by Nigerian Breweries and Guinness and is sadly tending towards oligopoly with the acquisition of five existing breweries by Nigerian Breweries (allAfrica. com, 2011).

Nigeria is still considered one of the least penetrated beer market in the world in terms of its demographic population of over 150million (allAfrica. com, 2011). More investors are definitely welcome, however such investors will need to commit huge capital outlay to build plants or acquire existing firms and also create a strong distribution network in order to compete with the existing firms.

Beer consumption is a win-win situation, Nigerians drink when they are happy and wish to celebrate, they also drink when they are sad or emotionally down. The brewery industry will therefore continue to enjoy a sustained growth in the country.