Country: Nigeria – Franchising

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The Market

Nigeria's franchise market is in the infancy stage but analysts consider it a potential market of over one hundred billion dollars in annual revenue from products and services. It is a growth market for U.S. franchise concepts and franchise development services. Unlike in the United States, very few legal practitioners, banking executives and senior government officials have in-depth knowledge about franchising either as a marketing tool or as a business development model. This situation offers U.S. franchisors the opportunity for a first-mover advantage using their wealth of experience and the economic impact of franchising to the U.S. economy. The U.S. Commercial Service participates in local seminars organized in Lagos aimed at promoting franchising in Nigeria. It passes information about franchising to and collaborates with Nigeria International Franchise Association (NIFA), the National Office for Technology Acquisition and Promotion (NOTAP) and some local chambers to create awareness about franchising as the most effective business development model to help Nigeria encourage entrepreneurship across different industry sectors. Franchising brings the expertise; experience and proven systems which Nigerian small- and medium-sized enterprises need to qualify for loans and to access traditional financial services from local and foreign banks.

In 2012, three major US brands, Johnny Rockets, Domino's Pizza and Cold Stone Creamery entered the Nigerian market. Information from the three franchises confirms that Nigeria has pent-up demand for franchised goods and services. Other than startup challenges such as clearing goods at the ports, training and working with newly recruited local staff, their respective market development strategies seem to be progressing well. There are about three visible indigenous franchise businesses with combined outlets of about 290. The three franchises, Mr. Biggs, Tantalizers, and Food Concepts PLC are quick service restaurant chains. Between 2010 and 2011, the International Finance Corporation (IFC), a member of the World Bank Group, invested a total of $28.5 million in loans and equity in two of the quick service restaurant chains, Tantalizers and Food Concepts PLC. Current franchise market size, judging by active industry sectors such as quick service restaurants (fast food), ICT training and consulting services, production/distribution of beverages, personal and business development services, transportation, and oil/gas distribution is estimated to be about $25 billion (products and services).

A market survey conducted in 2008 by the U.S. Commercial Service in Nigeria (CS Nigeria) in association with Nigeria International Franchise Association (NIFA) clearly showed that food franchising (quick service restaurants) is currently experiencing strong growth. Aside from Coca Cola and Pepsi, which have been established in Nigeria for a long time, KFC was the first major U.S. food brand to open outlets in Nigeria. Many more companies are exploring the market, and South African and European brands are establishing a presence in Nigeria, too. This growth trend is expected to continue over the foreseeable future and is already having a spillover effect on other industry sectors.

Currently, other U.S. franchises operating in Nigeria include Crestcom International, and Fastrackids International. Precision Auto is developing multiple locations in Lagos State, Anambra State and elsewhere.

Best Prospects

Industry sectors where franchising shows the most promise and growth in Nigeria include fast food, quick-service restaurants, hotel services, professional and service training, fashion, physical fitness and healthcare, oil/gas distribution services, cleaning services, transportation services, telecommunications services and distributive trade.

Legal Framework

As a method of marketing and distribution, franchising comes under Nigeria's sales law, which derives its operating terms and conditions from British common law. The National Office of Industrial Property Act of 1979 established the National Office of Technology Acquisition and Promotion (NOTAP) to facilitate the acquisition, development, and promotion of foreign and indigenous technologies. NOTAP is the government agency responsible for commercial contracts and agreements dealing with franchising and transfer of foreign technology. It ensures that investors possess licenses to use trademarks and patented inventions and meet other requirements before sending remittances abroad. With the Ministry of Finance, NOTAP administers 120 percent tax deductions for research and development expenses if carried out in Nigeria and 140 percent deductions for research and development using local raw materials. NOTAP participates in trade events including international buyer programs such as the annual International Franchise Expo delegation organized by CS Nigeria. It has a mandate to commercialize institutional research and development with industry. For additional information or clarification about NOTAP, visit http://www.notap.gov.ng/

Foreign investors must register with the NIPC, incorporate as a limited liability company (private or public) with the Corporate Affairs Commission, procure appropriate business permits, and register with the Securities and Exchange Commission (when applicable) to conduct business in Nigeria. Expatriate personnel do not require work permits, but they are subject to "needs quotas" requiring them to obtain residence permits that allow salary remittances abroad. Larger quotas are allowed for professions deemed in short supply, such as deepwater oilfield divers. Nigeria's civil courts handle disputes between foreign investors and Nigerian businesses. Nigerian law allows the enforcement of foreign judgments after proper hearings in Nigerian courts. Plaintiffs receive monetary judgments in the currency specified in their claims.

Establishing a Presence in Nigeria

According to Nigeria's Enterprise Promotion Act, foreign firms cannot operate through a branch office in Nigeria. The business must be incorporated locally in Nigeria. U.S. firms wishing to do business in Nigeria other than through incorporated local companies acting as a Master

Franchisee, an Area Developer, or a Unite Franchisee, must establish a local presence. Here is the procedure for incorporating a company in Nigeria. CS Nigeria encourages U.S. companies to employ the services of experienced commercial lawyers in completing the incorporation process and in dealing with providers of ground support services such as housing and tenancy agreements. The following link provides you a list of pre-screened and reputable companies that can assist in completing specific tasks in the Nigerian market: http://www.export.gov/nigeria/businessserviceproviders/index.asp

Market Entry Strategy

The best way for U.S. manufacturers and suppliers to penetrate the Nigerian market is to combine the benefits of the network services and programs of U.S. Department of Commerce Export Assistance Centers (USEACs, http://www.export.gov/comm_svc/eac.html.) with the extensive knowledge, industry contacts and services of the U.S. Commercial Service at the U.S. Consulate General in Lagos, Nigeria (http://www.export.gov/nigeria). We encourage franchisors and franchise consultants to seek the assistance of a USEAC before exploring an opportunity in this market. For establishing a presence in Nigeria, we recommend that U.S. firms use a master franchise or area developer agreement with a locally registered company. In Nigeria's somewhat complicated business environment, all relevant terms and conditions of such arrangements must be carefully negotiated.

Concerning selling factors and techniques, Nigerian consumers react positively to American brands. To elicit consumer interest, franchisors should ensure that all sales materials are in English. Many Nigerians demonstrate a stronger inclination to purchase U.S.-made products if the U.S. flag is printed on the package.

Other Market Issues

Import Tariffs: In September, 2008, Government of Nigeria issued the 2008 – 2012 Common External Tariff (CET) Book that harmonized its tariff with its West African neighbors under the Economic Community of West African States (ECOWAS) Common External Tariff (CET). The tariff policy which is still used places imports into one of five tariff bands, namely, zero duty on special medicines not produced locally, industrial machinery and equipment (industrial machineries and equipment only attract zero duty if imported during the first year of the company's operation); 5 percent duty on raw materials and other capital goods; 10 percent duty on intermediate goods; 20 percent duty on finished goods; and 35 percent duty on luxury goods and finished goods in infant industries that the government would like to protect.

Trade Barriers: The government continues to impose trade barriers against foreign competition, citing the need to protect local industries. For instance, Nigeria does not permit importation of unprocessed meat or chicken into the country. In December 2010, the Government announced the removal of textiles, furniture, and toothpicks from the list of prohibited imports. It also increased the age limit on imported cars from 10 years to 15 years. For more information, visit: http://www.customs.gov.ng/ProhibitionList/import.php.

Import Requirements and Documentation: The Nigerian government commenced the implementation of a "Destination Inspection" plan on January 1, 2006. Under the destination inspection scheme, goods destined for Nigeria's ports are inspected at the point of entry rather than at the point of shipment, which was hitherto the practice. Three companies, namely, Cotecna; SGS; and Global Scan, were selected to act as inspection agents at Nigeria's seaports, border posts, and airports. Click on the following links for further information. http://www.nigerianembassy.nl/Imports.htm or http://www.cotecna.com/gov/gov_nigeria_datasheet.asp#9

Export Control: Exports of certain products from the United States to Nigeria fall under U.S. Government export licensing requirements. For more information, see: http://www.export.gov/exportbasics/eg_main_017474.asp

Labeling and Market Requirements: Shippers must ensure that Import Duty Report (IDR) numbers are always quoted on the shipping manifests for all import shipments into the country before such manifests are submitted to the Nigeria Customs Service. For air cargo, the airline must ensure that the IDR number for the relevant goods is stated on the airway bill.

The Nigerian government requires that products entering the country must display information including: name of product, country of origin, specifications, date of manufacture, batch or lot number, standards to which they were produced (e.g. BS, DIN, ISO/IEC, NIS, etc) and in the case of items such as soap, food and drinks and related products, they should carry the expiration date or the shelf life, as well as active ingredient(s), where applicable. **Also, all items entering the country must be labeled in metric terms exclusively.** Products with dual or multiple markings will be confiscated or refused entry. For more information please visit www.fas.usda.gov/gainfiles/200508/146130444.doc and http://www.sononline.org

Customs Regulations and Contact Information: The Nigeria Customs and Excise Tariff uses the Customs Cooperation Council Nomenclature (CCCN). Duties are either specific or ad valorem, depending on the commodity, and are payable in Naira upon entry. Import tariffs are non-preferential and apply equally to all countries outside the Economic Community of West African States (ECOWAS). In addition, a local insurance company must insure all imported goods. A special duty may be imposed on imported goods if the government feels that such goods are being dumped or unfairly subsidized, thus threatening established or potential domestic industries. Duties previously paid on abandoned, re-exported, damaged, or destroyed goods may be refunded. However, a claim must be made before the goods leave customs custody. A destruction certificate must be obtained from a customs officer to obtain a refund of duties paid for goods that were subsequently destroyed. Upon presentation of a customs certificate attesting to the landing of goods in another country, duties paid on such goods in Nigeria will be refunded. The Nigerian Customs Service is located at: 3 - 7 Abidjan Street, off Sultan Abubakar Way, Wuse Zone 3, PMB 26, Garki, Abuja, Nigeria. Tel: 234-9-5234680, 5236394: Fax: 234-9-5236394, 5234690

Product Standards: The Standards Organization of Nigeria (SON) registers and regulates standard marks and specifications. The National Agency for Food and Drug Administration and Control (NAFDAC) provides testing and certification of imported and domestically produced food, drug, cosmetic, medical, water and chemical products. Information regarding certification and conformity assessment is available on the Standards Organization of Nigeria (SON) Website: www.sononline-ng.org and National Agency for Food and Drug Administration and Control (NAFDAC) Website: www.nafdacnigeria.org.

Investment: Nigerian laws apply equally to domestic and foreign investors. These laws include, the Nigerian Investment Promotion Decree of 1995 which permits foreign firms to own 100 percent of a locally incorporated business including a franchise business; the Money Laundering Act of 2003; the Securities and Exchange Act of 1999; the Foreign Exchange Act of 1995; the Banking and Other Financial Institutions Act of 1991; and the National Office of Technology Acquisition and Promotion Act of 1979. The Nigerian Investment Promotion Council (NIPC) guarantees investors unrestricted transfer of dividends abroad (net a 10 percent withholding tax). Companies must provide evidence of income earned and taxes paid before receiving remittances from Nigeria. Money transfers usually do not take more than 48 hours when the necessary documentation is provided. All transfers are required by law to be made through banks.

Conversion and Money Transfer Policies: The Foreign Exchange Monitoring Decree of 1995 opened Nigeria's foreign exchange market. Nigeria adopted a Wholesale Dutch Auction System (WDAS) in February 2006, in accordance with its plan to liberalize the foreign exchange market. Foreign companies and individuals can hold non-naira-denominated accounts in domestic banks. Account holders have unlimited use of these funds, and foreign investors are allowed unfettered repatriation of capital. There is a USD 4,000 quarterly Personal Travel Allowance for foreign exchange and a USD 5,000 quarterly Business Travel Allowance per individual for naira-denominated accounts. Foreign exchange for travel is usually issued in cash by commercial banks while some authorized dealers also issue pre-paid credit cards that can be used on ATM machines worldwide.

Taxes

Nigeria’s tax laws generally do not impede investment, but the imposition and administration of taxes is uneven and sometimes lacks transparency. The GON imposes a 7.5-percent tax rate on dividends, interest, rent, and royalties when such benefits are paid to a bona-fide beneficiary under a tax treaty. Multiple taxes are a problem for businesses at state and local levels. Firms within concurrent state and local jurisdictions may be expected to pay several taxes and levies.

For More Information

CS Nigeria led by Senior Commercial Officer Rebecca Armand and Deputy Senior Commercial Officer Janelle Weyek is located at the US Consulate General in Lagos, #2 Walter Carrington Crescent, Victoria Island, Lagos, Nigeria. Tel: 234-1-460-3654**.** For more information about Nigeria’s franchise market, please contact Senior Commercial Specialist Anayo Agu at: Anayo.Agu@trade.gov