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SMALL & MEDIUM-SIZED ENTERPRISES (SMES) INDUSTRY REPORT

New Release | 2021



SMALL AND MEDIUM-SCALE ENTERPRISES – A BURGEONING INDUSTRY

Agusto & Co, Nigeria's leading research house, recently released its 2021 Small and Medium-Sized Enterprises (SMEs) Industry report covering three key segments: E-retailing, Cement Distributorship and Apparels. The report provides a comprehensive view of the Industry including the structure, insights into the operations of each segment, critical success factors as well as the key risk areas in each space. The report also covers the impact of the COVID-19 pandemic on the performance of SMEs as well as the challenges accruing from the Industry's regulatory environment. In addition to these, the report includes an analysis of the Industry's economics as well as Augusto & Co's short-term outlook for Small and Medium-Sized Enterprises in Nigeria, with an attached rating.

The growing surge in e-retailing

E-commerce activities continue to see an upward trend in Nigeria supported by the uptick in digital payments, on the back of the spread of information technology with internet penetration increasing to 46.6% in 2020 from 23.7% in 2015. Consumer spending on online purchases is estimated to stand at \$12 billion in 2020 and is expected to reach \$75 billion by 2025. Through e-commerce, players enjoy a wider customer reach with the ability to simultaneously connect to millions of consumers locally and globally. E-retailing however necessitates a high dependence on technology as well as logistics and warehousing.

We note that the emergence of COVID-19 positively impacted the sector, with players recording a gush of customer orders particularly during the lockdown period. We expect this trend to continue into the emerging post COVID-19 era premised on the rising rate of adoption of online shopping by consumers on the back of the relative convenience it offers.

The dynamics of distributing cement

With three key cement manufacturers in Nigeria - Dangote Cement Plc, Lafarge Africa Plc and BUA Cement Plc - cement distributors have limited choices on which brands to stock and have little control over the price. Nonetheless, the ready demand for the product (on the back of Nigeria's large population, existing infrastructural and housing deficit as well as numerous ongoing construction projects) compels interest in delving into the cement trade.

The dynamics of distributing cement

Players can choose to be wholesalers (buying in large quantity directly from the manufacturer), retailers (buying in relatively smaller volumes from wholesalers and selling in units to customers) or arbitragers (sourcing cement supply contracts from construction companies and linking wholesalers to make the delivery). Augusto & Co. notes that the type of cement distribution model adopted, has a significant impact on the margin a player records. Augusto & Co. notes the key success factors for the segment to include strategic marketing, good transportation system and flexibility to move the business to where customer demand is high.

The struggling apparel market

Unlike the e-commerce segment, which recorded a positive growth on the back of the pandemic, the apparel market posted an opposite fortune in 2020 with a 7.6% decline in the real GDP of the Textile, Apparel and Footwear segment to ₦1.3 trillion. The segment is highly cyclical and moves with the performance of the economy. Augusto & Co. however believes the apparel sector has considerable potential particularly for second-hand clothes, which is relatively affordable and appeals to price-conscious customers given the Nation's economic realities.

Our outlook for the SME industry remains stable

We believe the nation's escalating inflation rate will continue to dampen consumer disposable income and affect the demand for goods and services in the short to medium term. Nonetheless, we expect the rising unemployment level in the country as well as gradual reopening of the economy to encourage an influx of new players into the Industry. The importance of the Small and Medium-Scale Enterprises (SMEs) Industry cannot be over emphasized given its significant contribution to the national workforce and the economy as a whole. Thus, we expect to see sustained attention from the government, with intervention programs to support the expansion of the sector.

