

Woolworths dumps its Lagos stores

By [Zeenat Moorad](#)

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Woolworths will pull out of its three stores in Nigeria as high rental costs, duties and complex supply chain processes make trading in the West African country "highly challenging".



Woolworths will close all three of its Lagos stores.

Image: [Naraland](#)

The company made its first Nigerian investment with two stores launched in Lagos in March last year, followed by an additional store in Enugu, in October.

Despite several attempts to improve performance, Woolworths' chief executive Ian Moir said the group's Nigerian outlets were unable to sustain a compelling product and value proposition which represents the brand well, and meets the needs of the Nigerian customer in a climate that is hot throughout the year.

"When an investment no longer generates viable returns, difficult decisions have to be made to contain costs," Moir said.

Daniel Isaacs, equity analyst at 36ONE Asset Management said Woolworths was a good allocator of capital.

"They did mention that they were doing a trial. Pulling out at this point means that they've done their test, they've looked at the returns and they've decided that they can get better returns for shareholders by investing into other parts of Africa and South Africa," he said.

Difficult for the Woolworths model to work

According to Isaacs, because of price points, a retailer like Mr Price was probably better placed to move further into Africa. "In the African countries where you have a much lower gross domestic product (GDP) per capita, affordability is a huge

concern and you can't, at least not for a long time, institute the same credit services you have here.

"It will be more interesting to see where the other relatively higher-priced guys like Foschini and Truworths stand and what moves they now make in terms of Nigeria," he said.

Woolworths said its Africa strategy remains unaffected.

Resilient Property's managing director Des de Beer said: "Woolworths' problem (in Nigeria) was that they were not doing the turnover. It's not typically their market. We would not have recommended it for them anyway, as much as we love the business, we always knew it wasn't the right market for them."

According to Dianna Games, chief executive of Africa@Work, a Johannesburg consultancy focusing on African business issues, Nigeria's operating environment would not lead to other withdrawals from the market, but she warned that companies do need to give themselves time to adjust to and understand that market.

Africa's legacy of poor infrastructure, bribery

Africa's fast-growing economies with their rising middle class have caught the eye of retailers, but expansion is being hampered by inadequate infrastructure.

The World Bank says the poor state of infrastructure in sub-Saharan Africa, which includes electricity and roads, reduces national economic growth in the region by two percentage points every year and cuts business productivity by up to 40%.

Along with power outages, port delays, and bribery, the cost of doing business in Nigeria was enormous according to Massmart's Africa food retail and supplier development executive Mncane Mthunzi.

"On average you have to spend R5,000 a night for a hotel room in Lagos. We had an issue with one of the stores we were putting in, in Kano and thought about pulling out and closing the other stores, Then some politicians and the minister of finance went to Bentonville (Walmart's US headquarters) and persuaded us to continue. We have been offered protection for the investment," he said.

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