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10/05/FEAS: 18953

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WORKSHOP ON APPRAISAL OF INDUSTRIAL INVESTMENT PROJECTS
AND COMFAR FOR NIGERIAN BANKERS

Final Report by
Consultant: Reino Routamo, Market Analyst/Marketing Expert

IO/OS/FEAS CLT 91/055

Background:

This Expert was assigned as market analyst/marketing expert, under a Special Service Agreement CLT 91/055, to prepare material and to deliver lectures during three days, at a seminar in April 15 - May 3, 1991, at UNIDO Headquarters VIC, Vienna. Terms of Reference and the Working Schedule for the respective weeks are attached herewith.

The material "An Introduction to Marketing - What a Banker Should Know About Marketing" was distributed at the beginning of the Seminar, with additional OH-slides copies during the Seminar, and two special case-studies were written especially for this particular group of participants. All this material is attached here, too.

At the beginning of the Seminar participants were asked to list the scope and size of one project, with which they were dealing at the moment, and the practical examples during the presentation were geared to these examples:

Small-scale ceramics production	max 50 people
Ginger processing company	200 people
Mini cement plant	assets of 10 mio shillings
Mini flour mill	20-50 people
Medium-scale body-lotion mfr.	250-300 people
Medium-scale integrated vegetable oil factory	8 (?) - 150 people
Wood components for exports	100 people, 1.5 mio USD investment
Medium-scale oil processing	80 people
Roofing sheets/building material mfr.	100+ people
Food crops processing (yam) and preservation	50-100 people
Vegetable oil for soap mfr.	40-60 people

Lecturing Activities:

The lectures took place at the VIC, from 0900 to 1700, with habitual breaks. On the third day, for three hours, the group was invited to Expert's office, where practical market study methods, incl. modern telephone market research and telephone marketing were

discussed. This gave the participants also the opportunity to see and touch "real" market information and old studies, carried out by the Expert.

The exercise cases were handled each by a half of the participants, and seemingly with great enthusiasm. The limited time did not allow them to discuss and to compare their, seemingly vague, knowledge about available local (Nigerian) sources of information. As the Expert did not have enough of such knowledge, it could have been useful if they would have time and interest to do that among themselves. Certainly such an exercise could be arranged at a later stage during their training.

The case exercises are attached herewith, with comments by the Expert and by the participants. Both cases could be expanded into more time-consuming ones, if and when needed.

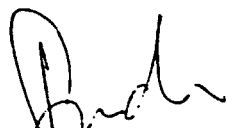
The hints to UN and developed country sources (by the Expert) were noted with great interest. This could, perhaps, be re-formed into a training module of its own right.

During the concluding discussion the Expert gained an impression that his "message" had generally been understood and accepted. Special thanks for "making us to think" were expressed.

The participants were experienced in their own trade (banking and loan assessment) and well-educated, mostly as accountants. At least one had a wide political experience and could inform his peers about their country's affairs. All participants were eager in asking question and fully supportive to the Expert during his lectures.

Suggestions: as above.


Vienna, April 26, 1991
Reino Routamo



M. Davidsen/mz
18 March 1991

**Workshop on the Appraisal of
Industrial Investment Projects and COMFAR
for Nigerian Investment Bankers**

UNIDO, Vienna
15 April to 3 May 1991

Terms of Reference

Market analyst

1. **Background:**

Since 1988 IO/FEAS has organized several COMFAR workshops at UNIDO Headquarters. IO/FEAS will conduct a Workshop on Appraisal of Industrial Investment Projects and COMFAR from 15 April to 3 May 1991 at UNIDO, Vienna. The workshop was requested by the "National Economic Reconstruction Fund" (NERFUND), Lagos, Nigeria. The participants are representatives of several commercial banks in Nigeria.

2. **Scope of Work:**

The market analyst is expected to train about 15 bankers from Nigeria in market analysis of industrial investment projects. In particular, the expert is expected to:

a) lecture for 3 days on the following topics:

Market analysis and plant capacity:

- Marketing, what it means and why it is important in the pre-investment phase;
- scope and structure of marketing research;
- data requirements and collection;
- income and price elasticities of demand and supply;
- introduction to forecasting methods;
- marketing instruments (product policy, price policy, distribution and communication policies);
- development of a marketing concept, i.e., determination of marketing strategies and of the required organizational set-up;
- determination of the sales programme and required plant capacity.

b) prepare and distribute teaching material (including exercises) covering the above mentioned topics;

c) prepare a short report on his activities.

3. Duration:

18 April to 23 April 1991 (three days lecturing, one day preparation)

4. Recommended Lecturer:

Mr. Routama is recommended and has confirmed his availability.

JECTS

THURSDAY 18 April	FRIDAY 19 April
Inflation, nominal and real rates of return.	Business plan and its impact on a feasibility study.
Financial project analysis: outline fixed investment and working capital.	Forecasting and forecasting methods.
B R E A K	
Sources of finance production costs. financial statements.	Market research data requirements and collection.
Case study 1: exercise and discussion.	Income, price and quality elasticities of demand. Demand planning for a market study.

TIME	MONDAY 22 April	TUESDAY 23 April	WEDNESDAY 24 April
9.00 - 10.30	Marketing and distribution arrangements.	Market study in practice. Analyzing data (Lectures will be held at Corporate,	Introduction to project financing
11.00 - 12.30	Pricing and pricing policy. Special case of exports.	Siebenbrunnengasse 21 1050 Vienna)	Alternative Financing Mechanisms Developing Countries
12.30 - 13.30	L U N C H		
13.30 - 15.00	Forecasting (case study)	Production programme and capacity requirement	Agencies providing Industrial Development Funding to Africa.
15.30 - 17.00	Case study (contd. and end)	Marketing summary (final discussions)	Economic project analysis: outline

The New Europe

The European Communities

- A Customs Union
- An economic union
- A political union

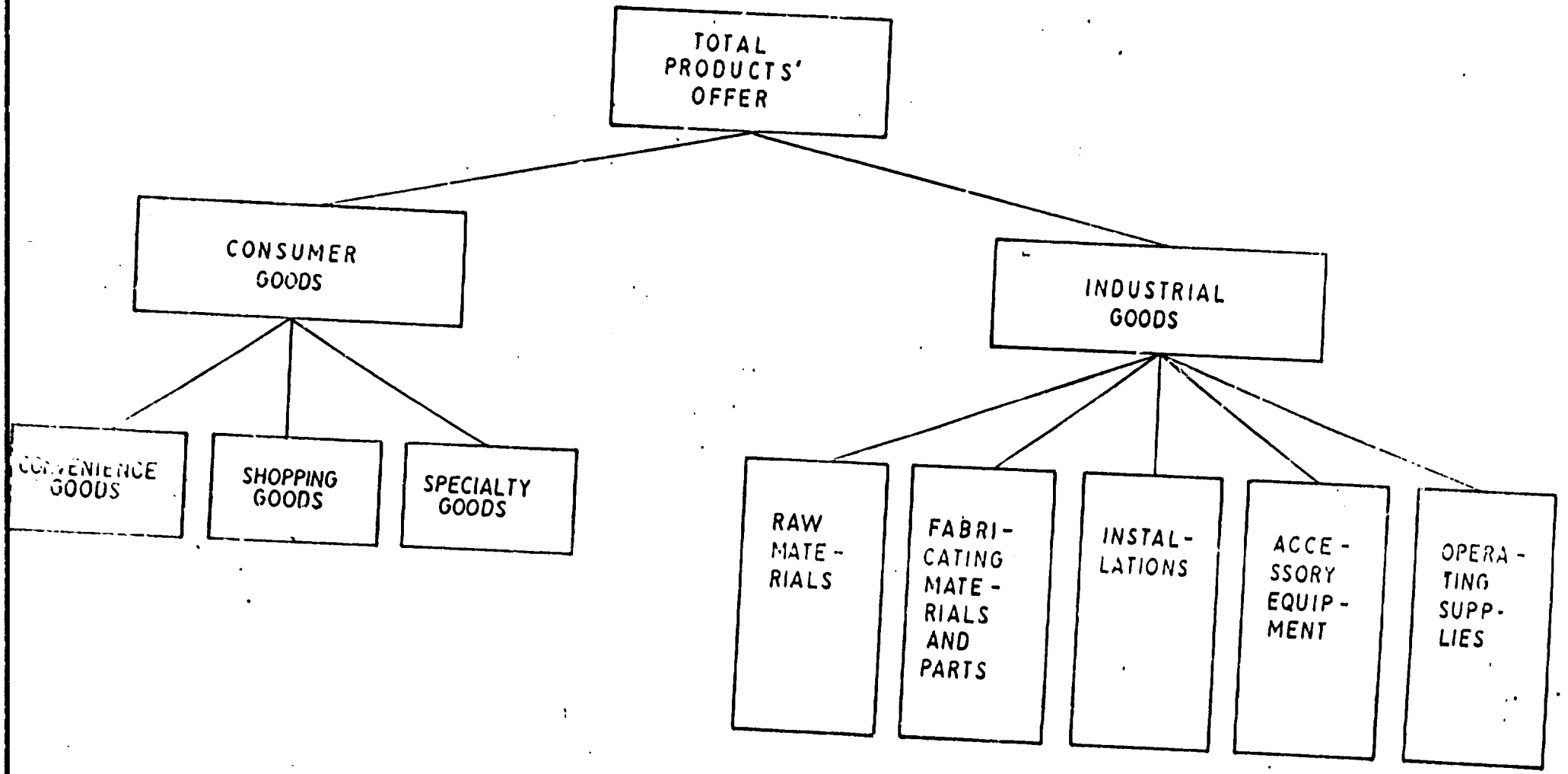
The European Economic Area

- Is there a role for EFTA
- New members from the East
- Political co-operation towards outsiders, USA, Japan, The Third World

Changing technological environment

Changing customer behavior

PRODUCT CLASSIFICATION

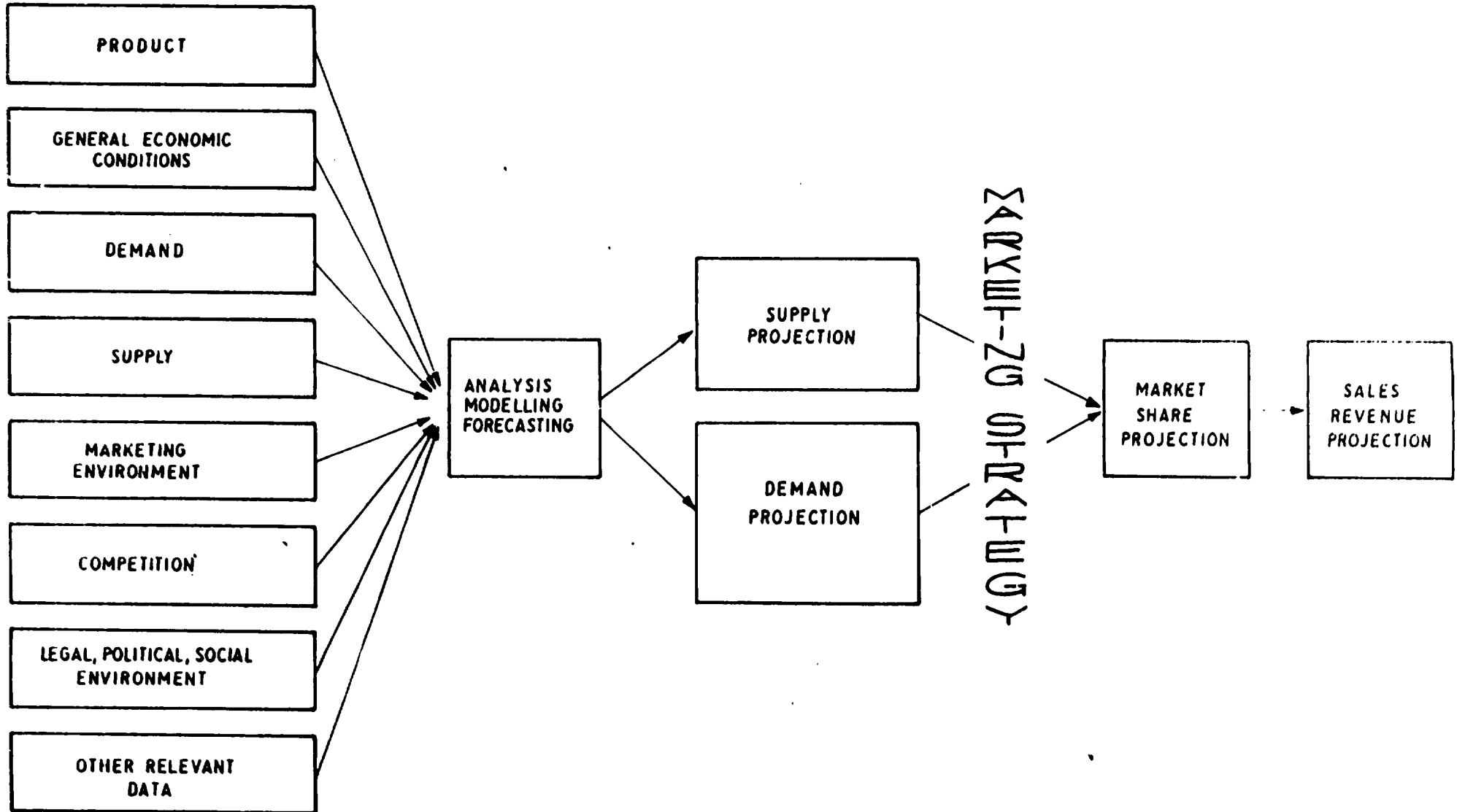


**MARKET CHARACTERISTICS
(DATA INPUTS)**

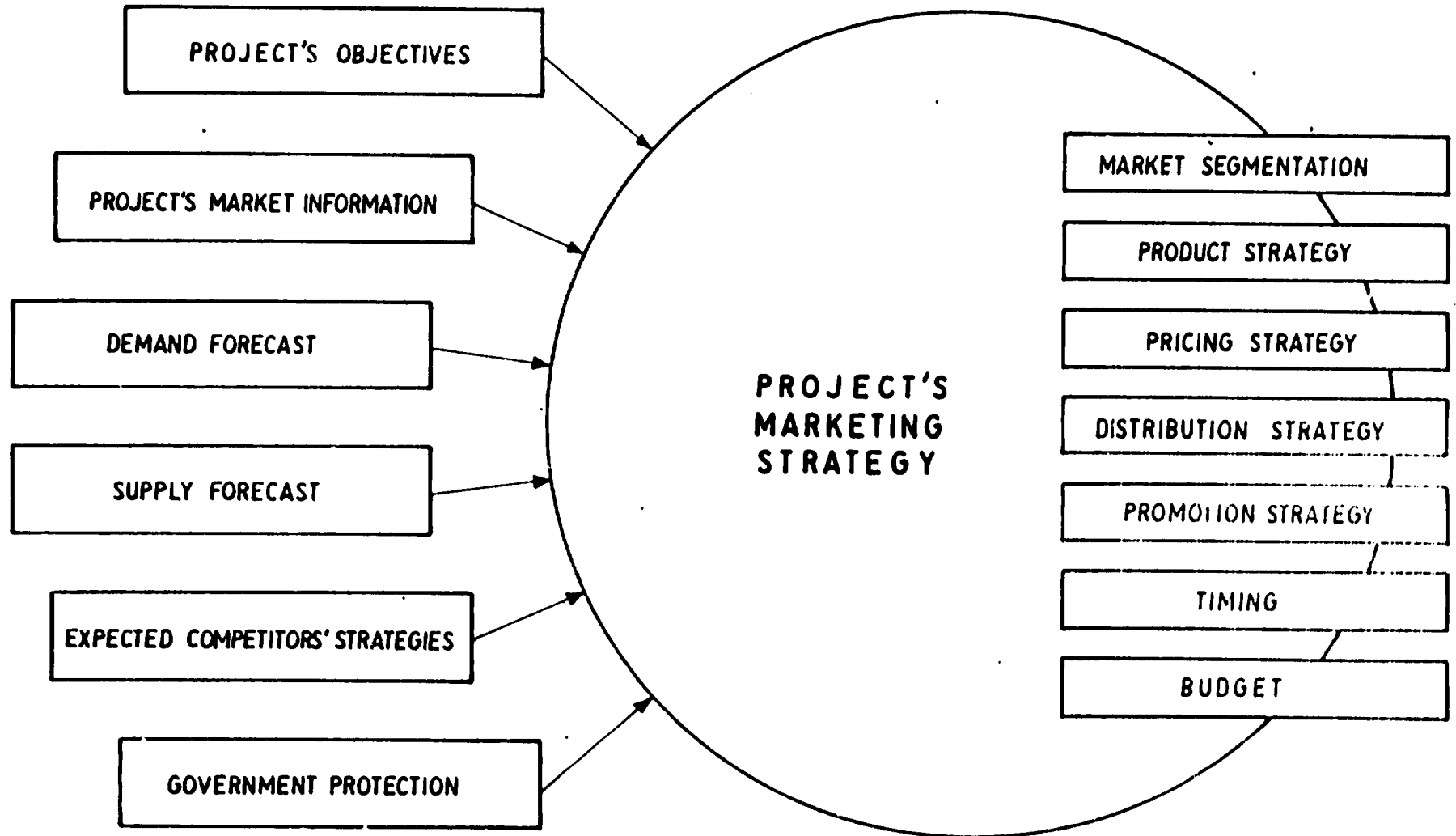
**DATA
PROCESSING**

**MARKET
FORECASTS**

PROJECT FORECASTS



MARKETING STRATEGY DEVELOPMENT



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Reino Routamo, UNIDO
Vienna, April 12, 1991

Marketing Case Study:

Mr. Sonde "The Smith" (49 years), is a self-made business-man and mechanic in Abeokuta (Nigeria), where he has set up a medium-size workshop some 12 years ago. He is producing metal doors, safety and decorative lattices (mainly for windows), and roof constructions. The business consists of, partly, of manufacturing such items, partly of setting them up at a building/construction site. He employs some 15-25 people, including his three sons, Ayo (26), Oia (24), and Ade (22).

The commercial results have not been very good, however, but being a hard-working man and having a good help from his sons, he has been able to maintain a good and un-disturbed account with our bank. Sales are normally done against cash, and only some weekly payments go through the bank. The value of his shop-site, place of production (a partly wooden, partly metal hall of 250 sq-meters/2500 sq-feet) and equipment is valued at 60.000 GBP. The annual sales are said to be about GBP 120.000-150.000.

The main business is done directly with builders, some sales are going through local traders. 70% is sold in Abeokuta, some 20-25% in Lagos, some sales go even up to Ibadan.

The reason, why the commercial results have not been better, is put on the high turn-over of labour: too many young people, as soon as they have learned something, seek employment in Lagos!

In order to counter this, Mr. Sonde has become enthusiastic about the possibility to purchase a numerically controlled cutter (NC-cutter), which would replace some skilled labour, would be more productive than people, and could be operated by the second son, Oia. The sales could be doubled, believes Mr. Sonde. It would cost GBP 50.000 and require Oia to go abroad for training for six months. The foreign currency would be available through a new government - UK line of credit, the training would be financed by UK Bilateral Aid (ODA).

You and your bank are interested in helping Mr. Sonde and his sons: what would you do in order to calculate the feasibility of his expansion-idea? It seems to be a fact, that Mr. Sonde should borrow all the money for this operation, but he is willing to take this risk, especially as he thinks that he soon must step down, and with this expansion he would have a big enough operation for all his three sons (and their families).

First, list questions, which you would be asking, and then the local, available sources, where such answers can be found. If necessary, plan a field-study, if that is what will be needed.

Comments to the Mr. Sonde Case:

Participants: this is a story about a man and his three sons. One should pay attention to the fact that the SECOND son will be sent abroad, why? What will happen when the father, at a later time, will "pass away"?

How does Mr. Sonde plan to market his (planned) doubled production.

The products will be sold to residential and construction markets, they should be studied. How far the products can be transported competitively?

How will the production be arranged: the automatic cutter will only increase the beginning of the production circle, i.e. welding and fitting of the production must be expanded, also. That is why an increase in working capital must be taken into account.

Expert: this is a case where somebody (Mr. Sonde) has been reading too much of modern management methods. His company is too small to pay for three directors (as he seems to think: the elder one as General Manager, the second as Technical Manager, and the youngest as Sales Manager!). He must decide between them (in Africa the eldest would be the only appropriate successor) and perhaps only give some ownership-rights to the others. If the second still is the best one to be trained, the eldest should have a similar-level foreign training, too.

The sales till now show, that there has been no real effort to sell. Abeokuta has some one million inhabitants and this small shop still sells only 70% of its production there. This should be studied and certainly be developed. Perhaps all sales outside the town could be directed, at a higher profit, to nearer buyers.

A very risky, and underestimated loan!

Reino Rcutamo,
UNIDO, Vienna, April 22, 1991

A Marketing Assessment Case:

Oyo Olokesusis is a government employee at Ibadan (Oyo State, Nigeria), 36 years, and very keen in various outdoor activities, hunting and wildlife photographing. In the course of these activities he has several times visited the Yankari Game Reserve in Bauchi State. This park, perhaps the most popular game reserve in the West-African sub-region (see map), covers an area of 2244 square-kilometres and offers a beautiful environment for visitors to see wildlife in its natural habitat, undisturbed by excessive human activities.

All in all there are 18 major nature conservation areas and wildlife parks in Nigeria, and the tourist potential of the whole country could be, at least partly, be based on them. However, the Yankari Park is not been very well developed to meet the requirements of, especially, tourists from developed countries. Mr. Oyo thinks that he could combine his personal interests with a good business idea by building and running a holiday village near the Dukkey Wells. These historic wells offer a rich flora and fauna, there is a museum of natural history, wildlife and poaching.

The only other holiday village within the Game Reserve is at the Wikki camp, some 25 miles away. People coming to the Reserve (from north-west, Bauchi and Jos) will usually pass by Dukkey (Dukke) first. There have been some 14-25.000 visitors annually to the Reserve, of which non-Nigerians have been 55-60%. The amount of visitors is estimated to rise to 45-50.000 by year 2000, but the Reserve could receive somewhat more, if proper care would be taken, not unbalancing the nature.

The Reserve can only be reached by road from Bauchi or from Jos (Plateau State), the drive to take normally 3 hours from Bauchi or 4-5 hours from Jos. Practically all visitors stay between two and four nights within the Reserve, staying at Wikki's bungalows (113 of them) or tents, which they can rent at the place. They book their visits often at Zaranda Hotel in Bauchi, where the Reserve Authority has an office, or come as participants to a previously organised tour.

Mr. Oyo, through his connections, has been promised a lease at the Dukkey Wells, enough to set up a holiday village of 50-60 bungalows. In order to compete with the present village, he intends to have them at luxury level, costing (fully equipped) 90.000 USD each. The main building (office, restaurant, a 50-people conference room, Oyo's own home, etc.) will cost about 250.000 USD.

He has, however, only 200.000 USD available, and approaches your bank for a loan. How will you proceed, in order to help him?

Exhibit 1.

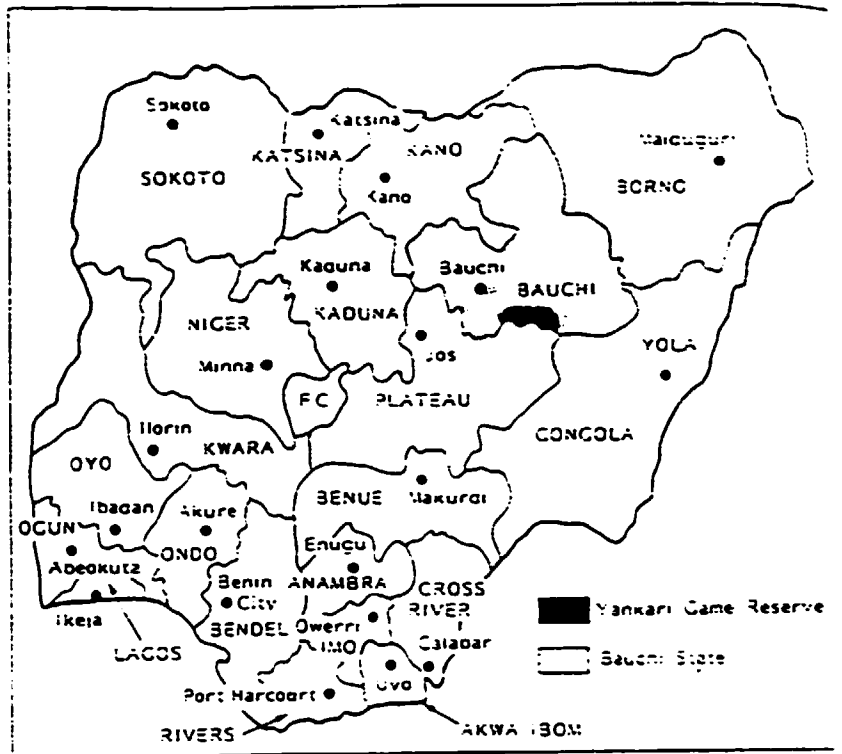


Figure 1. Map of Nigeria showing location of Bauchi state.

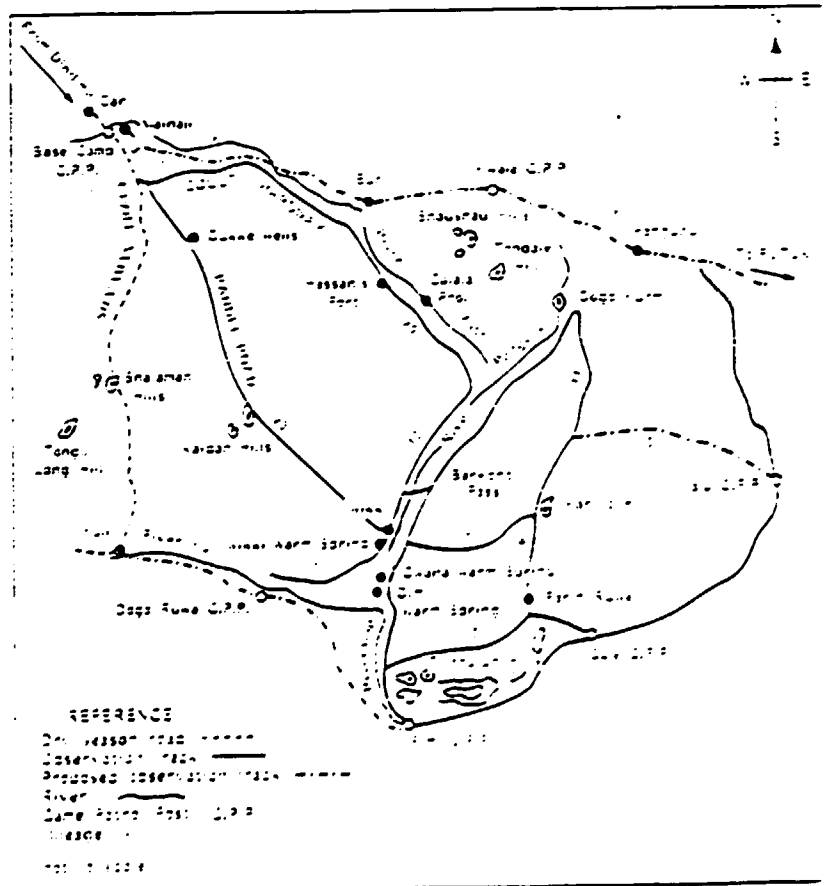


Figure 2. Yankari Reserve site.

Source:
Yankari Game Reserve and Tourism Com-
pany Ltd. 1987.

Table 1. List of conservation areas already gazetted or planned in Nigeria.

Conservation areas	State located
Yankari Game Reserve	Bauchi
Lame-Bura Game Reserve	Bauchi
Gashaka/Gumli Game Reserve	Gongola
Kainji Lake National Park	Kwara
Pandam Wildlife Park	Plateau
Lake Chad Marshes	Borno
Lekki Peninsula Sanctuary	Lagos
Kagoro/Nindam Forest Reserve	Plateau and Kaduna
Wase Game Reserve	Plateau
Okomu Game Reserve	Bendel
Ilon Game Reserve	Ondo
Oluwa Forest Reserve	Ondo
Olokemeji Forest Reserve	Ogun
Obudu/Obushi/Okwango Game Reserve	Cross River
Hadejia Wetlands Reserve	Kano
Upper Ogun Reserve	Oyo
Bobo Plains	Abuja FCT
Zuma Hills National Park	Abuja FCT

Sources: Federal Republic of Nigeria, *Third National Development Plan*, National Planning Office, Lagos, 1975; *Fourth National Development Plan*, National Planning Office, Lagos, 1980; Nigerian Conservation Foundation, 'Conserve nature's blessing', advertisement in *Daily Times*, Lagos, 12 April 1987; Federal Capital Development Authority, *The Master Plan for Abuja, the New Federal Capital of Nigeria*, FCDA, Lagos, 1979.

Comments to Game Park Village case:

Participants: a wild dream: almost five million USD investment with only 0.2 mio own financing. The age and keenness of the loan applicant are, however, good points, as well as the seemingly easy competition. The bank could assist him in 1) scaling the project down to more realistic dimensions, 2) to study, if the planned luxury bungalows really will be asked by ex-pat visitors, 3) what would be the cost and methods of promotion. The bank should, also, 4) study more of the background of Mr. Olokesusis, this will be a new trade to him, can he cope with all the managerial needs, where "keenness" will not be enough. His commitment must be high enough to overcome this lack of experience. 5) Is his place still too near to the town, would people not like to go to the town, instead of staying overnight in his bungalows? 6) First calculate a cash-flow according to this "wild" idea and then scale down to realistic figures - this approach would teach him the business.

Expert: also the lease should be taken as an asset! His father is a high government officer (nobody asked this!) and this will help in keeping other competition out. Also the upper ecological limits are hindering others to enter into this business. One should not look at the figures of 50-60 bungalows, but design a small and careful beginning, perhaps with one main building and some tents/huts.

One could also try to figure out other financing methods: leasing bungalows to travel-agencies, selling ready-made bungalows to the hotels in Bauchi and Jos, selling shares of the project as such, etc. Mr. Olokesusis will still be able to manage and control the venture, even if he includes outside financing.

Scaling down yes, but more imagination in financing!