COMPETITION IN NIGERIAN FLOUR INDUSTRY: WHY THE B2C STAKE IS RISING

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Abstract
The increasing competition in Nigerian flour industry has changed the nature of relationship between flour mills and their customers. Flour mills' customers comprise those who buy for resale as a business (B2B) and those who purchase for direct consumption (B2C). Traditionally, the B2B constitute the majority in the market. However, with the increase in competition, there has been a surge in favour of the B2C. This study examined the reasons for the growing attention of the flourmills to the B2C as against the B2B. The study observed brand loyalty, surging consumer market and increased delivery capacity as the key motivations for the new customers' preference. Using customers' data from Ondo state on 5 flour mills to portray the argument, the study observed that the future flour market will be less volatile and the industry growth will correlate with progresses in the bakery market.

Keywords: Flour mills, brand loyalty, competition
JEL Classification: D21, D22, L11

1. Introduction

Competition is not new in the flour industry. In Nigeria, the competition in the industry has deepened and assumed many dimensions in the last one decade (Ofonyelu, 2014; Onijingin, 2017). On the whole, four major areas raise some concerns. First, the fixing of flour price has become collusive rather than independent as no single firm can now successfully change the market price of 50kg bag of product without the support of other firms. For whatever action a single firm take, the others are sure to match such action accordingly either by way of increasing and/or reducing their own prices. With the collusive power, individual firms now have to rely on non-price incentives as the key selling strategy.

Second, it has led to the formation of flour millers' association of Nigeria (FMAN). Ever since the formation, the flour market has become more oligopolistic and cartel-like. It did not come as a surprise that flour prices have remained relatively high and rigid in the last five years than in the previous decade. With the present situation, the lags in the processes of price review has lengthened.

Third, the strategies of competition have continued to change (Ofonyelu, 2017). As a consequence, the use of company delivery relative to self-collection has become more pronounced in relation to price and quality competition among the flour mills. In fact, the need for companies to survive the competition have pushed more firms into acquiring haulage capacities in order to be able to reach new markets and deliver goods to customers promptly. Companies are known to make strategic investment to boost delivery capacity during competition (Hay and Liu, 1998).

Fourth, the nature of firm-customer relationship in the industry has changed. The flour dealers constitute the bulk of the B2B arm of the market. But of recent, this trend has changed. The competition in the bread and confectionery markets between corporate and local bakeries have become a driving force in this regard. As a result, this has led to the closures of many local bakeries and depleted the purchasing capacities of many flour dealers while the corporate bakeries have grown in capacity. With the corporate bakers purchasing directly from the flour mills and joined with their growing market holdership, it has become more attractive for the flour millers to accord the bakers important consideration as the dealers. Should the subsisting trend continue, the business of selling flour may just be beginning to close in for the flour dealers as the flour mills go deep and directly with the bakers. In addition, in the periods of low sales, the flour mills will have to reduce production capacities or partially shut down as the dealers who provide intermediate cushions for clearing the excess productions are dwindled in the market. This argument is the crux of the study. This rest of this paper is sectioned as follows. In section 2, a conceptual clarification on B2B and B2C customer relationship is made between the theoretical perspective and as it is applicable in the flour industry. In section 3, attempts were made to posit arguments why the B2C section of the market will dominate the B2B in the near future. Section 4 concludes the study.

2. Conceptual Issues

Business to business (B2B) relationship is used to refer to a situation whereby one business engages in a commercial relationship with another (Connick, 2019). It is frequently seen as representing a kind of business relation conducted between one business (flour mills as in this case) and another business (trading in flour or using flour as input in a production process). B2B transactions traditionally happen in both the demand and supply chain, whereby one company purchases raw materials from another to be used in a production process. In flour market, this kind of relationship exist between flour mills and their distributors. Flour mills have the options of selling products to other businesses as dealers and distributors in the supply chain or to the end consumers. Based on a theoretical classification, the former is referred to as B2B and the latter as B2C. But this concept is defined differently in the Nigerian flour industry. Specifically, all flour customers are classified as belonging to the B2B. The flour mills classify their relationship with the customers based on the nature of the product traded rather than the purpose of the relationship. It is this conceptual ambiguity that differentiate the definition of B2B and B2C as defined in the flour market from what is obtained in the traditional product markets. Flour mills' classification is based on two premise.

One, flour is considered as a bulky product and as a result is not directly produced to be consumed in that state. As a result, the companies expect their customers to be persons who are either intermediating businesses in-between them and the end users or making purchases to process the product into a directly consumable form. The intermediaries come in the form of flour dealers and distributors, etc.

Two, flour is considered as an input product. As a result, its purchase serves as input for other business. This is where the bakers come into the picture. A baker buying flour must be for usage in further business or production of other products. The foregoing classification is not generally applicable in all product markets. In a typical instance, a B2B from the demand side may imply a B2C from the supplying side. For instance, a bakery sourcing flour for bread production will be presumed to be in a B2B relationship with the flour mill while the baker sees the flour mill as its B2C partner. In the general markets, the motivation for purchase is the deciding factor for the categorization of customer type. The Nigerian flour mills do not operate according to this categorization. Customer are classified based on the type and nature of products they purchase. A customer of flour, sugar and other bulky items such as the 10kg and 15kg margarine are considered as B2B while customers of the light products such as semolina, semovita, wheatmeal, noddles, etc., are considered as belonging to the B2C. In that case, the nature of the product determines the classification and not the purpose of purchase. For the sake of clarity and simplicity, this study has adopted the theoretical definition of the terms as applicable in the general product markets.

Business-to-consumer transactions (B2C) refer to those businesses made between a company and individual consumers. Business to consumer (B2C) is implied when the sold products or services is directly to consumers. In the case of flour business, B2B is implied by selling of flour products by the flour mills to the wholesalers/retailers. On a close approximation, it is used to refer to the type of relationships that exist between the flour mills and big flour dealers such as Oluwasesan Sose for Mamagold flour, Mount Olive for Golden penny flour, Lasol Nigeria Enterprises for Dangote flour, etc. For each of the flour mills, these businesses represent a major force in clearing the stocks produced. Every year, the names make it into the top ten of all the Lagos-based flour mills in Nigeria.

B2B is often contrasted with business-to-consumer (B2C) relationships. In traditional B2B context, it is often the case that the parties to the relationship have strategic negotiating power because of their size, huge resource and information advantages over smaller businesses. Being the primary business of the owners, there is usually more disposition to commit huge financial resources to the business to clear the stocks for the flourmills, stabilize supply and facilitate delivery. Because of their nature, they relate with the flourmills with superior information which are garnered across the market unlike the individual B2C bakeries. B2C is shaped to a far greater degree by information disadvantage in terms of negotiating power. Due to their huge size, the B2B companies represent a significant part of the Nigerian flour market. It is estimated that as much as over 65% of sales turnover in the flour market are pulled by the businesses. However, size of this relationship is believed to be on the decline in recent time because of annexation of the bakers by the flour mills. High concentrations of the B2B in the flour market suggests that a positive correlation exists between market growth and B2B concentration. Accordingly, analysts usually advise flour mills to reposition themselves so that they dominate sizeable segment of the B2B sales. This has been the extant belief and philosophy. But the trend has changed in recent time. With the rise in competitions, firms are forced to scramble for market share at all cost. In the cause of this scramble, the corporate bakers have become strategically attractive. Based on contextual definition of the bakery market, the corporate bakers constitute the driving force of the B2Cs.

One can attribute the shift in preference towards the corporate bakers in recent time to four main reasons. First, there is a growing increase in the number of corporate bakers in the bread market and this influence is seriously displacing the market share which were previously held by the local bakers who are used to be the customers of the B2Cs. With the flour mills relating directly with the corporate bakers, it becomes strategic for such relationship to be sustained with attractive price incentives and rebates just as with the B2Cs. With this, the dichotomy that used to exist between the resellers and the direct users is diminished. In addition, the organizational structure of these corporate bakeries is such that they are built to support long term business relationships. Unlike a typical local bakery in Nigeria, these corporate bakeries are in for serious business and their management structure suggest that many of them will survive into many decades to come.

Second, the B2B customers are traditionally known to be loyal to a particular brand than the B2Cs. The bakeries are known to program their mixing and baking procedures on a fixed brand of flour unlike the dealers who deal in multiple brands. When a flour mill gets such loyalty, no serious manufacturer with joke with the patronage. In addition, the B2B are known to have the least tendency for strict loyalty to brands. Being a business, the motivation is to sell flour and as a result one may be tied to multiple relationships with the different flour firms. However, the flour firms do prefer individuals who will be totally loyal to them by selling only their brand and pushing volumes. Selling a single brand implies that the profits that would be made from demands on the other competing brands are lost. In an environment where many brands compete, selling only a single brand of flour does not become attractive to a flour dealer. On the other side, the big bakers are not always tempted to have multiple relationship with different flour firms. Even with large production, most settle to one or two flour mills in terms of flour demand. In view of this, these bakeries now enjoy credit facilities with the flour mills which is no longer open to the flour dealers because of past abuses. The bakeries are seen to have much at stake should they default on a facility that is given to them than the dealers.

Third, there is a growing awareness of the consuming public about the poor hygiene of the local bakers' environment in the process of bread making. This point is joined with the fact that the location of most of such bakeries are always not easily accessible and not open to the regulatory authorities (such as NAFDAC). Unlike the corporate bakeries which are usually sited in open and popular locations. As a result, the openness subjects the modern bakeries to observing adequate hygienic conditions and procedures. Joined with their entrepreneurial competence, the modern bakeries beat the local ones in terms of packaging, preservation and marketing of the bread products which puts ahead in the continuous capturing of the bread market across the country.

Fourth, the flour mills have grown in their delivery capacities in recent time. In view of this, there is now ability to reach those bakers who in the past cannot be reached because of distance and location. With the use of company vehicles to deliver to these category of customers, there is a strategic move to ensure orders are not delayed while at the same time careful attention is given to such category of new entrants. Being an oligopolistic market, all of the flour mills have been involved in the strategic investment in delivery capacity to boost sales.

Building the B2Cs market at the neglect of the B2Bs can be a risky and costly activity. This is worse as it can ignite retaliatory actions when the flour dealers unite with competitors. For low-share bakeries in particular, the cost of a flour mill supplying it directly joined with the delays may not be worth it. If the flour dealer in such environment have the capacity to actually service the bakery at cheaper cost and is willing to sacrifice financial resources to stock the firm's products, the acquisition of the new bakery customer may not be worthwhile. In addition, continual patronage of such bakery may not be possible because of limitations of resources and other market influence. Based on experience, dealers and middlemen tend to be more willing in stake greater financial resources in business that the direct consumers. As a result, it is not uncommon to find out that the majority of the self-collection or hired delivery are originated from the B2Bs.

3. Data and Methodology

There is no straight data on the number of flour customers in Nigeria for the different states of the country. This is because all the flour mills have their individual customers and many of such customers patronize the different brands. However, the distribution of customers across the states of the federation follow a common trend. In view of this, the data of flour customers in Ondo state for the five major flour brands in southwestern Nigeria was used to push the argument of this paper. The customers deal in Golden penny, Honeywell, Mamagold, Diamond and Dangote flours. Data used for the study were obtained both from the demand and supply side. The flour mills represent the supply side and the customers on the demand side. The study embarked on a random purposive interviews and surveyed all identifiable flour dealers across the state within the past five years. For the years 2016-2018, the records were easier as nearly all the flour mills held customers' forum which gave opportunity to assess all of the B2B and B2C customers across the states at such meetings. Through the chairmen of the various chapters of association of master bakers, records of all registered bakers across the different chapters in the state were collated. In the state, the corporate bakers were understudied and the date of their establishment noted. In measuring the B2B, the number of local bakeries who buy flour through the dealers as well as the record of flour dealers themselves were observed. Bakeries and confectionary enterprises who are direct customers of the flour mills were used to represent the B2C. The corporate bakeries in Ondo state include those big and industrial bakeries who are registered customers of the flour mills. They include Micmakin Nigeria Limited (Oyato bread), Good Luck bakery (Goodluck and Infinity breads), Captain Cook Bakeries (Captain cook bread), Onyekachukwu Foods (Happy bites), Shoprite (Shoprite Bread), etc. The local bakeries on the other hand are artisanal in nature and still dominate by artisan the market (KPMG, 2016). With a market share of about 72% in 2016, the share of this artisanal and local bakeries have declined to less than 65% as at the beginning of

2020. The artisanal bakeries are used to be staffed and sometimes run by people on the lower income ladder with primitive baking machinery. In the last one decade, contemporary bread production in Nigeria have undergone many transformations. For one thing, consumers have become savvy and selective about their bread choices. In a report by Euromonitor in 2015, the demand for packaged bread from the corporate firms was observed to be growing faster (3.4%) than the unpackaged (2.3%) form the local bakeries. This trend has continued with indications that the former may have doubled the latter lately.

4. Results and Discussion

Across the country, the number of people into local and private bakery business is on the decline. In effect, bakery business has become more institutional and corporate. For instance, institutions such as the federal government colleges and technical schools which used to be supplied bread from the local bakeries have either housed a bakery enterprise or entered into third party partnership for the supply of its student' bread. In the same vein, higher institutions of learning which used to be open market for the local bakeries have in recent time become captured by the establishment of institution-based bakery. This development is more common with the private universities. What is common in the developments is that the institutional bakeries always seek to buy directly from the flour mills. As a result, shrinking the market space for the flour dealers and the local bakeries to sell their breads. On the other hand, the corporate bakeries produce well packaged and superior quality breads than their local counterparts. Table 1 show the details of the customers' mix in terms of their categorization.

Table 1: Distribution of flour millers' customers in Ondo state

Year	No of flour dealers (B2B)	No of corporate bakers (B2C)	No of local bakers (B2B*)
2010	13	2	132
2011	14	2	133
2012	14	3	131
2013	15	3	129
2014	16	3	130
2015	16	4	126
2016	17	4	125
2017	18	4	123
2018	16	5	121
2019	15	6	118
2020	19	6	117

Source: Author's survey

Looking at table 1, one can see the steady increase in the number of corporate bakers and the declines in the population of the local bakers. Even while the numbers of flour dealers increased over the decade 2011-2020, the average growth of corporate bakers (12.83) more than double that of the increase in the flour dealers (4.29). In fact, within the five-year periods of 2011-2015, the number of corporate bakers grew almost 4 times the growth in the number of the flour dealers. In the years 2016-2020, the growth reduced to about double of the flour dealers. One remarkable observation from table 2 shows that while the corporate bakers are increasing in number, the local bakers continued to decline in number. The decline in the number of local bakers was observed to be continuous and increasing. With the increasing urbanization in the country, trends have shifted in favor of industrial bakeries within the next few years (Mollenhauer, 2019). Industrially produced, sliced sandwich loaves from the supermarket have the advantage of higher, standardized quality, a hygienic wrapper and a longer shelf life.

Table 2: Yearly Growth in flour millers' customers in Ondo state

Year	No of flour dealers (B2B)	No of corporate bakers (B2C)	No of local bakers (B2B*)
2011	7.69	0.00	0.76
2012	0.00	50.00	-1.50
2013	7.14	0.00	-1.53
2014	6.67	0.00	0.78
2015	0.00	33.33	-3.08
Average (2011-2015)	**4.30**	**16.67**	**-0.91**
2016	6.25	0.00	-0.79
2017	5.88	0.00	-1.60
2018	-11.11	25.00	-1.63
2019	-6.25	0.00	-2.48
2020	26.67	0.00	-0.85
Average (2016-2020)	**4.29**	**5.00**	**-1.47**
Average (2011-2020)	**4.29**	**10.83**	**-1.19**

Source: Author's survey

The motivations for the flour mills to scout for the corporate bakers as against the local bakers are not far-fetched. In the last five years, the formerly smaller flour firms have grown in capacities and the general average product quality steadily improved. For instance, Life Flour, Pure flour and Diamond flours which used to be marginal brands and that usually had to be mixed with the leading brands can now be mixed as a stand-alone in bread production and still get good results in terms of yield and weight. In addition, there has emerged new entrants in the flour market. These factors have joined to displace the overriding leadership of a single firm as market leader. In addition, retaining market share and sustaining customers' patronage have become more tasking. These combined effects have made the market more competitive and individual firms innovating on strategies to beat the other in the market space.

The foregoing argument does not imply that any flour mill can survive without an army of big dealers and distributors in the supply chain. Nevertheless, the new preference for the bakers as against the direct consumers in this time constitute a strategic move. In competitive period, the firms are face with the challenge of needing the assistance of the dealers in reaching the direct consumers while at the same time exploiting the huge financial outlay that these middlemen can dispose to them. In all of these, an implicit game therefore exists between the flour firms and the customers with respect to the dynamics of competition and how their affect customer relationships. One will expect that the changing stake in the customers' preference will be more particular to only the leading flour mills. But the development seems to be general. Both the big and smaller firms now focus more on the B2B. The association of master bakers of Nigeria have proven a veritable forum for the flour millers to penetrate into the bakery fold. Periodically, these firms organize meetings with the bakers and promote their products to them. Through the forum, they assess the bakers' capacity and initiate purchasing relationship with capable ones. Diamond flour had by this strategy been able to make way back into the market in the last two years. Seeing the potentials in close relationship with the bakers, no flour mill wants to allow this vital role to be played for them by their distributors.

In the case of the Nigerian flour market, the effects of the competitive urge have drawn the flour mills going after the bakers than the distributors. Traditionally, flour customers can either be distributors (dealers) or consumers (bakeries). While the bakers are more interested in quality product with cheap prices, while the dealers are interested principally on products that maximizes profits to them. In view of this, the flour millers are caught in-between the need to satisfy the consumers while at the same time keeping the dealers. This dichotomy has been the reason why flour mills relate with each of the categories of customers from a different page.

When a flour dealer is stocked out, two implications arise. The first is that the customers may be forced to want to look elsewhere to get supply. On the other way, being out of supply imply that the customers of a dealer are not immediately able to access such product until supply is made. Thus, not only the dealer is out of supply at that point in time but also the numerous bakers and consumers who depend on the dealer for supply. Because of the competitive nature of the flour market, lack of supply constitute the easiest way to lose customers to the competitors. As a result of this, the big dealers receive preference in supplies during periods when products are to be rationed or not immediately available.

Conclusion

Increase in competitions has unbalanced the B2B and B2C relationships in Nigerian flour industry. In the past, the flour mills give preferential considerations to the B2B over the B2C during price and rebate considerations. However, with the increase in the number of corporate bakeries who patronize the flour mills, the extant preference for B2B market have collapsed. Those who buy flours for direct consumers are found to be more loyal and promising in terms of brand loyalty and patronage than the dealers. Having noticed this, flour millers have developed greater affection to the B2C, and this is to the discredit of the B2B. The implications of these developments are that future competition in the industry will be less volatile as corporate bakers dominate the market and that the growth of the industry relates with the progresses in the bakery market. Customers that are loyal to brand are known to exhibit stable demand and firm commitment. Flour millers in the near future may not be able to optimize their productions at fuller capacities throughout the year as the firms the dealers size shrink in the market. A major policy recommendation from this study suggest that there must be limit to the continuous registration of new bakeries as direct customers of flour mills for any mill that want to continuously have a strong hold of the market.

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