Nigeria CEO Outlook

July 2018

KPMG in Nigeria

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Foreword

No matter which industry they are in, businesses in Nigeria must operate in the wake of persistent and shifting local and international forces. With so much change in the Nigerian business landscape in the last couple of years, it is valuable to know what the leaders of today's leading companies in Nigeria are anticipating for the next few years ahead.

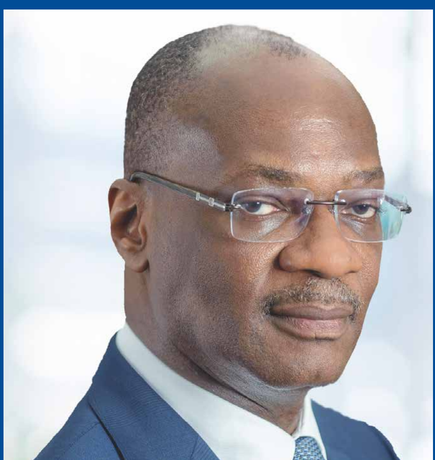
Leveraging on the success of the KPMG 2018 Global CEO Outlook, a survey in its fourth year and of 1,300 CEOs of the largest companies from around the world, this is the maiden edition of the KPMG Nigeria CEO Outlook. This study explores the views and insights of today's leading business leaders in the country across a broad range of business drivers, risks and pain points impacting industries and businesses in Nigeria. We have surveyed a cross section of CEOs across industries and obtained in-depth perspectives from a number of them on the major issues facing the economy, their industries and their businesses over the short to medium term. The findings provide powerful insights into the thinking and strategies that will shape business decisions in the years to come.

Nigerian CEOs tells us that they are relatively more optimistic about what lies ahead, with almost eight in ten expressing greater confidence about the prospects for growth in the Nigerian economy in the next three years. These CEOs expect topline growth in the same time horizon, though 88 percent of CEOs predict annual growth of less than 2 percent. Three in five Nigerian CEOs say organic growth is one of their top two strategies for growth over the next three years, with 28 percent ranking it first. They all expect headcount to grow too.

At the same time, CEOs in Nigeria are deeply concerned about operational and talent risks, which they see as the biggest threats to their organisation's growth. All Nigerian CEOs in the study believe that technological disruption is more of an opportunity than a threat, and they all agree it is the only significant disruption facing their business.

In addition to CEO perspectives, we have also provided analysis from KPMG Partners, who draw from their experience working with industry operators, government and regulators on the most pressing issues facing Nigerian businesses.

We are proud to present the 2018 KPMG Nigeria CEO Outlook and I hope you find it insightful. I want to use this opportunity to thank all the CEOs who spared their time to speak to us and responded as openly as possible on the issues they face as Senior Executives. I invite you all to reach out to KPMG Partners to discuss your own challenges and opportunities in today's dynamic business landscape.



Kunle Elebute
Senior Partner, KPMG in Nigeria
& Chairman, KPMG Africa

Contents

Key findings

Realistic Growth

- Many CEOs express increasing confidence in the economy
  - 76 percent of the CEOs surveyed are confident about the country's growth prospects over the next three years.
  - 84 percent are confident about the growth prospects in the industry they play in.
- However, a significant number of CEOs expect moderate corporate growth
  - 88 percent of CEOs expect topline revenue growth of less than 2 percent over the next three years with the same percentage expecting an increase of less than 5 percent in their headcount in the same time period.

Growth Strategies

- Organic Growth, Outsourcing and Strategic Alliances are the key strategies growth for Nigerian CEOs over the next three years.
  - Three in five Nigerian CEOs say organic growth is one of their top two strategies for growth while 28 percent rank it first.
  - 28 percent also agree that outsourcing is key for their growth but 52 percent believe strategic alliances with third parties is the second most important strategy overall.
- More than half of Nigerian CEOs (56 percent) intend to set up accelerator programs for startups within the next three years to help pursue their growth objectives.

Threats to Growth

- 88 percent of Nigerian CEOs say that operational risk is among the top three threats to their organisation's growth while 48 percent of CEOs say the same for talent risk.
- Emerging technology risk is ranked first by 28 percent of Nigerian CEOs as the single biggest threat to growth in the next three years.

Transformation Challenge

- Nigerian CEOs are confident that their existing leadership team is fully equipped to oversee the radical transformation their organisation requires.
- 100 percent say they are personally prepared to lead such a change.

Disruption as an Opportunity

- All Nigerian CEOs in the study believe that technological disruption is more of an opportunity than a threat, and they all agree it is the only significant disruption facing their businesses.
- But many of them state that they are struggling to run parallel processes to transform the digital and non-digital aspects of their businesses.
- 88 percent of Nigerian CEOs are of the opinion that their digital and technology investments are strategic and long term but 64 percent of them expect to see significant return on such investments in 12 months.

Meeting Customer Expectations

- 60 percent of CEOs believe that they are meeting or exceeding their customers' expectations.
- But it appears there is a struggle to meet the needs of customers of the future as 44 percent of CEOs admit that they have to reposition their brand to meet the needs of millennials.
- 40 percent of them say it is a challenge understanding how the needs of millennials differ from older customers.

Cyber Threats

- 84 percent of Nigerian CEOs say they are 'well' or 'very well' prepared for a cyber-attack.
- 96 percent are confident in their ability to identify new threats and all are confident about their ability to manage external stakeholders in the event of an attack.

Economic and Business Growth Prospects

Growth prospects are strong

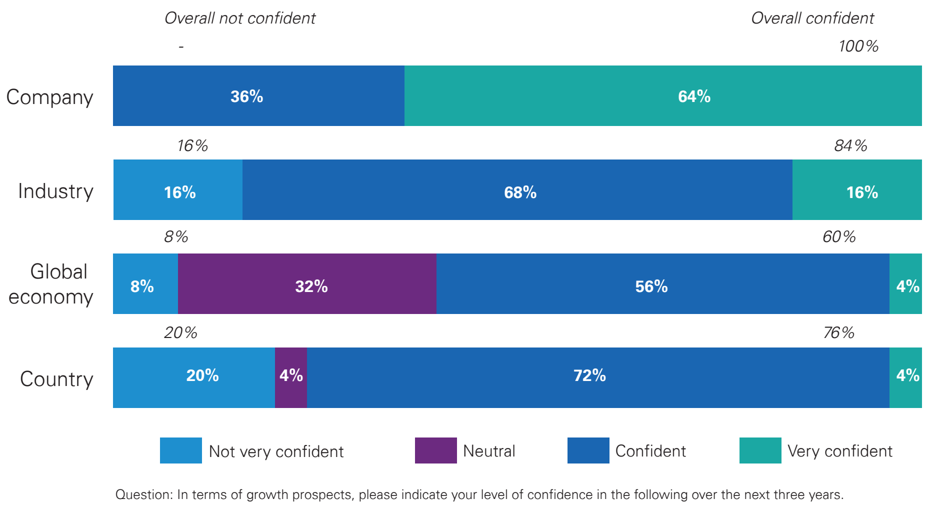
Over eight in ten CEOs express confidence in the growth prospects of their industry and 88 percent expect topline revenue growth of less than 2 percent over the next three years.

A significant number of CEOs in Nigeria (76 percent) see the Nigerian economy continuing on a positive growth trajectory over the next few years. Executives are even more excited about growth for their industries and companies with all CEOs surveyed expressing increased confidence about their own corporate growth over the next three years.

Part of the reason, says KPMG in Nigeria's Head of Tax, Regulatory & People Service, Wole Obayomi, is the positive forecasts for oil price and production and its impact on the country's foreign exchange (FX) market. "2017 was a year of recovery for the Nigerian economy as growth started to kick-in from the second quarter of the year. The recovery was largely driven by steady rise in oil price, stability of oil production and FX market reform by the Central Bank of Nigeria (CBN) through the importers and exporters (I&E) window. If the trend in average oil price increase continues, coupled with stability in the FX market and full implementation of the Government's Economic Recovery and Growth Plan (ERGP), we expect the economy to attain full recovery and start accelerating" he explained.

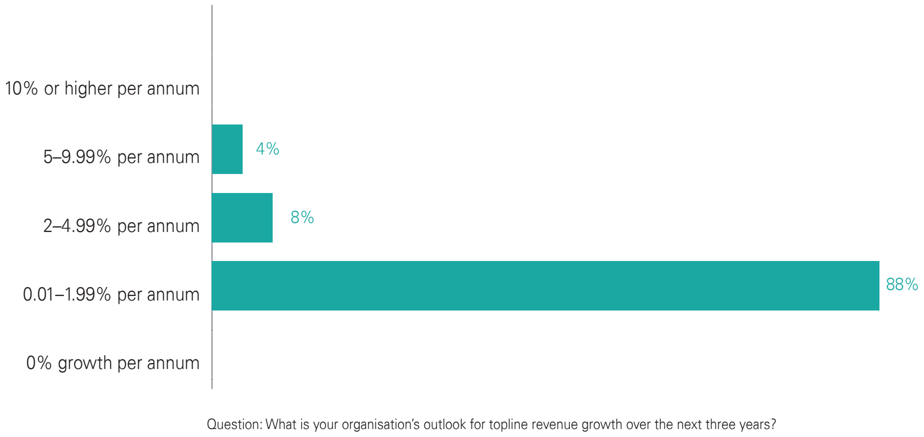
Many Nigerian CEOs clearly see growth in their companies tied to

Chart 1: Level of confidence in growth prospect for the following over the next three years



Source: 2018 KPMG Nigeria CEO Outlook

Chart 2: Outlook for topline revenue growth over the next three years



Source: 2018 KPMG Nigeria CEO Outlook

growth within their industries and the domestic economy. With over eight in ten CEOs expressing confidence in the growth prospects of their industry, it is unsurprising to see all CEOs confident of corporate growth. Obayomi says, "Every industry is impacted by the dynamic changes in the economy and in my interactions with clients, it is increasingly clear that the prospects for the company is directly linked to the health of their industry."

However, this positive growth anticipation does not translate into very upbeat revenue growth expectations as 88 percent of the CEOs surveyed expect topline revenue growth of less than 2 percent over the next 3 years. This is despite the fact that 64 percent of CEOs disagree with the suggestion that growth in the next three years will be harder earned than ever before.

Organic Growth, Outsourcing, and Strategic Alliances will be key strategies

Three in five Nigerian CEOs say organic growth is one of their top two strategies for growth over the next three years, with 28 percent ranking it first. The same proportion say outsourcing is key, while 52 percent believe strategic alliances with third parties is the second most important strategy.

Chart 3: Strategy for growth over the next three years (ranked first)

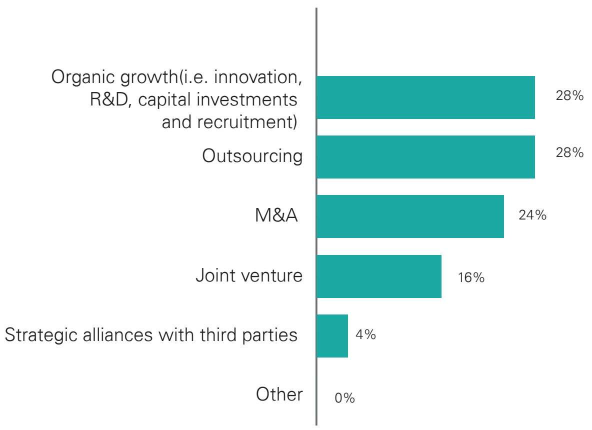
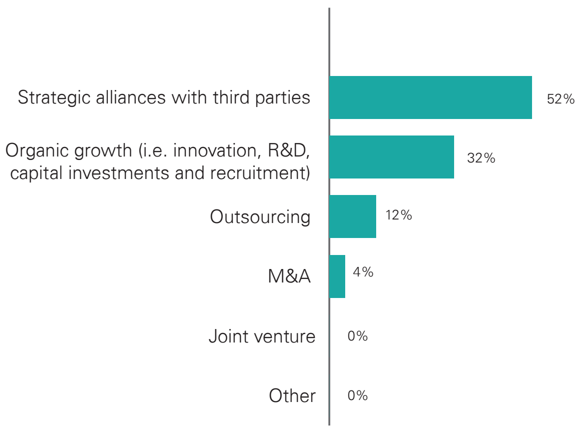


Chart 4: Strategy for growth over the next three years (ranked second)



Question: Which of the following strategies will be most important for achieving your organisation's growth objectives over the next 3 years?

Source: 2018 KPMG Nigeria CEO Outlook

> For companies that want to continue to grow their businesses from within, we see that innovation is no longer a choice, it is an imperative.

Bisi Lamikanra
KPMG in Nigeria's Head of Advisory

According to Bisi Lamikanra, KPMG in Nigeria's Head of Advisory, It is unsurprising that organic growth will remain a primary focus for companies. "During the recent recession, many companies focused on squeezing a lot of costs out of their businesses. They have had to rely on internal efficiency strategies (including outsourcing) and harnessing innovative practices to keep their customers and drive volumes up, while keeping product prices from going through the roof," she explains. "This experience has given companies the confidence to continue to grow their businesses from within. We see that innovation is no longer a choice, it is an imperative. Consumers themselves are demanding better options. Companies that are averse or unable to embrace innovation as a means to respond to the demands of their customers and grow, will quickly become irrelevant.

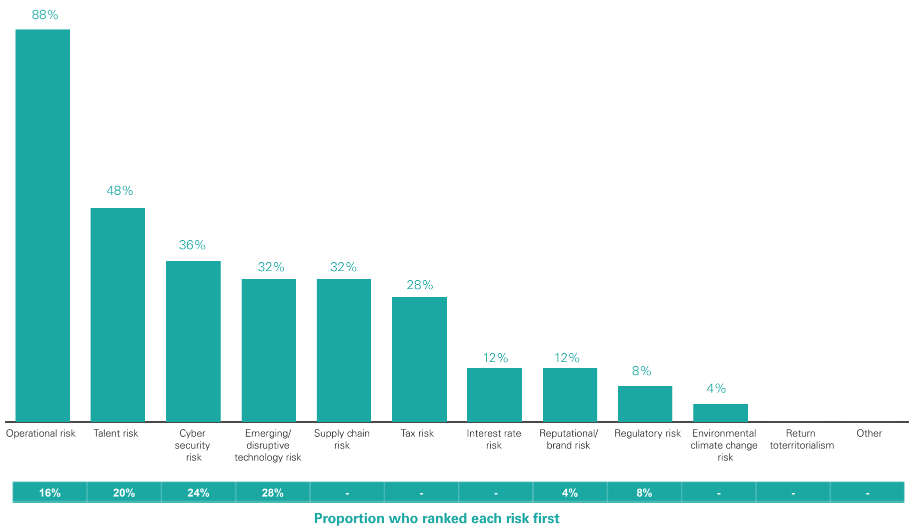
"Drilling down further into responses from this year's CEO Outlook study shows that almost 50% of CEOs that indicated M&A as a growth strategy have a low appetite for it and are unlikely to make any acquisitions. A further 36 percent of these CEOs indicated that they only have a moderate appetite and do not expect any acquisition to significantly impact the performance of their organisation over the next three years."

Our study shows that the major drivers of such M&A activities include reducing costs through synergies/ economies of scale, to eliminate a direct competitor and increase market share, to onboard new digital technology/ innovation and to diversify the business. Lamikanra continues, "For these reasons, CEOs are still likely to explore the inorganic growth option. Regulators have also been a major driver of this in industries like financial services, but we see where organisations have made moves when their targets become available and meet the right synergy criteria. This requires that such organisations be fully prepared for such scenarios by planning for it well ahead of time."

Operational and talent risks are the biggest threats to growth

Despite the optimism and excitement about the prospects for growth, CEOs have some major stay awake issues. The majority (88 percent) of Nigerian CEOs say that operational risk is one of the greatest threats to their organisation's growth, while 48 percent say the same for talent risk. Emerging

Chart 5: Risks posing the greatest threat to the organisation's growth (ranked 1/2/3)



Question: Which of the following risks poses the greatest threat to your organisation's growth?

Source: 2018 KPMG Nigeria CEO Outlook

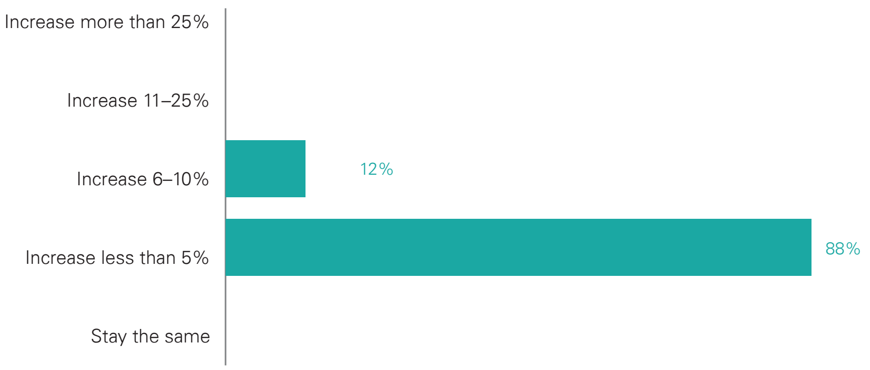
technology risk is seen as the single biggest threat by 28 percent.

"Operational risk has become an increasingly important area of focus for organisations, especially those in regulated industries, as businesses come to grips with fraudulent claims, internal fraud collusions, cyber threats, third party concerns and operational disruptions caused by inconsistent government policies." explains Olumide Olayinka, Head of Risk Consulting for KPMG in Nigeria. "These incidents, coupled with management's efforts to develop greater 'risk intelligence' to enhance decision making and strategic planning, along with heightened regulatory expectations have all contributed to an increased focus on operational risk. A company's operational risk framework needs to be positioned to align with its overall corporate strategy and the company must ensure that operational risk is considered when launching and implementing strategic change. This will involve establishing qualitative and quantitative measures of operational risk appetite across business units, subsidiary companies, processes, and other key areas."

Hiring Cautiously

Nigerian CEOs' hiring plans appears to be very ambitious as they all expect headcounts to grow over the next three years and 88 percent predict an increase of up to 5 percent. However, almost all of them (96 percent) are cautious about going ahead with wholesale hiring of new skills into their organisations, saying they will not hire new skills until growth targets are met.

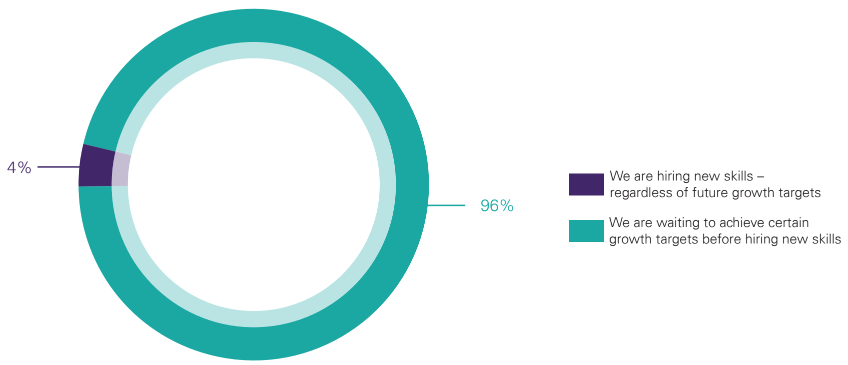
Chart 6: Expected headcount change over the next 3 years



Question: How do you expect your organisation's headcount to change over the next three years?

Source: 2018 KPMG Nigeria CEO Outlook

Chart 7: The organisation's approach to recruiting new skill sets into the organisation



Question: Which of the following best describes your organisation's approach to recruiting new skill sets into the organization?

Source: 2018 KPMG Nigeria CEO Outlook

Nigerian CEOs' all expect headcounts to grow over the next three years. However 96 percent will not hire new skills until growth targets are met.

CEO Insights

A stable macroeconomic environment, underpinned by consistent, inclusive and sustainable policies is critical to the performance of the companies and industries in Nigeria. Paul Gbededo, CEO of Flour Mills of Nigeria Plc. shares his perspectives.

“Infrastructure is a critical area...but our experience here is that you have to be a city on your own and we cannot continue like that if we want real growth.”

Paul Gbededo
CEO
Flour Mills of Nigeria Plc.

Flour Mills of Nigeria (FMN) Plc. is one of Nigeria's leading diversified food and agro-allied group with production facilities all across the country, a robust distribution network across the country and well-known household brands. Paul Gbededo has overseen the FMN Group as it navigated through the recent economic recession into the emerging green shoots of recovery.

"What we have seen in the economy in the last 3 years has been unique to our history where a number of adverse conditions occurred at the same time. One, you had our major foreign exchange earner, oil, dropping to the level of $30 per barrel. Secondly, there was then, restiveness in the Niger Delta region and Nigeria was not even able to pump out 1million barrels a day from the 2.2 million that we had in 2014 at the height of high oil prices. Thirdly, in the political arena, an opposition party un-seated the incumbent. The three factors put together had never happened at the same time and it impacted the economy in a previously unseen negative manner. Anyone just looking at the economy in just the last 3 - 5 years would form radically different conclusions about Nigeria's economy."

He believes that the country's economic performance over the last 10 – 15 years is a better predictor of growth over the near future. "At the beginning of 2014, the Nigerian economy was growing at over 6.5%, aligned with strong population growth and significant increase in the foreign exchange inflows into the economy. We were fulfilling our debt obligations while also growing the reserves. By the end of the Obasanjo administration in 2007, foreign reserves were almost at $62 billion. All this happened within the space of 15 years and it was thought that it would keep growing, "he says. He believes that this illustrates the potential for the economy when it continues to move in the right direction.

However, leadership remains a challenge to achieving this growth potential. He explains further: "Nigeria can take the pride of place if it is able to address its leadership challenges, and I believe that this government is trying to provide that platform for leadership to ensure that the culture and the thinking of Nigerians are changed to engender the required transformation. This will include due diligence in doing things, the culture of integrity in government policies and then working to have an inclusive economy so that it is not just the top echelon benefiting from the growth that we are seeing. An inclusive economy is very important."

Despite the obvious challenges and adverse conditions in the business environment, Gbededo has seen the FMN Group continue to grow. "If you look at us in the last ten years, we have grown significantly both organically and through acquisitions. In our food business for instance, we have continued to grow and expand our capacity and are the biggest wheat milling organisation. But the real growth that we have seen in FMN is in the agro allied space where we have made quite a few acquisitions including a fully integrated cassava processing operation, a vegetable oil refinery, and a couple of animals feeds production operations. Through acquisitions, we have expanded our portfolio, and going forward we will be looking to make even more acquisitions, provided they align with our own philosophy and our vision of being the leading food and agro-allied group in the country and in Africa."

The development and implementation of the right policies, ensuring access to funding and providing the enabling

infrastructure are critical to driving growth in the short to medium term. Gbededo explains further, “The macro economy is very important to the performance of industries like ours (Consumer and Industrial Markets). When you think of the macro economy you reflect on the policies – monetary, fiscal and structural that would enable investment, ease the cost of doing business and drive growth. We need policies that are consistent, sustainable, inclusive and enforceable. It is important that government creates the right enabling environment for growth.

“Monetary and fiscal policies are also very important. The lending and foreign exchange rates are very important in the agro-allied space. This sector cannot develop, grow and be competitive if the right policies are not in place to ensure access to funding at reduced rates and provide protection against dumping.”

“Infrastructure is another critical area required by businesses. Companies or corporate citizens like ourselves are not in the business of building infrastructure. In business friendly climes, the government ensures the provision of infrastructure, sometimes in collaboration with the private sector and then invites investors to invest in the economy. But our experience here is that you not only are a consumer or industrial business but also have to be an infrastructure provider on your own. We cannot continue like that if we want real growth and that is why we are not competitive. Whatever you are producing in Nigeria is not competitive globally, even when using and adding value to local raw materials, because the cost of production in this part of the world is too high. We are improving but there is still a lot to be done by the government in providing power, water, roads, rail, communication, telecommunication and even other soft infrastructure.”

Talent is another major growth driver that Gbededo believes that the country needs to address. “When it comes to capacity building, we need to get education right in the country; we need to get the structure right and make sure it is education that is fit for purpose. You have graduates, but many times they do not serve the needs of industry. They are not employable because they don’t fit into the needs of the country,” he says. He sees a correlation between this and the skills gap required to drive the growth agenda in the sector.

“Think about it, we have very few Nigerians that are subject matter experts in the agro-allied space and that is why most of the business unit heads we have in that space are expatriates. We only bring in those expatriates to transfer knowledge, to be able to lead and train our own people to become qualified. As the Group’s business portfolio expands, the more expatriates you need. Given our long history, especially in our food business, we have our own Nigerian experts that are well-trained and are handling these established businesses. Where possible, we send our people to schools, workshops abroad to bridge other skills gaps that we still have.”

The Group’s significant investment in technology has also made a tremendous impact in closing talent gaps and driving its growth ambitions. “Technology also helps to close these gaps. For instance, when milling started it was all an art. You have to be there to look at it, feel it and so on. The mills were producing about 250 metric tons per day of grinding. Today, because of technology, it has gone up to 2,000 – 2,500 tons per day on one line! The technology also provides critical data for decision making with respect to the mills. And you just need to have that in order to be sure that your product is of the right quality and to meet consistent production targets. Technology has really enhanced efficiency and productivity and also reduced the cost of production.”

Delivering on Change and Transformation

> Transformations are journeys that are often complex, challenging and highly demanding... executives are encountering serious obstacles in navigating the perfect storm and reaching their transformation goals.

Segun Sowande
KPMG in Nigeria's Head of Management Consulting

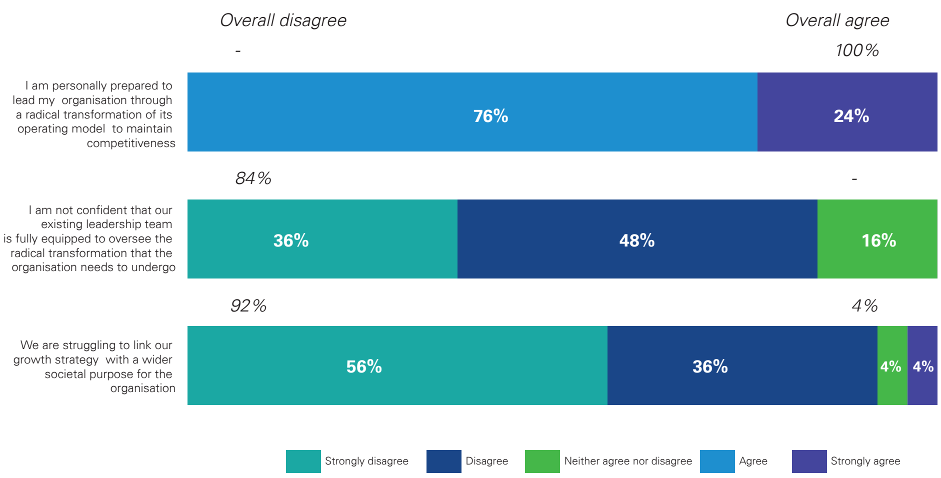
Organisations are prepared for the transformation challenge

The pace of change is constantly increasing with escalating demands on organisations to adapt and transform. "Many companies are familiar with the urgent need to transform their business and operating models given the rapid unleashing of disruptive technologies, changing customer behaviours and regulatory forces," says Segun Sowande, KPMG in Nigeria's Head of Management Consulting. "Transformations are journeys that are often complex, challenging and highly demanding on executive and organisational resources and time. In such situations, it is important that senior executives are aligned in their objectives and equipped to be able to drive the transformation agenda with a view to harnessing the positive energy of these disruptive forces."

Nigerian CEOs are confident that their existing leadership teams are fully equipped to oversee the radical transformation their organisations require, and 100 percent say they are personally prepared to lead such a change.

"Many senior executives are alert to the rapidly unfolding transformation risk and opportunities but a significant number of them may lack the capability to respond effectively," Sowande says. "Our experience with clients across various industries reveals

Chart 8: Extent to which CEOs agree or disagree with statements about their organisation's growth



Question: To what extent do you agree or disagree with the following statements about your organisation's growth?

Source: 2018 KPMG Nigeria CEO Outlook

that executives are encountering serious obstacles in navigating the perfect storm and reaching their transformation goals".

"For organisations to succeed in their transformation journeys, companies must focus on the customer, understand their expectations and align it to the value drivers of the organisation. They must also embed continuous innovation into the culture and structure of their businesses to build sustainable competitive advantages. This must be underpinned by an appetite to thrive on change, to adapt to new innovations generated."

Organisations are embracing disruption as an opportunity

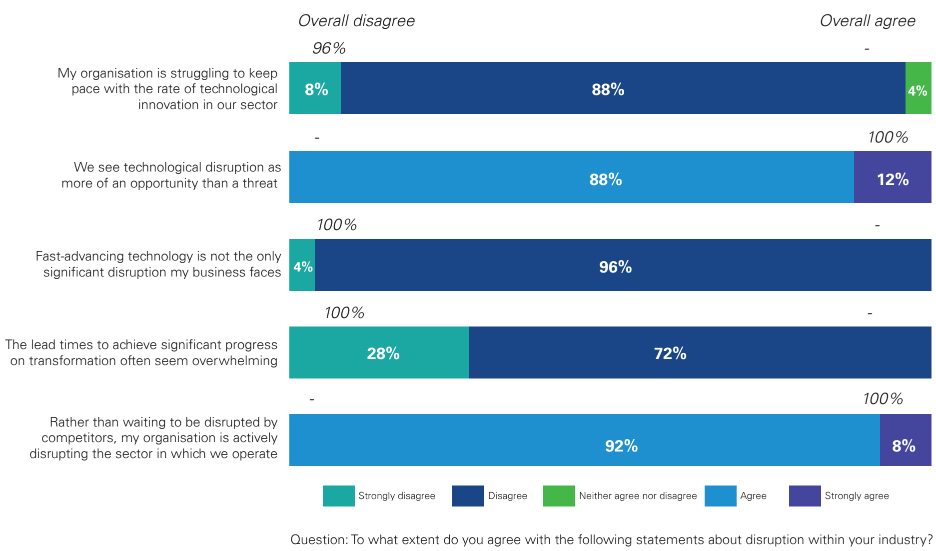
All Nigerian CEOs in the study believe that technological disruption is more of an opportunity than a threat, and they all agree it is the only significant disruption facing their business. All the CEOs believe that they are actively disrupting their sector.

"In the face of the accelerating pace of technological disruption, we see CEOs no longer questioning whether to act but are instead asking how and what" says Boye Ademola, KPMG in Nigeria's Digital Transformation Lead. "We have seen digital and technology reshape the agenda of many businesses and produce new leaders in several sectors in the past decade. We are witnessing a shift in the balance of power from traditional value-chain business models to technology-driven digital platform models. For instance, at least 70 percent of the top ten most valuable entities in the world by market capitalisation are digital platform models."

With 100 percent of CEOs believing that their organisations are actively disrupting the sector in which they operate, Ademola is certain that organisations that want to disrupt their industries have to leverage technology as their major disruptive force. "Technology is seen as the biggest disruptor and enabler. The exponential growth in the penetration of mobile and connected devices, combined with a wide array of emerging technologies are all helping to bring to life new products and value propositions. This is equipping businesses with the raw capabilities for increased speed to market and scale at previously unthinkable rates," he says.

> "In the face of the accelerating pace of technological disruption, we see CEOs no longer questioning whether to act but are instead asking how and what."
>
> **Boye Ademola**
> KPMG in Nigeria's Digital Transformation Lead

Chart 9: Extent to which CEOs agree or disagree with statements about their organisation's growth



Source: 2018 KPMG Nigeria CEO Outlook

> Technology is seen as the biggest disruptor and disruption enabler

Boye Ademola
KPMG in Nigeria's Digital Transformation Lead

But there is a struggle to combine digital and non-digital transformation

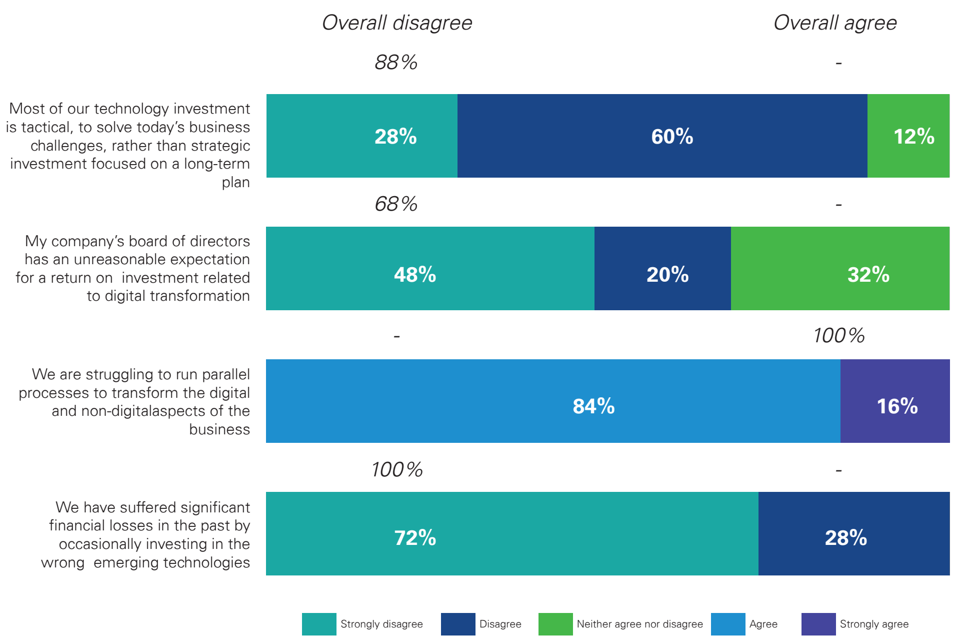
Our study shows that organisations are struggling to combine digital and non-digital transformation. All Nigerian CEOs in the study are struggling to run parallel processes to transform the digital and non-digital aspects of the business.

Almost nine in ten CEOs say that their digital investments are largely strategic and long-term rather than tactical. However, this is in contradiction to their posture on when they expect to see a return on investment on such investments. 64 percent of CEOs expect to see a return on investment within 12 months, which reveals a tactical mindset.

"The source of value for digital-enabled business models is having the capability to acquire new customers or users exponentially while ensuring that innovation produces a steady flow of products and services that keeps the customers engaged and excited. This is a journey and it will take a lot of time and effort," says Ademola. "Digital transformation requires a different approach to governance – a focus on agility, speed and innovation. The capabilities and culture necessary to drive a digital agenda are often underestimated.

"With disruption here to stay, organisations should avoid short-sighted expectations or knee-jerk reactions in favour of developing a more holistic view and strategy on disruption. This will involve mapping the disruption landscape to identify the most relevant disruptors, studying the likely impacts of potential disruptors, recalibrating the company's strategy and realigning ongoing initiatives, and finally building the capabilities to recognise and harness disruption."

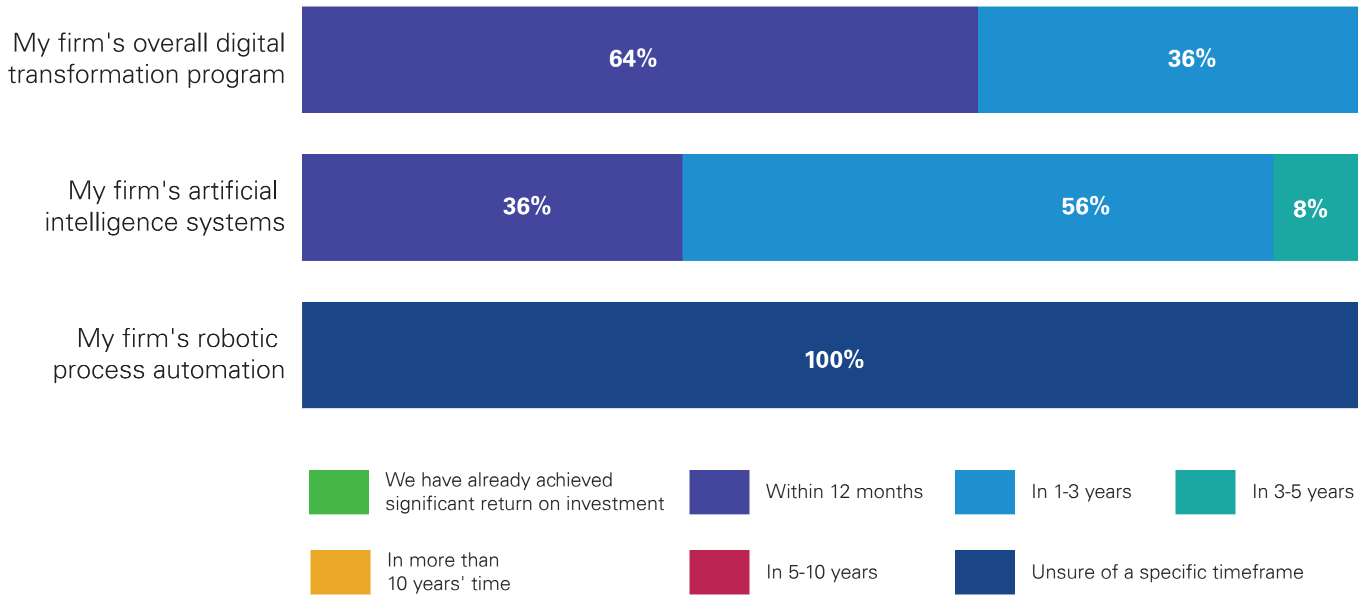
Chart 10: Extent to which CEOs agree or disagree with statements about their organisation's growth



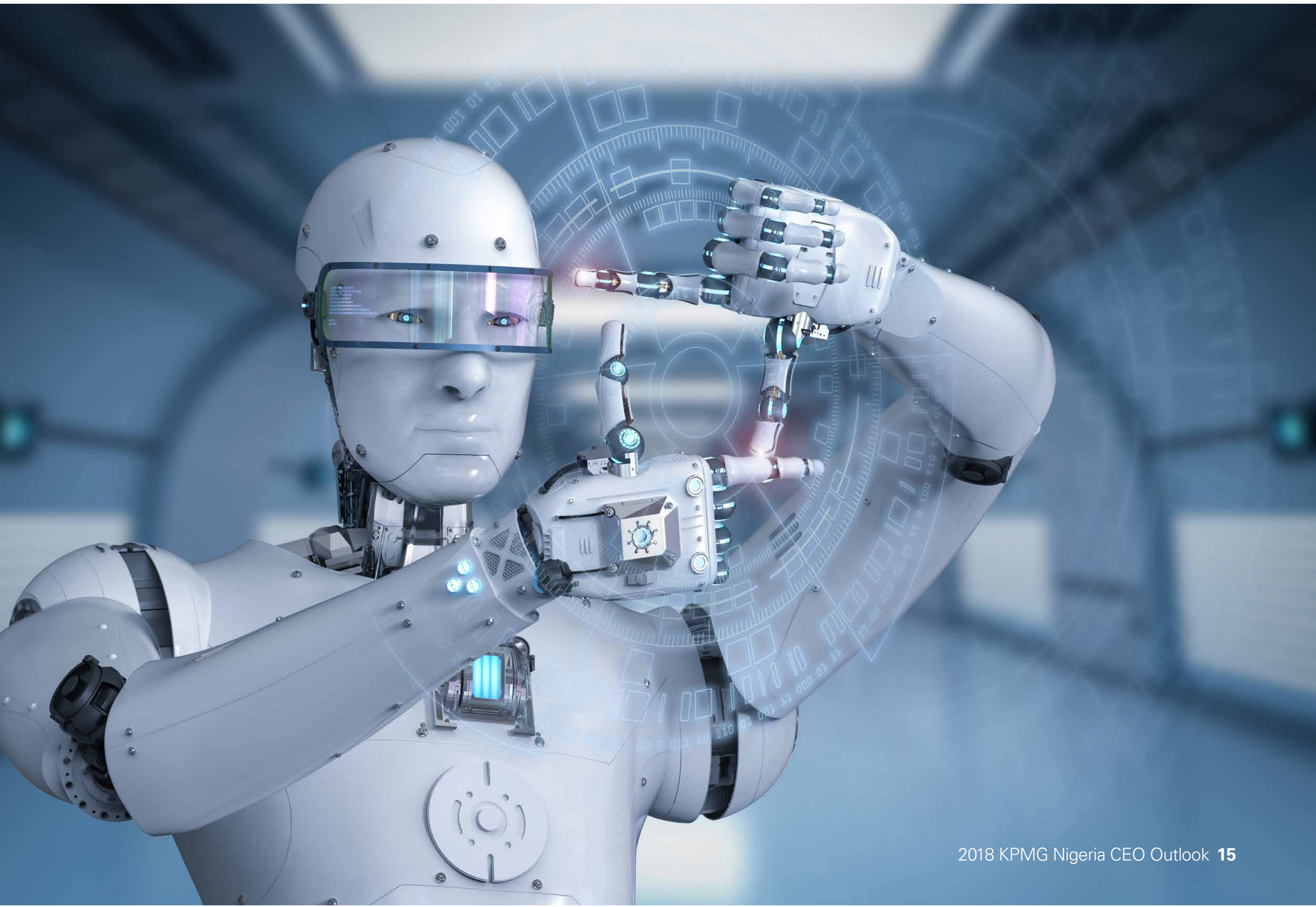
Question: To what extent do you agree with the following statements about your organisation's investment in digital transformation?

Source: 2018 KPMG Nigeria CEO Outlook

Chart 11: The time period during which CEOs expect to see significant ROI from these technology investments



Question: Over what time period do you expect to see significant return on investment from a) digital transformation, b) artificial intelligence, and c) robotic process automation? (All investing in each technology.)



CEO Insights

“The right legal and fiscal environment, resolving the security situation in the Niger Delta, and shortening contracting cycles will be critical enablers for investment and growth in the industry.”

The performance of the oil and gas industry is very critical to the health of the Nigerian economy. Osagie Okunbor of Shell Petroleum Development Company of Nigeria Limited (SPDC) discusses critical factors in creating the right enabling environment to promote investment and growth in the industry.

Shell is one of the world's leading energy companies and has been operating in Nigeria for about sixty years. The company has one of the largest presence in the country among the international oil and gas companies operating in Nigeria. Osagie Okunbor is the Managing Director of SPDC and Country Chair of Shell Companies in Nigeria. He has acquired over thirty years of industry experience and expertise working across various areas of Shell's businesses in Nigeria, the United Kingdom, Brunei and the Netherlands.

Recent developments in the Nigerian oil and gas industry have increased confidence in the sector, according to Okunbor. "I have become more confident of prospects in this sector now more than any time in the recent past," he says." This is essentially because of what we have been able to achieve in partnership with NNPC[1] and the Nigerian government on JV funding. Historically, we struggled with all the parties, particularly the NNPC, meeting cashflow obligations. With the very far-reaching steps that were taken last year to reach an arrangement to manage the whole JV[2] funding structure, we have seen far more

[1]Nigerian National Petroleum Corporation
[2]Joint Venture

“'We need to diversify our economy', but we need oil to get out of oil.”

Osagie Okunbor
MD
Shell Petroleum Development Company of Nigeria Limited

stability in NNPC meeting its obligations. We still have a few areas to cover, in particular 2016 arrears, but even that is good progress."

Okunbor expects that the increased confidence in the sector is a precursor for increased investments. "What this has done, from a Shell perspective, is that it has actually created much more confidence in the minds of investors," he says. "This has been running for a year, so we can say there is some stability and we can seriously consider investments. Following a meeting we held recently with Mr. President in London, our global CEO said that if we get all the conditions right, together with our partners, we will be able to make significant investments in the sector. That is a major indicator of what we are able to do, but it is underpinned by a lot more confidence in the ability of the country to meet its obligations.

"I am pretty confident that if we can sustain this momentum, we will see investments flow into this sector. The multiplier effect when this happens will be tremendous. As you may have heard the Honourable Minister of State for Petroleum Resources often say, 'we need to diversify our economy', but we need oil to get out of oil. So, investments in this sector will be very important."

A number of critical enablers are required and will need to be addressed to sustain the forward momentum in the sector". Okunbor elucidates on the major enablers further," I will say, first and foremost, we require the right fiscal environment. The ongoing discussions in the National Assembly on the four bills that make up what used to be the PIB[3] , including the Petroleum Industry Governance Bill which has been harmonised and passed, is a step in the right direction.

"So we are paying very close attention to the eventual outcomes of these bills because ultimately, we need the right legal and fiscal frameworks to enable companies like us to make some big bets. If we don't get this right, the country is at risk of losing investment capital to other competing jurisdictions.

"Secondly, we need to just ensure that the security situation, especially in the Niger Delta, is effectively managed. A resurgence of violence in the region in 2016 severely impacted oil production negatively. It is therefore very important for the industry to work with the government to provide the safe environment for oil and gas assets and for production.

"The contracting cycle is the third major enabler that needs to be addressed. OPTS[4] has looked at contracting cycles across jurisdictions and Nigeria is an outlier because of our lengthy contract cycle. We need to explore avenues to shorten the length and examine contract thresholds, which is a significant part of the JVs and contracting cycles."

Oil, as a major component of the global and local energy mix, will continue to remain relevant in the medium term, but expectations have changed. "Oil will remain a relevant component of global energy mix, and even more so for Nigeria, over the next 10 to 15 years, if not more," Okunbor says. "The mix will not radically change. What is clear is that society expects low-carbon footprints going into the future. I think that is key and everyone, particularly those who are as big as Shell, understands that and will work with society to change. We are cutting our carbon footprint by a significant proportion going forward, not just in terms of what we directly produce, but also our usage and our by-products. This requires that we continue to refine our systems and processes to ensure that the carbon intensity of our production continues to go down."

Shell will significantly leverage technology and digitisation to further enhance its business systems, processes and operations in Nigeria, according to Okunbor. "We are a part of a global business and in our sector, what differentiates us is how we commercialise technology and grow top and bottom line with technology. We pioneered deep-water exploration and production in Nigeria. We continue to push boundaries and Shell in Nigeria takes maximum advantage of the technological and digital capabilities of the Shell Group."

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[3] Petroleum Industry Bill. The other bills include the Petroleum Industry Host and Impacted Community Bill, Petroleum Industry Fiscal Bill and Petroleum Industry Administration Bill.

[4] Oil Producers Trade Section of the Lagos Chamber of Commerce and Industry (LCCI)

Building a Connected Enterprise

> The quality of customer experiences is an intangible that can be imitated but not commoditised... our research has shown that customer experience is the number one brand differentiator.

Bisi Lamikanra
KPMG in Nigeria's Head of Advisory

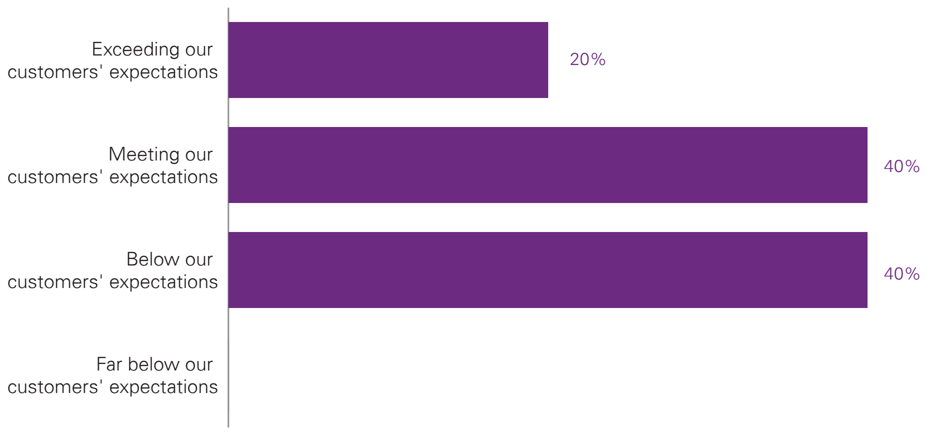
Meeting and exceeding expectations is top of CEOs' customer agenda

Our study reveals that 60 percent of CEOs believe that they are meeting and exceeding customer expectations. But according to KPMG's Bisi Lamikanra, customer expectations are on a rapidly escalating upward spiral. "Research has shown that it costs many times more to acquire a new customer than to retain an existing one," she says. "KPMG's own research over the last decade has shown that consistently delivering positive personalised experiences helps establishes customer relationships. Strong relationships help build loyalty and drive growth."

New product features can be quickly copied and introduced to the market in today's business climate. But the quality of customer experiences is an intangible that can be imitated but not commoditised, especially with customer expectations of highly personalised service that continue to evolve daily. Our research into customer service and satisfaction in the Nigerian banking industry has shown that customer experience is the number one brand differentiator. This research shows there is also a definite correlation between customer service, market share and probability.

"But what happens when customer expectations are moving faster than a company has the ability to react? Organisations must be prepared against 'future shock', a situation where they are unable to respond to overwhelming change in a competitive timeframe."

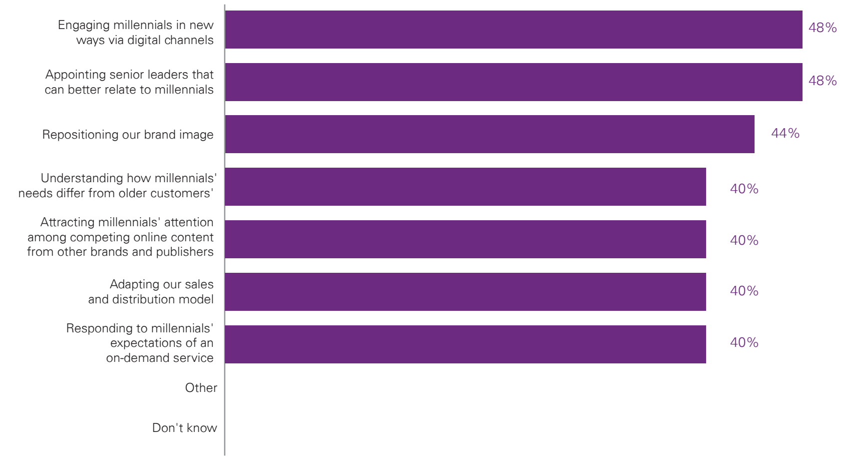
Chart 12: CEOs' perceptions of their organisation's performance in meeting customers' expectations of a 'personalised' experience



Question: Where would you place your organisation's performance in meeting your customers' expectations of a 'personalised' experience (i.e. products, services and marketing are highly tailored based on individual customer needs and desires)?

Source: 2018 KPMG Nigeria CEO Outlook

Chart 13: The biggest challenges of meeting the needs of millennial customers



Question: Which of the following are the biggest challenges for your organisation in meeting the needs of millennial customers (those born between 1980 and 2000)?

Source: 2018 KPMG Nigeria CEO Outlook

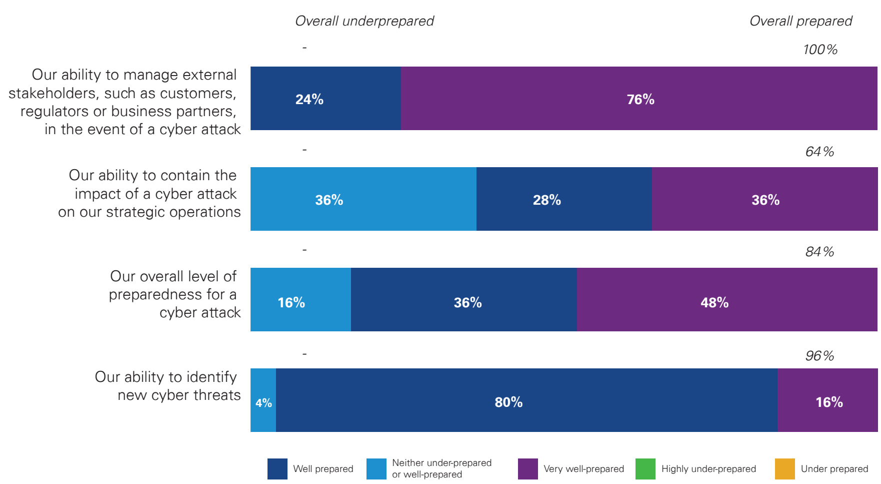
As customer experience increases in importance, significant shifts in customer demographics towards millennials will make it even more difficult to deliver the right experience. Most CEOs believe that their organisations are not keeping up. 44 percent of Nigerian CEOs believe that they have to reposition their brand while four in ten struggle to understand how the needs of these consumers of the future differ from older customers. Millennials represent significant spending power, but they are engaging with businesses and brands in new ways and organisations have to make sure that they are aligned.

Cyber security preparedness is a priority

The business ecosystem is rapidly evolving in response to the convergence of digital technologies. The inevitable reality is that companies are transforming and everything is connected. With the exponential growth of digital touch-points across different businesses, cyber security now directly affects the resilience of organisations.

The majority (84 percent) of Nigerian CEOs say they are 'very well' or 'well' prepared for a cyber attack. However, only 64 percent of CEOs are confident in the ability of their organisations to quell the impact of a cyber attack on their operations.

Chart 14: Organisations' preparedness for a cyber attack in relation to certain capabilities



Question: How well prepared is your organisation for a future cyber attack in relation to each of these capabilities?

Source: 2018 KPMG Nigeria CEO Outlook

> Companies can only significantly enhance their cyber security and resilience by practicing or exercising their ability to respond to cyber events.

Joseph Tegbe
KPMG in Nigeria's Head of Technology Advisory and Markets

"Organisations in Nigeria are facing cyber security challenges similar to those faced by their counterparts in Africa and other parts of the world," explains Joseph Tegbe, KPMG in Nigeria's Head of Technology Advisory and Markets. "There have been instances of fraudulent transactions on different online banking platforms, successful denial of service attacks and other similar attacks on websites of some companies and even government agencies. Companies can only significantly enhance their cyber security and resilience by practicing or exercising their ability to respond to cyber events. Companies need to be agile and deal with the unexpected. Often, organisations that can deal with the unexpected in a business sense and have more effective governance are better prepared for cyber events. Being agile enough to respond to a cyber event often depends as much on an organisation's governance as their technological capability."

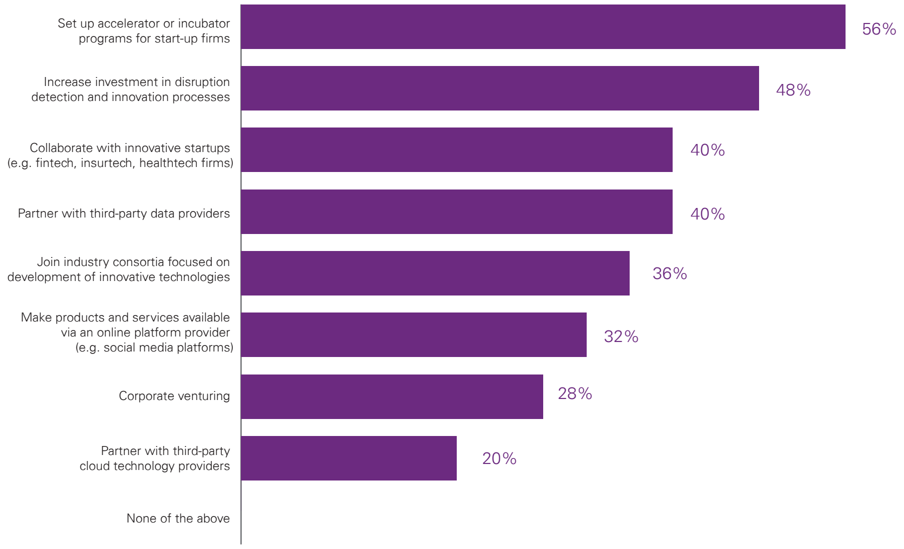
Our study reveals that three-quarters of Nigerian CEOs (76 percent) believe that cyber security and emerging technology specialists are important in supporting future growth. "Board and executive management are increasingly aware that while they might not personally be the expert, they will be held accountable if there is a major cyber attack that disrupts business performance," Tegbe says. "They are beginning to recognise the need for senior people they trust to equip their organisation to withstand potential cyber threats."

Building ecosystems for growth

In a digital economy where business models and industries are constantly being reshaped by new technologies, agility has become an imperative. Nigerian CEOs are increasingly embracing data-driven decisions as 64 percent of them say that they have relied on insights provided by data analysis or computer-driven models for critical decisions, even when those insights were contrary to their own experience or intuition.

To get more agile and fast-track digital innovation in aid of their growth objectives, more than half of Nigerian CEOs (56 percent) are proactively building their ecosystems of third-party innovation partners by setting up accelerator programs for start-ups within the next three years, and 48 percent want to increase investment in disruption detection.

Chart 15: The actions organisations intend to take over the next three years in pursuit of their growth objectives



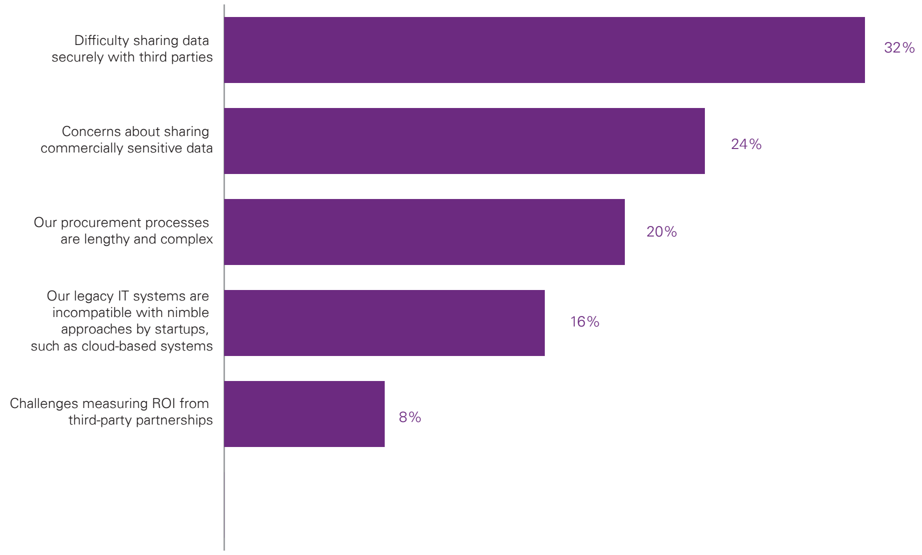
Question: Does your organisation intend to undertake any of the following actions over the next three years to help in pursuing your growth objectives?

Source: 2018 KPMG Nigeria CEO Outlook

Concerns about data sharing appear to be the greatest barriers to CEOs extracting optimum value from their networks and a start-up friendly ecosystem. According to KPMG's Boye Ademola," To mitigate this, we see organisations setting up digital and innovation laboratories internally. But the skills and mindset required to drive this is totally different from traditional talent sourcing and management models. They eventually have to resource from outside the organisation or collaborate with the larger technology ecosystem to drive innovation. Culture clashes are inevitable in such cases but can be overcome as long as all the parties involved view the partnership as a symbiotic relationship in which everyone benefits."

56 percent of CEOs say that they are proactively building their ecosystems of third party innovation partners.

Chart 16: The biggest barrier to CEOs' organisations extracting value from networks of third parties



Question: Which of the following challenges represents the biggest barrier to your organisation extracting value from networks of third parties?

CEO Insights

With the Nigerian financial services industry increasingly dynamic and fast-paced, banks are leveraging digital platforms to provide customers with superior banking experience. One of Nigeria's most profitable institutions, Guaranty Trust Bank, is playing a leading role in this digital revolution that is reshaping the country's financial landscape.

"Over the next three years, I think that the major shift will occur in how we intelligently use data to give customers better service.

For any bank, your customer base should start to experience the use of data to give them value-added customer experience."

Segun Agbaje
CEO
Guaranty Trust Bank

Guaranty Trust Bank (GTBank) Plc. is a bank that prides itself for its bias for world-class corporate governance standards, excellent service delivery and innovation. Regarded as one of the best-run financial institutions, the bank has some of the best financial ratios in the industry evidencing the efficient management of assets and operational efficiency.

Segun Agbaje, the CEO of GTBank, is leading the transformation of the financial institution into a business platform by integrating value-adding services into the Bank's core offerings in order to provide benefits beyond banking to customers. With over 11 million customers, Agbaje believes that creating the right customer experience is critical to success. "We constantly ensure that we are offering customers the best and appropriate services; every service complaint makes us feel very bad as we don't want to lose any customer," he says. "To enhance the experience that we provide our customers, we have created pre-service clusters. If a customer fits within a pre-service cluster, whether the customer is new or existing, we serve the customer according to the unique needs and lifestyle of customers within that pre-service cluster," he explains.

This is important especially against the backdrop of the challenges the operating environment presents. Agbaje says, "Generally it will be a lot tougher to make money in the future than in the past. First, commissions and fees might dip because of the new banker's tariff which might even get worse, if you look at trends. Also, you can't grow your loan book as aggressively as you would like to because of all of the issues around collection. If you look at the direction of interest rates, it means that your yield on fixed income securities are coming down, so your net interest margins are under more pressure. If you take these three things, it makes it more difficult to make money, but not impossible, in the future than it was in the past. I can see even more margin pressures going into the future."

"Customers now want more," he adds. "Banks are spending a lot more on digitisation to meet the needs of their customers. On the other hand, the banker's tariff has continued to take fees away from traditional banking services – either taking them away completely or halving them. With this happening, banks are taking greater risks, and so if you look at the books of banks, you start to see derivatives and swaps. What leads to these sorts of things is that when you take away what is traditional banking income, people take on more risk and this keeps me awake."

Agbaje believes that the right enabling environment will be critical to growth in the medium term. He says, "For the medium term outlook to be a lot better, you need to have an exchange rate that is stable, decent oil price and policies that allow credit growth within the system. I also think that we need to have a friendlier outlook towards investors because we must not forget that if we look at the United States of America, interest rates are meant to go up. This is going to make emerging markets less attractive. Also, if you take a position that countries are going to have trade barriers, you will rather bet on a developed economy like the USA than bet on an emerging market economy. So, if you look at us as a developing economy, the medium

term outlook is that we have to work a lot harder and create a better enabling environment to attract investment and achieve stronger growth."

Despite these challenges, Agbaje still believes that the demographics of the country makes Nigeria an exciting growth opportunity. "I still believe that this is a very exciting place to operate because of the population and because of what you can do which has not been done, and so, I don't think Nigerian banks have even gotten anywhere close to their full potential," he says. "Let's say we are about 190 million people; most of these people are young, passionate and exposed, which is a huge potential in itself. If we take the financial services sector, and the fact that we have about 33 million bank accounts in the country, this means that the sector is far from mature. So, there is a lot of potential for growth there. You also have an SME sector which is the largest sector in the economy but probably accounts for just about 10 percent of the deposit base and around 2 percent of bank profits. This massive opportunity in the SME sector, coupled with fast moving consumer goods like food, can be leveraged to boost the economy, given our large population."

GTBank has embarked on a digitisation journey to take advantage of this market potential and has made significant investments in digital and technology. This platform is critical to the intelligent use of data which he believes will be very important in creating superior customer experiences in the near future. "Over the next three years, I think that the major shift will occur in how we intelligently use data to give customers better service," he says."For any bank, your customer base should start to experience the use of data to give them value-added customer experience." He believes that artificial intelligence (AI) and robotics will eventually be more prevalent in banking in Nigeria but does not believe their impact will be significant in the short to medium term.

Agbaje believes that GTBank's investment in digital and data analytics platforms will enable it to harness the power of predictive data and intelligence for business decision making in the next three to five years. He explains further, "That is the road we are going on and that is why we are ready as an organisation to make investment in anything that will make this possible. If you are going for scale, as we are, you definitely need predictive data such that what we offer will be what our customers really want and what our customers will use. This is the only way we can keep our customers happy and improve on service experience."

Critical to this digital journey will be collaboration with innovation start-ups. "We have quite a few today as we have started collaborating with Fintechs and start-ups, and in the next 12 months, this would have grown exponentially," he says. "Basically, we are creating a platform, almost like a mini-company within the GTBank structure, which is going to be dealing with these partnerships and collaborations. The goal is such that, when you come into our ecosystem, you will have a wide range of value-adding services in e-commerce, travel, music and so much more.

"One of the biggest dangers I think will always remain who owns the customer? Is it the bank who allowed you to sell the travel or is it you who sold the travel? Is it the bank who allowed you access to the pay-day loans or is it you who gave the pay-day loans? I think that is what will always be the elephant in the room in all these collaborations."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Conclusions

Looking forward over the next three years, Nigerian CEOs are quite confident about the growth prospects of the economy, their industries and their companies. These CEOs believe that a significant part of their growth will be driven organically through innovation, additional capital investments, hiring new skills, etc. Disruption will be a critical factor in the evolving landscape that will impact virtually all industries, and formulating a strategic response will be critical to long-term survival.

The customer agenda needs to drive transformation journeys

Changes in the economy and business environment will mean that CEOs must evolve or transform business models to stay relevant. The customer is at the heart of any business, and has become more powerful and informed. New industry entrants have the potential to disrupt the business models of incumbents by how they connect with customers. Companies from all industries will have to stay competitive by upgrading their connectivity with customers, even if their products and services stay the same.

An agile approach to technology and digital decisions can be a competitive advantage

These decisions should be made through the lens of delivering business value. Investments in new technologies and platforms such as digital, cloud,robotics and artificial intelligence, must create value and provide more capability and flexibility to the business.

Business leaders must consider an ecosystem approach to strategic positioning

Exponential technological development and connected, sophisticated customers are impacting business models. This is blurring the lines between industries and demanding a new way of thinking about business. An ecosystem approach to strategic positioning can provide companies with the opportunity to leverage the strengths of complementary organisations in pursuit of shared interests and objectives.

Methodology and Acknowledgments

The data published in this study was based on a survey of twenty-five chief executive officers (CEOs) of companies operating in Nigeria. Each CEO has spent an average of five years overseeing the affairs of their respective organisations. The survey was conducted between 22 January and 27 February 2018 by Longitude (UK) on behalf of KPMG.

The CEOs surveyed operate in five main sectors of the economy: financial services; consumer and industrial markets; energy; telecommunications, media and technology; and infrastructure.

Please note that, due to rounding, the numbers presented throughout this study may not add up exactly to the totals provided, and percentages may not reflect the absolute figures precisely. Throughout the study, '0%' and 'zero' refer to a numerical value between zero and 0.5; '-' indicates no value.

KPMG would especially like to thank the following for their time and expertise in sharing additional insights and perspectives:

— **Osagie Okunbor**, MD, SPDC and Country Chair of Shell Companies in Nigeria

— **Paul Gbededo**, CEO, Flour Mills of Nigeria Plc.

— **Segun Agbaje**, CEO, Guaranty Trust Bank Plc.

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