



Impact of Inflation on the Retail Sector

June 2024

home.kpmg/ng



Table of Contents



Nigeria inflation keeps growing

03



Current Drivers of inflation

04



How retail consumers are responding

06



Implication of inflation for businesses in the retail sector

08



What does the future hold with respect to inflationary pressure and consumer behavior?

09



Contact us

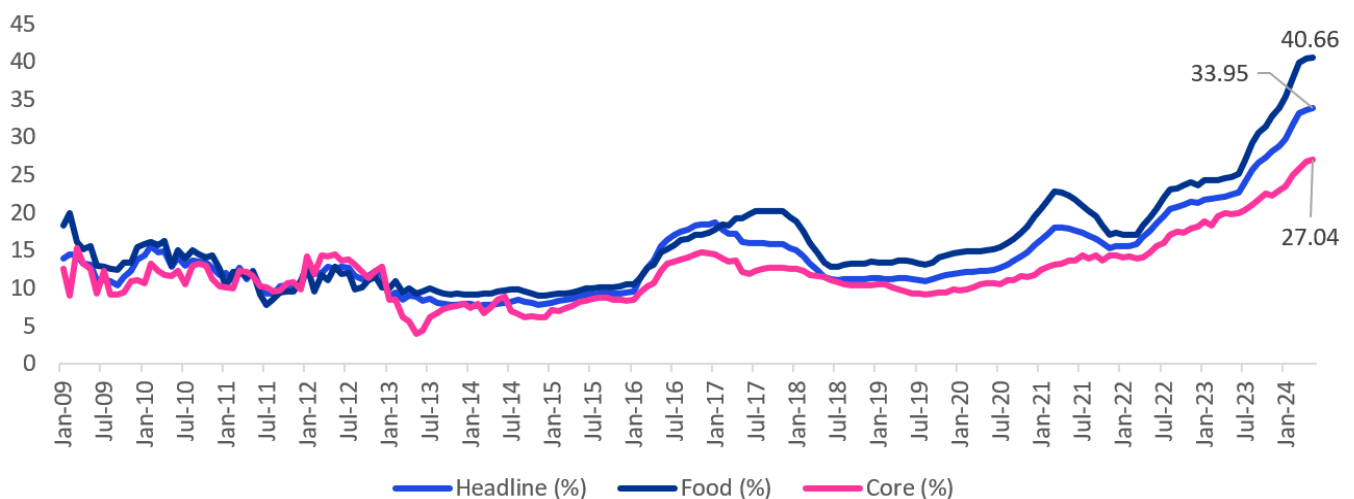
11

Nigeria inflation keeps growing

Nigeria has experienced a significant uptick in inflation which surged to a three-decade high of 33.95%, according to the latest data from the Nigerian Bureau of Statistics (NBS). Food inflation rose to 40.66%, while core inflation reached 27.04%. Inflation in May 2024 was largely driven by the increase in food and beverages coupled with energy and housing costs.

The persistent upward trend in inflation underscores the intricate interplay of various economic factors including fiscal policies, monetary policies, exchange rates, and international trade dynamics.

Inflation Rate (%)



Source: NBS

Current Drivers of Inflation

The rise in inflation in Nigeria is currently driven by key factors as analysed below:



Fuel and electricity subsidy cut:

The removal or reduction of subsidies on fuel and electricity prices has contributed to inflationary pressures in Nigeria as this has resulted in higher prices of essential goods and services, directly impacting the cost of living for consumers.



Naira depreciation:

The weakening naira against major currencies, particularly the greenback, significantly impacts import prices.



Money supply growth:

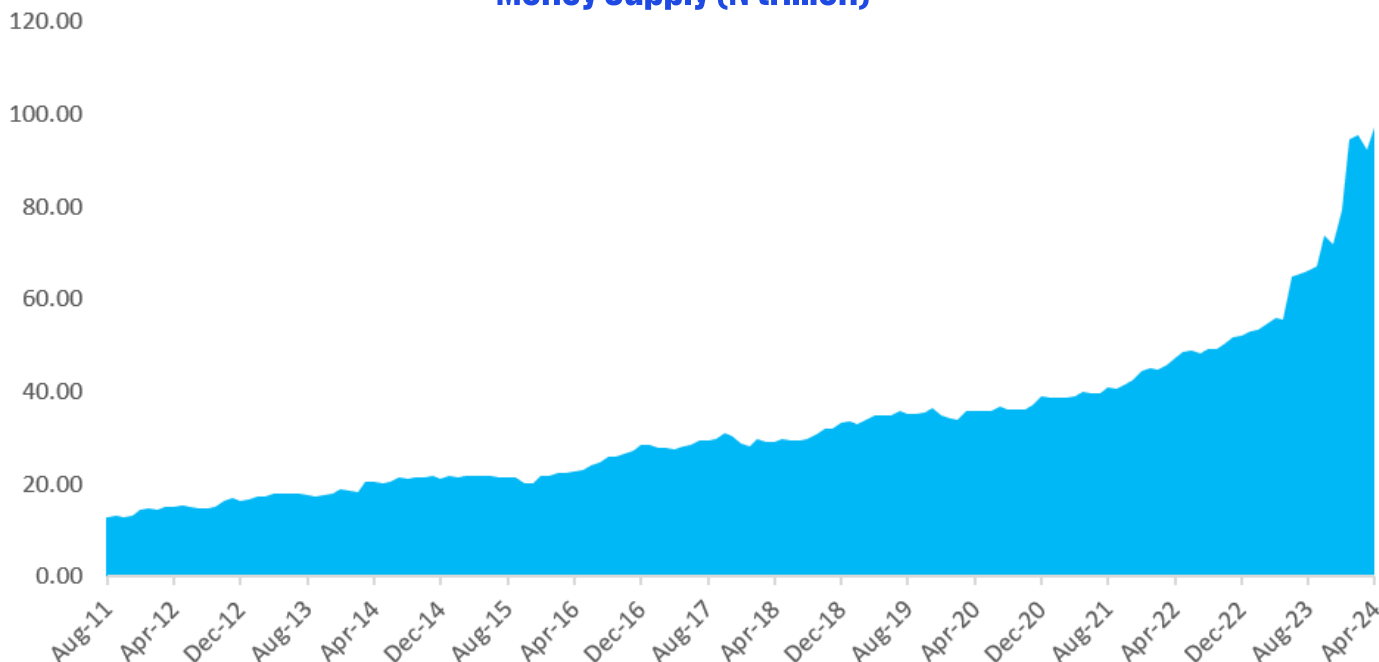
The continued expansion of the money supply, as evidenced by the substantial year-on-year growth rate of 73% in April 2024, has also been a key contributor to inflationary pressures.



Food supply shortages:

Shortage in food supply caused by the prevailing insecurity across major food producing states in the northern parts of Nigeria has also contributed to the current inflation in the Country.

Money Supply (N'trillion)



Source: CBN



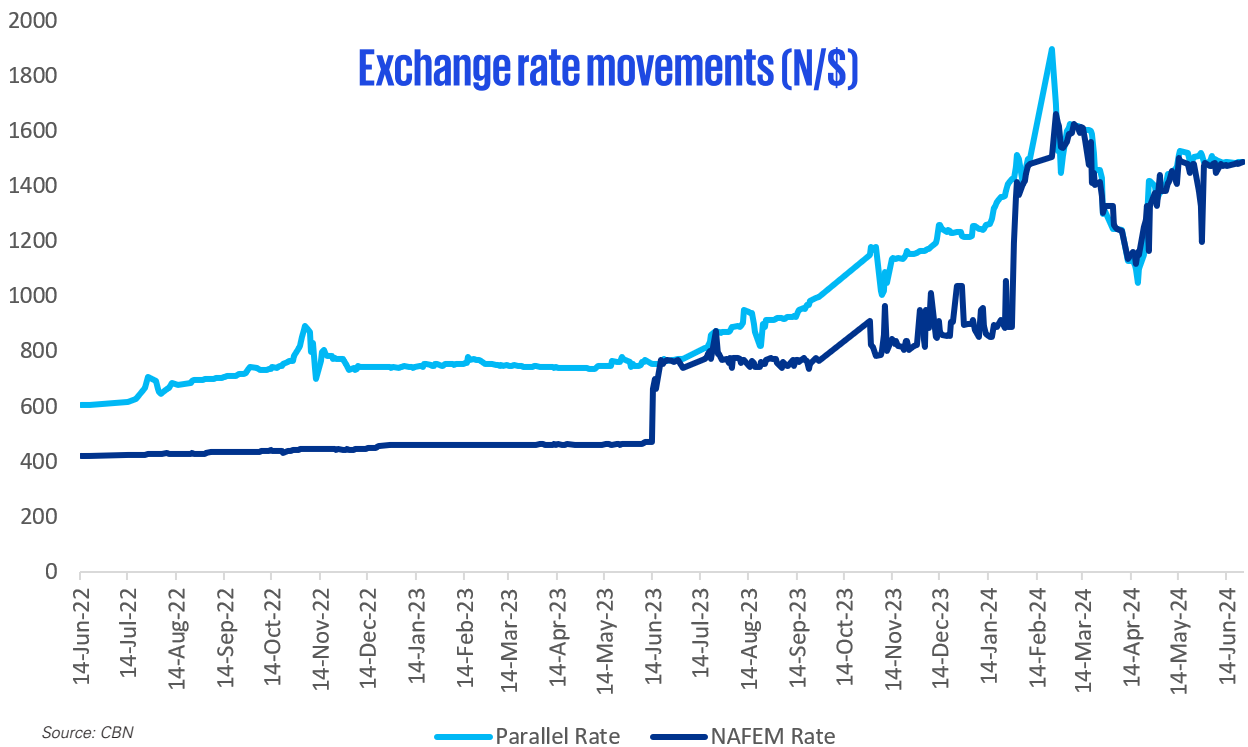
Supply chain disruption:

Escalating geopolitical tensions and conflicts have also disrupted global supply chains, causing delays and interruptions in key trade routes, including the Red Sea.



Exchange rate volatility:

While the exchange rate volatility remains a critical determinant of inflation, the exchange rate market in Nigeria has continued to witness major fluctuations since June 2023.



How retail consumers are responding

In Nigeria, retail consumers face the daunting challenge of navigating through inflationary pressures and volatile exchange rates, which significantly impact their purchasing power and buying decisions.

Buying Patterns in Response to Economic Challenges:

1. Shift Towards Essential Goods:

Consumers now tend to prioritize purchasing essential goods such as food, household items, and healthcare products. Non-essential items have seen a decline in demand as consumers focus on meeting their basic needs. The “must-have” products and services have become priority over “nice-to-haves”.

2. Brand Loyalty vs. Price Sensitivity

A lot of retail consumers have shifted in their buying patterns, balancing between brand loyalty and price sensitivity. Most consumers now opt for cheaper alternatives or private labels to cope with rising prices.

3. Delayed Purchases, Bulk and Collective Buying:

In response to inflation and exchange rate volatility, retail consumers now choose to delay non-urgent purchases or engage in bulk buying to mitigate the impact of potential price increases in the future. This behaviour is particularly common for durable goods. However, higher purchasing power, which majority of Nigerian households do not have, is required for bulk buying. To mitigate this, several Nigerians now engage in collective buying to get cheaper items¹. Online communities such as WhatsApp and Facebook are used to create groups of people who intend to purchase similar items.

4. Preference for Local Products:

As imported goods become more expensive due to exchange rate fluctuations, Nigerian consumers may show a preference for locally produced items and alternatives. This shift can support domestic industries and reduce reliance on foreign products.

5. Increased Emphasis on Discounts and Promotions:

Retailers have tried to introduce discounts, promotions, and loyalty programs to attract price-sensitive consumers and maintain customer loyalty during these challenging economic times. Expectedly, consumers are actively seeking out such deals to maximize their purchasing power and tilt more towards items that are on sale².

6. Shift towards e-Commerce:

Consumers in Nigeria have also turned to e-commerce platforms for competitive pricing. As the cost of living continues to increase, consumers are becoming more price sensitive. Online shopping also allows consumers to compare prices across different platforms, giving them the opportunity to find the best deals³.



Footnotes:

¹ <https://venturesafrica.com/5-nigerian-consumer-trends-we-noticed-in-2023/>

² <https://insights.som.yale.edu/insights/how-does-inflation-change-consumer-behavior>

³ <https://www.zawya.com/en/economy/africa/the-increasing-shift-in-consumer-behaviour-nigeria-v213dtao>

Implication of Inflation for Businesses in the Retail Sector

The surge in prices has resulted in a decline in consumers' purchasing power.

Further impact of the perennial growth in inflation on the profitability and performance of the retail sector in Nigeria are;



Challenges managing inventory and price changes:

Increasing prices from suppliers pose challenges for retailers in managing inventory and implementing price changes. Difficulty in keeping up with price adjustments may lead to inventory accumulation and the risk of unsold items, further exacerbating financial strain for businesses.



Constrained revenue performance and decrease in profit margin:

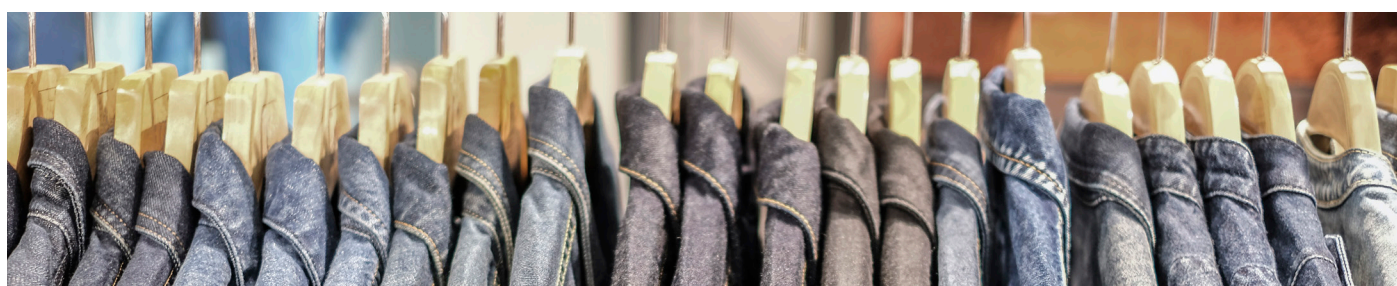
With diminishing purchasing power, consumers prioritize essentials, reduce transaction sizes, and opt for cheaper alternatives to cope with escalating prices, resulting in constrained revenue performance of some businesses. In addition, for fear of losing customers, some retailers have been reluctant in transferring cost increases to their customers, and hence, continue to battle a low profit margin.



Difficulty sustaining business operations:

The combination of constrained revenue, narrow profit margins, and challenges in managing inventory and pricing make it increasingly difficult for retail businesses to sustain operations. Higher risks of losses, tightened lending conditions, and increased interest rates on loans further compound the challenges, raising the prospect of business closures in the retail sector.

The retail sector possibly faces a tough road ahead, as it grapples with higher costs of raw materials, elevated freight expenses, and depreciation of the exchange rate as these factors among others are squeezing profit margins and compelling businesses to consider raising prices, which could further contribute to inflationary pressures.



What does the future hold?

This trend in inflationary pressure is expected to continue in the immediate future as consumers continue to seek ingenious ways to get greater value for their hard-earned money.

Retailers must therefore engage more closely with consumers and tailor their products and services to meet the changing needs of the consumer, while still maintaining the profitability of their business. Clearly, this is a challenge that retailers currently face and must overcome to ensure the continued existence of their businesses.

Globally, retailers are responding to difficult business environment and changing customer behaviour in different ways to tackle these challenges:



Automation or Digitally Enabled Business

Leading retailers are responding to competitive business environments by leveraging digital technology to serve their customers. Digital technology has continued to revolutionize the retail sector, requiring organizations to evolve (or perhaps fundamentally shift) their business. Leading retailers are developing capability to architect intelligent digital services, technologies, and platforms to deliver on the customer promise in an agile, cost-effective and scalable manner while maintaining security.



Experience Centrality By Design

Tomorrow's successful retail businesses need to embrace the relentless focus on the customer and the organizational and technological integration this requires. Retailers are evolving their established business models to ensure they combine best practices from offline and online into a coherent, connected, customer-centric organization.



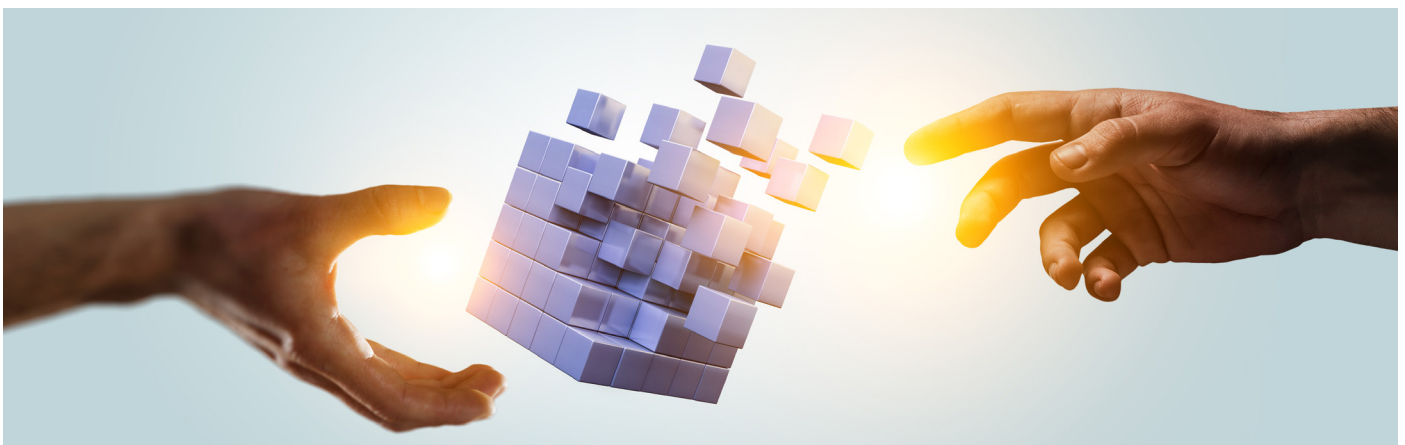
Insight-driven Strategies and Actions

Today's consumers in a difficult economic environment have increasingly complex expectations; keeping pace with these demands is an ongoing challenge for retailers. Insight-driven organizations can put their data to work and proactively anticipate, strategize and adapt their value proposition, backed by a core understanding of their consumer needs. Fostering an insight-driven culture that leverages an integrated customer and product portfolio to deliver optimal experiences across touchpoints while addressing customer data concerns should be essential.



Cost Optimization Measures

As companies see inflation getting structurally higher in the coming years, retailers are implementing various cost-cutting measures such as supply-chain optimization through analytics-driven demand planning, inventory management and distribution. Organisations are also looking at implementing agile organizational structures.



Contact us



Mohammed Adama

Partner & Head

Consumer & Industrial Markets Sector
KPMG West Africa

E: mohammed.adama@ng.kpmg.com



Bimpe Afolabi

Partner and Retail Subsector Lead

Consumer & Industrial Markets Sector
KPMG West Africa

E: bimpe.afolabi@ng.kpmg.com

Contributors

Samuel Asiyabola

Bukunmi Olaniyonu

Udochukwu Akalezi

Kalu Eke

Shuaib Fatai

Festus Ogunbayo

Michael Oladiran



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG Advisory Services, a partnership registered in Nigeria and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.