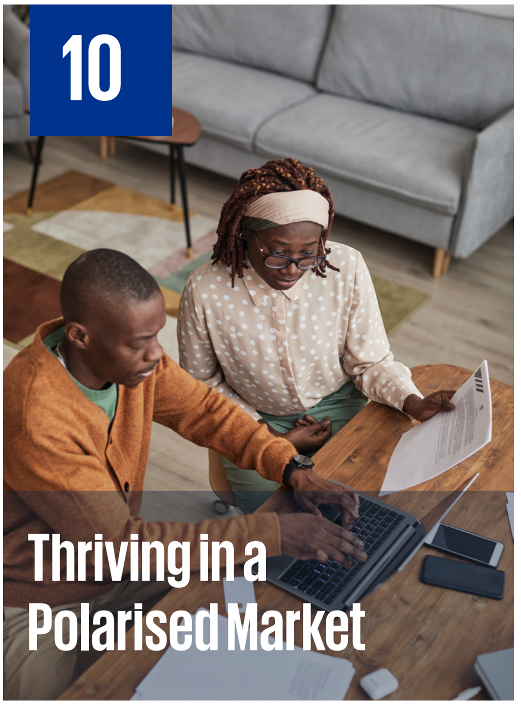
Market Polarisation: The Implications for FMCG Companies

August 2024

home.kpmg.ng

Contents



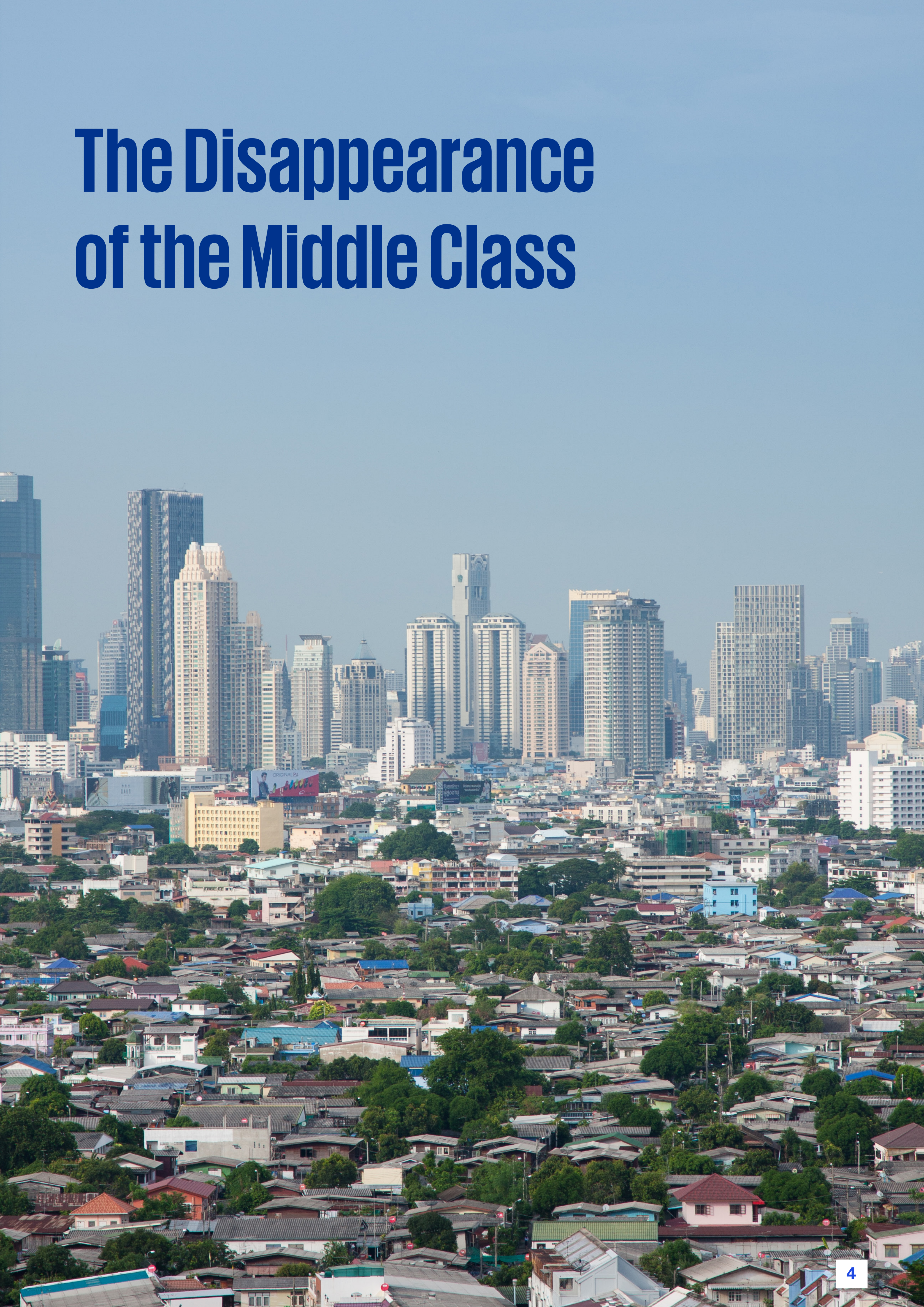
Introduction

The Fast-Moving Consumer Goods (FMCG) Sector is one of the most important sectors in the West African market. It not only caters for the needs of the people but also serves as a key driver of economic activity within the sub-region. It is therefore critical to ensure that players within the sector develop strategies to grow despite the intense macroeconomic headwinds which has led to a massive decline in the middle class. This phenomenon is widening the gap between premium and value segments within the market.

It is anticipated that this polarisation will necessitate a revaluation of FMCG market segmentation and pricing strategies. Additionally, there will be a growing emphasis on adopting sustainable practices to maintain cost efficiency and ensure long-term business sustainability amidst evolving market dynamics. Further, companies within the sector will need to bolster their risk management practices to ensure resilience in the face of economic disparities and income inequality disruptions.

Overall, the West African FMCG Sector is experiencing a profound transformation shaped by shifting market dynamics and economic inequalities, and because of these factors, it is imperative for companies to adapt and innovate to thrive in an increasingly polarised market environment.

The Disappearance of the Middle Class



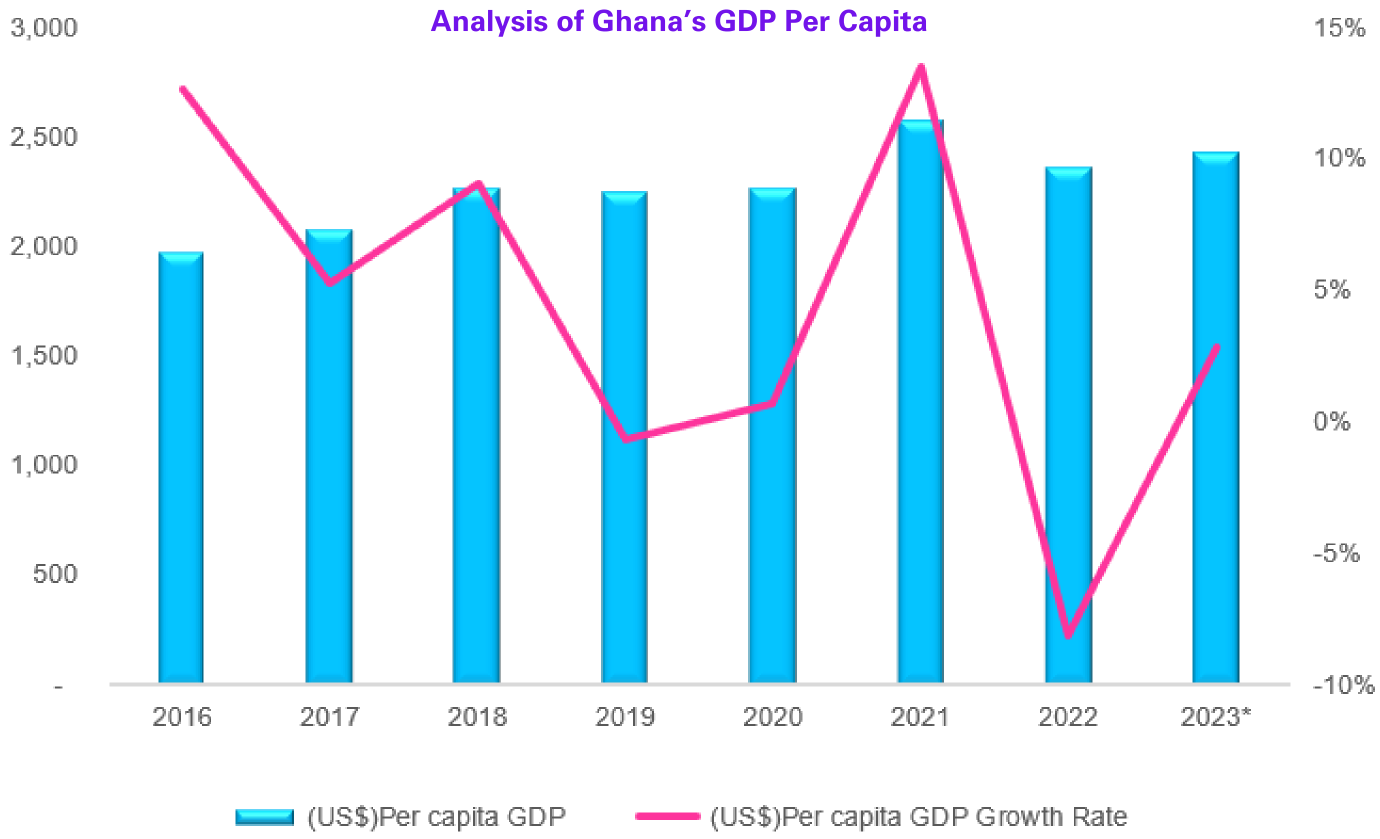
The Disappearing Middle Class as Declining Purchasing Power Drive Lower Consumer Spending

Africa made impressive economic progress since the 2000s, with several countries, including Nigeria and Ghana, sustaining double-digit growth. This strong macroeconomic performance offered a dual opportunity to reduce poverty and to reconcile income disparities by bolstering a robust middle class. However, following major economic disruptions and geopolitical tensions, many African countries continue to grapple with declining wealth, significant income and wealth inequality and increased poverty especially among the middle class, which is a growing concern for the continent. In Nigeria and Ghana, these disparities are starkly evident, with the gap between low and high-income classes widening as economic disruptions have led to sharp job losses and high inflation rates. Wealth is increasingly concentrated among already affluent households as the middle class declines at an alarming rate.

Annual GDP Per Capita Growth (%)

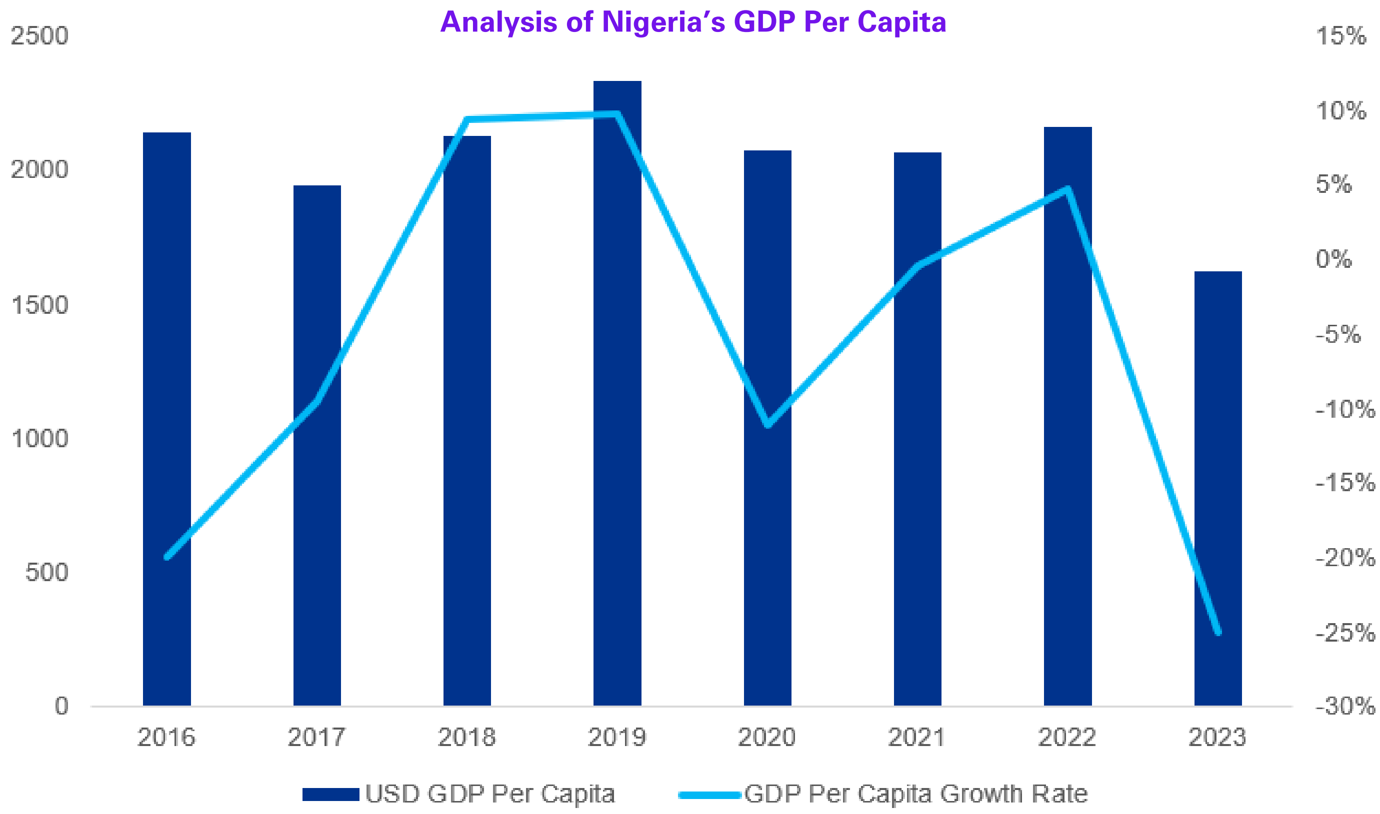
The annual growth rate of GDP per person, which is the total economic output divided by the population, shows the average economic productivity of each person. This helps measure the economic health and standard of living in a country.

As shown in the chart below, from 2016 to 2023, Ghana's annual GDP per capita has generally been on the decline, with temporary rebounds in 2018 and 2021.



Source: The World Bank's Published Data on Ghana's GDP Per Capita from 2016 to 2023

Similarly, as shown in the chart below, Nigeria has witnessed a significant decline in its GDP per capita over the past eight years with GDP per capita declining by c. 25% in 2023.

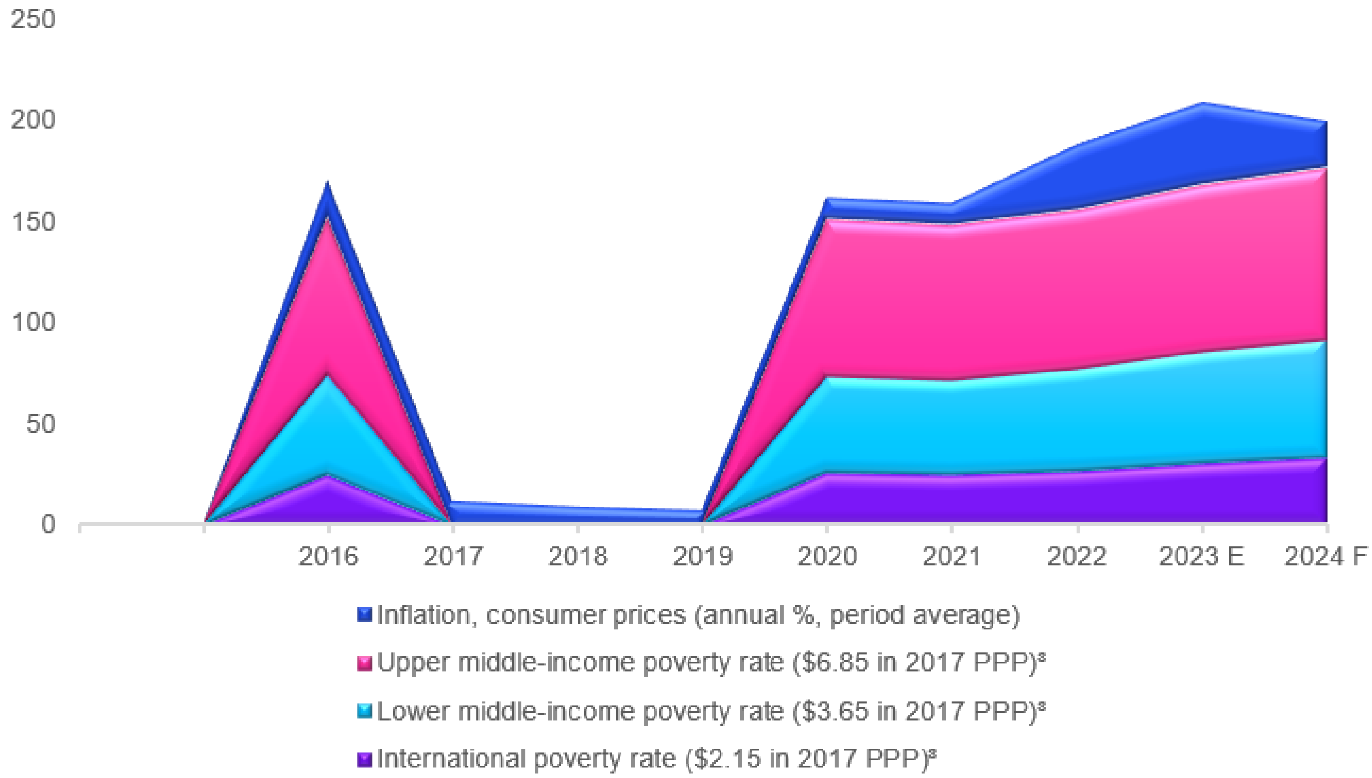


Source: The World Bank's Published Data on Nigeria's GDP Per Capita from 2016 to 2023

The decline in the growth rate of GDP per capita acts as a proxy for household income and expenditure, clearly reflecting an overall decrease in wealth and economic output among households.

Declining Purchasing Power and Heightened Poverty

In Ghana, the general economic decline, COVID-19 pandemic and the recent Domestic Debt Exchange Programme in the financial sector, have eroded a large proportion of the middle class's savings and investments, sharply affecting their income and purchasing power and significantly impacting their spending behaviour over the period. The increasing poverty gaps among Upper-Middle, and Lower-Middle classes from 2020-2024, compared to 2016-2019, show a significant drop in income or spending below the poverty lines of $6.65 and $3.65 a day, respectively.



Source: The World Bank's Published Data on Poverty and Inequality in Ghana

Based on a report by the National Bureau of Statistics published in November 2022, 63% of Nigerians (about 133 million people) are multi-dimensionally poor. Similarly, according to the World Bank's Poverty and Equity Brief published in April 2024, about 40.1% of Nigerians live below the National Poverty Line, 30.9% below the International Poverty Line of USD 2.15 per day per capita, 63.5% below the Lower Middle Income Class Poverty Line of USD 3.65 per day per capita and 90.8% below the Upper Middle Class Poverty Line of USD 6.85 per day per capita.

Further, the inflation rate in Nigeria has continued to trend upwards at an unprecedented rate reaching a 28-year high at about 34.19% in June 2024. Though the inflation rate in Ghana has been trending downwards relative to the same period in 2023, it was still high at 22.8% in June 2024.

The shrinking of the upper and lower middle classes in both Nigeria and Ghana, alongside predominant economic challenges have led to a shift in spending patterns, threatening the mass market phenomenon.

Consumer Behaviour and Threat of Survival of "Traditional Mass Markets"

As the middle class dwindles, consumers are increasingly divided into two distinct segments: those who can afford premium products and those who opt for low-cost, value-oriented goods. This shift makes it challenging for FMCG players to cater to a broad, homogeneous market.

The polarisation of consumers is making the mass market approach to production and retail of consumer goods increasingly unsustainable. As the middle class hollows out, consumers gravitate towards either premium or value products, disrupting the traditional mass market approach. As such, players in the FMCG Sector are compelled to adapt to a more segmented market landscape or risk obsolescence.

On one end, the **'Premium'** segment consists of affluent consumers who seek high-quality, often luxurious products and are willing to pay a premium for them. This segment is characterised by:

- **Brand Loyalty**
- **Preference for high-end goods**
- **Focus on quality and exclusivity**

On the other end, the **'Value'** segment comprises consumers who prioritise affordability and cost effectiveness and are often impacted by:

- **Economic challenges and reduced purchasing power**
- **Price-sensitive**
- **Best value for their limited resources**

The main challenge lies in the fact that these different segments have significantly different business and operating models. Premium brands usually require sophisticated distribution channels and complex marketing strategies, while Value products are mainly driven by cost discipline and economies of scale. FMCG companies need to adapt their strategies to cater to the growing demand for Value products while also addressing the needs of a sophisticated Premium market. This strategic shift is critical to ensure continued relevance and competitiveness in an increasingly polarised consumer environment.

Premium purchasing behavior

Consumer preferences

- Increased customisation and enhanced experience of their purchase process
- Greater sustainability of purchased products
- Health and Wellness products for new lifestyle needs
- Wellbeing across physical, mental and financial dimensions

Purchasing behaviour

- Will look more at quality than prices and will not necessarily down-trade or drop products. Rather they might just reduce consumption of pricier products
- Will agree to pay a premium for sustainable products, especially fresh food and personal care/health
- Will do purpose-driven purchases, choosing products that are aligned with their values and can provide them with health and wellness benefits

Relationship establishment with this profile

- Companies need to offer a customised experience of the shopping process to enable a durable relationship
- Companies need to effectively communicate brand innovation and sustainable responsibility in order to get their trust

Value purchasing behavior

Consumer preferences

- Great value offered for the money
- Products that do not strain budget for shopping basket, especially for food and beverage
- Less impulse buys, especially in luxury-perceived categories
- Certain lifestyle and health products, which the consumer is still willing to pay a premium for

Purchasing behaviour

- Will check prices more often as they are more price-sensitive and possibly down-trade or drop products, if perceived out of budget ("Budgeteering")
- Will wait for promotions, especially for home-care
- Will lower their total value basket, which can affect categories that are usually considered as impulse purchases
- Will shop more at discounters and opt for private labels

Relationship establishment with this profile

- Companies need to offer perceived value for the money to counter risk of consumer dropping or down-trading the product (convenience, sustainability, health and premiumisation
- Manufacture credible balance of emotionalisation and responsibility to build a strong brand relation

Thriving in a Polarised Market

Thriving in a Polarised Market – A West Africa Perspective

The West African FMCG market is marked by stark contrasts. Urban centres exhibit higher disposable incomes and demand for premium products, convenience, and lifestyle-oriented goods, driven by a burgeoning middle class and urbanisation. In contrast, rural areas and lower-income segments prioritise affordability, necessities and products that cater to local tastes and cultural preferences. Therefore, navigating this polarised market demands strategic foresight, resilience, and agility. With diverse socioeconomic landscapes, varying consumer behaviors, and competitive pressures, companies must adopt multidisciplinary approaches to not only survive in the marketplace but thrive. However, beneath the surface of potential lies a landscape fraught with challenges that require navigation and resilience.

In the dynamic landscape of West Africa's FMCG sector, navigating through polarisation and thriving requires not just skill, but a deep understanding of market intricacies and strategic foresight. Our team of consumer and retail professionals have consistently risen to the challenge, guiding numerous FMCG clients through the complexities of West Africa's polarised market with resounding success.

Based on our vast experience in the FMCG sector, we have recommended high-level strategies for consideration by players in the FMCG sector to navigate and excel in such a dynamic environment. These strategies cut across the areas highlighted below and further explained in the subsequent sections of this report.

Market Segmentation Analysis

01

Understanding Diverse Customer Needs:

Segment the market based on factors such as age, income level, lifestyle, geographic location, and cultural preferences. This enables FMCG companies to tailor their product offerings, pricing strategies, packaging, and marketing messages to resonate with each segment, thereby increasing relevance and attractiveness of their products in different parts of the market.

Targeted Marketing and Communication:

Develop targeted marketing and communication strategies. Instead of adopting a one-size-fits-all approach, companies can create personalised campaigns that speak directly to the desires and pain points of each consumer segment. This enhances the effectiveness of marketing efforts, improves engagement with consumers, and increases the likelihood of conversion and brand loyalty.

Optimised Product Assortment:

Optimise product assortment to meet the specific needs and preferences of different consumer segments within a polarised market.

Enhanced Distribution Strategies:

Tailor distribution strategies by expanding distribution networks in underserved regions, partnering with local distributors or retailers that cater to specific segments, or leveraging e-commerce platforms to reach tech-savvy consumers.

Flexibility and Adaptability:

Allows FMCG companies to be flexible and adapt quickly to changes, refine segmentation strategies, and adjust marketing and product strategies.

> "Given the shrinking mass market, there may be an opportunity for FMCG companies to increase revenues and margins by investing in growing segments and divesting from those that are less profitable."

Strategic Investment Planning

02

Infrastructure Development:

Allocate funds towards building or upgrading infrastructure, such as warehousing facilities, cold chain logistics, and reliable transportation networks. This improves product accessibility, reduces distribution costs, and enhances service levels to consumers across diverse geographic areas.

Technology Adoption:

Prioritise investments in advanced ERP systems for efficient supply chain management, data analytics for consumer insights, and e-commerce platforms for broader market reach. Embracing digital transformation improves operational agility, enhances decision-making capabilities, and enables personalised marketing strategies tailored to local consumer preferences.

Market Expansion and Penetration:

Adopt market expansion strategies tailored to diverse regions within a polarised market to improve product availability and developing localised marketing campaigns to build brand awareness and loyalty.

Brand Building and Marketing:

Allocate funds towards integrated marketing campaigns, influencer partnerships, and experiential marketing initiatives tailored to regional preferences and cultural nuances and facilitate strategic partnerships and collaborations with local stakeholders, including suppliers, distributors, retailers, and community organisations.

Comprehensive Tax Planning

03

Optimisation of Tax Planning Function:

Comprehensive tax planning by leveraging available tax incentives, deductions, and credits. This involves strategic structuring of business operations, such as supply chain management, pricing strategies, and investment decisions, to optimise tax exposure while remaining compliant with local tax laws.

Compliance with Regulatory Requirements:

Tax planning ensures FMCG companies understand and comply with complex tax regulations in the subregion. This includes timely filing of tax returns, accurate calculation of tax liabilities, and adherence to reporting requirements mandated by local authorities. By staying compliant, companies avoid penalties, legal disputes, and reputational risks that could impact their operations and financial performance.

Mitigation of Tax Risks:

Polarised markets may present heightened tax risks due to factors such as regulatory uncertainties, inconsistent enforcement, and evolving tax policies. Comprehensive tax planning involves identifying potential tax risks and developing strategies to mitigate them proactively. This may include conducting tax risk assessments, implementing internal controls, and seeking professional tax advice to navigate complex regulatory landscapes effectively.

Strategic Use of Tax Savings:

Tax planning also focuses on optimising tax savings that can be reinvested into business operations or distributed to shareholders. FMCG companies can strategically allocate tax savings towards innovation, product development, marketing initiatives, and talent acquisition. This strategic use of resources accelerates growth, strengthens market position, and drives sustainable profitability in a competitive market environment.

Operational Efficiency Review

04

Cost Reduction and Profitability:

Conduct an operational efficiency review as this helps identify inefficiencies in processes, resource utilisation, and supply chain management.

Quality and Productivity Improvement:

Ensure consistent product quality and enhancing productivity are critical in competitive FMCG markets. An operational efficiency review identifies opportunities to standardise production processes, implement quality control measures, and adopt best practices in manufacturing.

Risk Management and Compliance:

Identify risks, such as supply chain disruptions, regulatory changes, or cybersecurity threats, companies can implement proactive risk mitigation strategies. This includes enhancing cybersecurity measures, diversifying supplier bases, and staying updated on regulatory developments to avoid penalties and operational disruptions.

Strategic Resource Allocation:

Identify high-impact areas for investment, such as technology upgrades, process automation, or market expansion initiatives, companies can allocate resources effectively to achieve long-term objectives. This disciplined approach to resource management enhances financial stability, optimises capital allocation, and strengthens competitive positioning in a challenging market environment.

Portfolio Management

05

Shape the Portfolio:

Based on the overall corporate strategy (in a group structure), thoroughly analyse your current business and brand portfolio across regions in terms of each business's stand-alone attractiveness, fit to group strategy and synergy possibilities. Identify potential adjustments, analyse their feasibility, quantify their impact and prioritise for a final decision.

Dress the Assets:

For assets being divested, take time to prepare them for market sounding. The objective should be to divest at maximum deal value, thereby obtaining the required financial leeway for growth investments. Assets must therefore be standalone operable to ensure deal security and attract financial investors, as well as designed to have an optimised, lean and — especially during the due-diligence process — defendable organisational cost position. In addition, the transformation journey must be underpinned by a robust, implementable road map on how to grow sales and improve margins for maximum deal value.

Set the Sail for Growth:

Organic growth will probably not be sufficient to offset lost revenues amid divestments. Instead, the company will need to actively search for promising add-on acquisitions. However, the target landscape is now more fragmented than ever, amid numerous local niche players emerging over the last 10 years. Therefore, it will be increasingly important to excel in target identification and prioritisation to choose the right ones.

Integrate Smart and Capture Value:

With an increasing number of smaller acquisitions, having a deal playbook with enough flexibility will be key to ensuring value is captured. This can be especially important in the integration phase where value deterioration is often experienced. New brands need enough space to develop and flourish, without compromising the synergies achieved by being part of the professional and scalable operating platform that the group provides.

Outlook for the Future / Conclusions

Finding the Right Balance

FMCG companies need to strive to create product portfolios that contain some combination of both Premium and Value segments. The Premium segment representing an opportunity to penetrate fastgrowing markets with higher levels of profitability, and Value products remaining key to increasing the existing customer base and enabling economies of scale. We at KPMG are poised to partner with players in the FMCG Sector to navigate and determine new avenues for growth in the ever-dynamic business environment.

Why KPMG?

Our value proposition:

- Global and in-depth experience
- Subject matter expertise
- Tested methodologies and tools
- Quality assurance

Our professionals are amongst the leaders in delivering a broad range of audit, tax and advisory services to meet the unique needs of companies in the FMCG Sector.

Contact us

Mohammed Adama
Partner & Head
Consumer & Industrial Markets Sector
KPMG West Africa
E: mohammed.adama@ng.kpmg.com

Ijeoma Emezie-Ezigbo
Partner & FMCG Subsector Lead
Consumer & Industrial Markets Sector
Deal Advisory
E: ijeoma.emezie-ezigbo@ng.kpmg.com

Omolara Ogun
Partner
Consumer & Industrial Markets Sector
Audit Services
E: omolara.ogun@ng.kpmg.com

Contributors

Dayo Adeniji

Omojo Adefila

Elizabeth Kwarteng Tei

Olawumi Olaitan

home.kpmg/ng

home.kpmg/socialmedia