



Thriving Amidst Turbulence

■ Navigating the Dynamic
Consumer Markets in Nigeria

August 2023

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Introduction

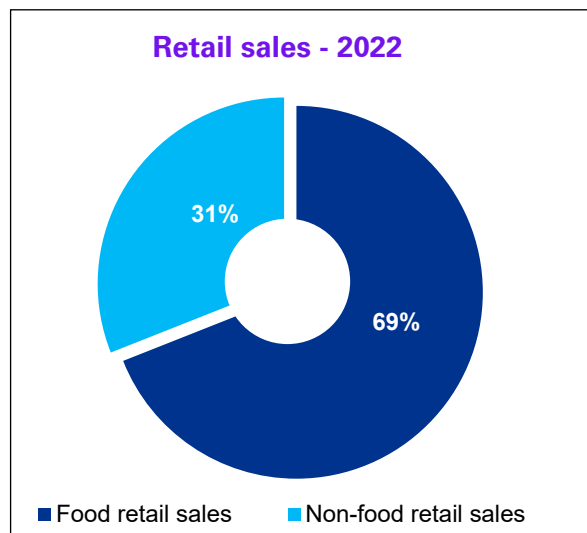
A balancing scale

The fast-moving consumer goods (FMCG) sector in Nigeria is one of the largest and most dynamic markets in the African Continent. A significant number of companies in the FMCG sector are involved in the production and sale of products such as food and beverages, personal care items, household goods, and toiletries. These companies play a crucial role in the Nigerian economy.

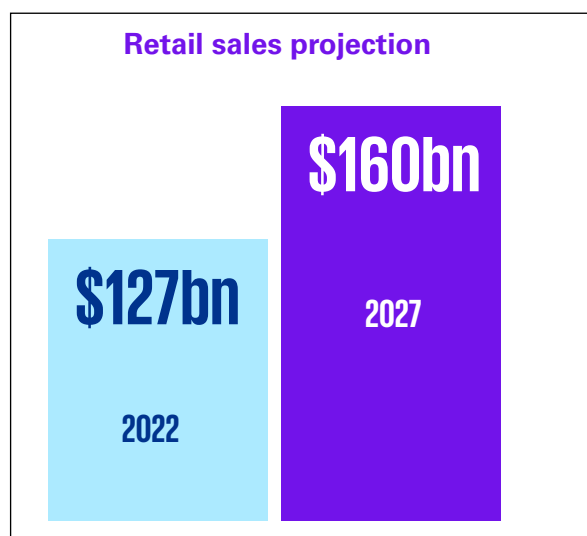
Interestingly, the Nigerian market possesses an advantageous youth and working class demography and a rising urban class. Consumer needs remain dynamic and will require companies to swiftly respond to changing needs, with the price sensitivity of Nigerian consumers adding another layer of complexity in recent times.

This is because, according to the National Bureau of Statistics (NBS), a significant portion of the Nigerian population (c. 63%) are multidimensionally poor, making affordability a critical factor. Hence FMCG companies need to strike a balance between offering products at accessible price points while maintaining profitability. Effective pricing strategies and cost management become essential in this context.

Navigating this complex landscape necessitates a comprehensive approach. Whilst Nigeria offers significant opportunities for FMCG companies, there are numerous challenges that affect the growth and profitability of these companies. Understanding these challenges are crucial for businesses operating in the FMCG sector to develop effective strategies.



Source: Economist Intelligence Unit



Source: Economist Intelligence Unit



Current Trends

Consumer market in flux

FY22 highlights

\$174b

Consumer expenditure

13%

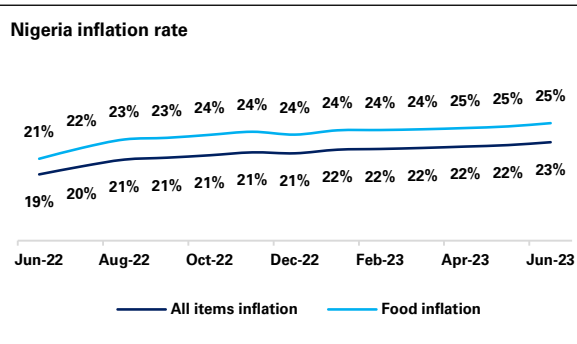
Demand growth

\$0.1t

Retail sales

0.8%

(Online sales % of total)

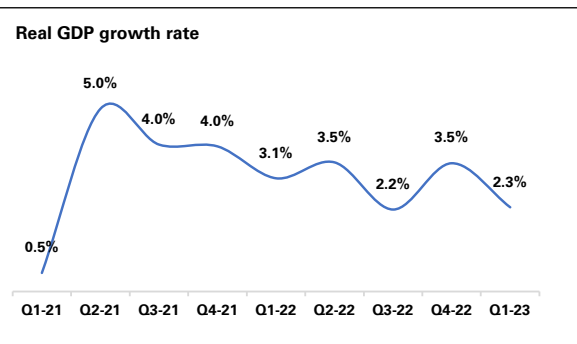


Source: National Bureau of Statistics



High inflation and input cost

Inflation in Nigeria has remained elevated since 2022. Headline inflation which stood at 18.60% in June 2022 has risen to 22.79% in June 2023. The impact on businesses and consumers in the form of high input costs and lower purchasing power respectively, is likely to persist. With the recent removal of fuel subsidy and the unification of foreign exchange rate, businesses may continue to grapple with turnover and leaner profit margins.

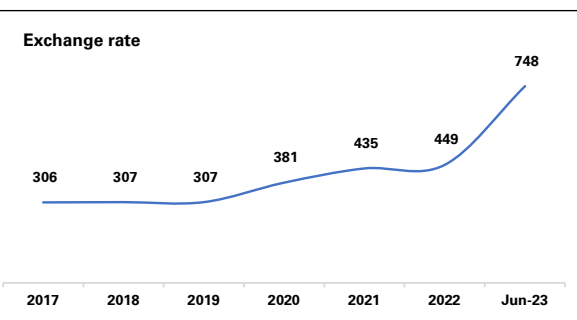


Source: National Bureau of Statistics



High interest rate

To maintain price stability, the Central Bank of Nigeria (CBN) has increased the Monetary Policy Rate by a total of 575 basis points between May 2022 (13%) and July 2023 (18.75%). The high interest rate will mean higher cost of financing for manufacturers in the FMCG sector.



Source: Economist Intelligence Unit and FMDQ e-MarketData



Liberalisation of foreign exchange (FX) and liquidity gap

In June 2023, the CBN unified all the segments of the foreign exchange market into the Investors and Exporters (I&E) window. It also freed up the Naira to float based on market forces. As such, companies who hitherto had access to FX at the regulated rate of c.N460/\$1 now source same at over N700/\$1. These high import costs in addition to already existing spate of FX scarcity would continue to exacerbate inflationary pressures.

Challenges

Persistent limitations remain



01. Regulatory environment

FMCG companies face a complex and evolving regulatory environment and are usually impacted by frequent changes in trade policies, import restrictions and taxation. Government policies play a crucial role in shaping the operating environment for businesses. These businesses must comply with various regulations related to health and safety, product labelling, packaging, import/export amongst others and would often need to interact with multiple regulatory bodies at various levels, including federal, state, and local government agencies. Each agency may have its own set of requirements, leading to a complex and time-consuming process. Meeting all the requirements and ensuring compliance can be a complex task for FMCG companies, requiring dedicated resources and expertise which could cause delays and administrative hurdles.

In addition, multiple taxation is a significant challenge faced by FMCG companies. Businesses are subjected to various forms of taxes and levies by different levels of government, leading to a cumulative tax burden and reduction in profitability that has affected competitiveness in the market.



02. Inadequate market distribution channels

Efficient and effective distribution channels are crucial for companies in the FMCG sector to reach consumers in Nigeria's vast and diverse market. However, the lack of well-developed distribution networks, particularly in rural areas, hampers market penetration and accessibility. This is worsened by the limited access to modern retail outlets, as Nigeria's retail sector is largely informal.



03. Infrastructural deficiencies

Nigeria's poor state of infrastructure, particularly erratic power supply, inadequate road networks, and limited access to clean water and sanitation systems hinder the efficient distribution and storage of FMCG products.

Frequent power outages at factories disrupt production and damage equipment and machinery. Businesses have to keep production running by relying on expensive alternative uninterrupted power sources, thereby, resulting in increased operational expenses and reduced profitability.

Bad roads, inadequate transportation network, bureaucracy at ports and lack of sufficient storage facilities contribute to logistical challenges faced by FMCGs. These deficiencies result in increased logistic costs, supply chain inefficiency, difficulties in accessing raw materials and poor distribution of goods.



04. High cost of finance

Access to affordable financing is essential for businesses to invest in modern technologies, expand operations and increase productivity. However, Nigerian FMCG companies continue to struggle to secure adequate financing from traditional financial institutions due to factors, including primarily high interest rates and stringent collateral requirements.

The monetary policy of increase in interest rate to curb inflationary pressures has increased the financial pressure faced by businesses, while access to longer-term equity via the capital markets and private equity is often limited. These have made it difficult for companies to invest in expansion, product development, marketing, and other critical areas.



05. Low per capita income

According to the World Bank, Nigeria is a lower middle-income economy, with Gross National Income per capita between \$1,136 and \$4,465, and is also characterised by weak purchasing power and high unemployment rate. Hence consumer spending growth is constrained. Given the prevailing high inflationary environment and weakening of the Naira, consumer price sensitivity will likely linger, and spending could shift more to essential goods.



06. Insecurity challenges

Nigeria is faced with an unprecedented wave of different but overlapping security crisis, from kidnapping to extremist insurgencies, and almost every corner of the country has been hit by violence and crime.

The South-West of Nigeria is plagued by a surge in cybercrime, armed robbery, kidnapping; and the South-East has become rife for commercial crime and secessionist agitation. While the northern region of the country continues to be a hotspot for insecurity, the North-East has been subject to a humanitarian crisis lasting over a decade and caused by the Boko Haram Insurgency. These insecurity challenges are limiting investments and foreign capital flows to the consumer sector.



Strategies

Beating the pushbacks: Accelerating growth

Nigeria's consumer market reflects one of resilience and adaptability. Nigerian consumers and market players are not merely passive participants; they are masters of transforming challenges into opportunities, fuelled by a desire to meet their needs and aspirations.

Hence, businesses must be proactive in their approach to secure long-term success. By harnessing digital innovation, businesses can tap into the power of mobile payment systems to engage with the average Nigerian consumer. Also with data analytics, businesses can develop curated marketing strategies for each consumer preference. Data on online shopping trends, customer feedback and purchase history can be leveraged to deliver personalised experiences and enhance profitability.

Today's competitive market also requires FMCG players to prioritise nurturing trust among consumers. Transparency, quality assurance, and excellent customer service are some essential strategies for survival.

Another expected growth driver is enhancement in the supply chain and distribution networks, which will drive increase in product availability, reduced costs and expansion into new markets.

Lastly, Nigeria has one of the fastest-growing populations globally, which presents significant opportunities for the consumer market in terms of expanded consumer base, urbanisation and changing lifestyles and market diversification.



Technology and innovation

Businesses can embrace digital solutions and leverage emerging technologies. By utilising data analytics and artificial intelligence, FMCG companies can garner a wider consumer market and effectively meet their needs.

Value expansion

Diversifying product or service offerings both locally and globally can reduce reliance on a single product or market. Adapting to market conditions and evolving customer needs through innovation and customer-centric approaches is also important. By so doing, businesses can enhance value and improve profitability.

Backward integration

Through strategic input sourcing and supply chain control, companies can reduce dependency on importation and gain greater control over production processes. This would enhance efficiency levels, making them more resilient to uncertainties.

Government policies

The appropriate mix of government policies and social protection measures can enable businesses to thrive and drive sustainable economic growth.

Outlook

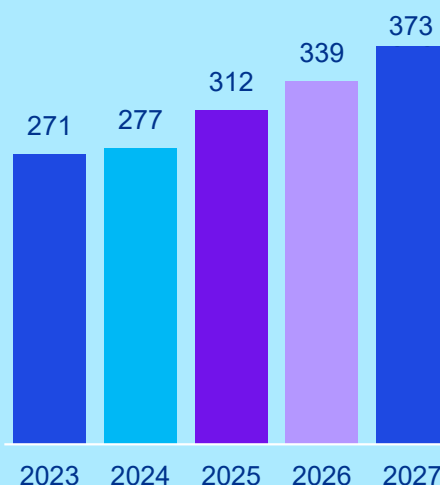
Key considerations

In the short to medium term we see the potential of the FMCG sector dependent on a varied number of factors and activities of key stakeholders. Immediate headwinds such as the fuel subsidy removal and FX liberalisation, including the impact of same on FX-denominated financial obligations and debt exposures of FMCG companies, may mute growth prospects. Unless the government ensures effective social protection measures and fiscal expansion, income levels may remain low and consumer spending is likely to slow down in 2023. Fitch projects that inflation would average over 25% by the end of the year.

However, in the long term, the Nigerian economy could begin reaping from the benefit of policy reforms and consumer spend is likely to pick up. Total household spend is projected to reach \$373 billion by 2027 of which food and non-alcoholic spend will be accounting for more than half. Businesses can continue to take steps to ensure sustainable growth.

\$373 bn

Total household spend is projected to rise by an 8% compounded annual growth rate between 2023 and 2027.



Source: Fitch Solutions

Stakeholder actions

Consumers

- Growing population and demand
- Changing consumer needs
- Rising urbanisation

Trade associations

- Fair practices, transparency, and accountability
- Higher labour wages

Businesses

- More sustainable practices
- Capacity utilisation and strategic input sourcing
- Key stakeholder collaboration
- Strategic partnerships

Government

- Economic diversification and infrastructure development
- Enabling business environment
- Policy reforms to boost government revenue

KPMG Nigeria's Consumer & Industrial Markets Practice

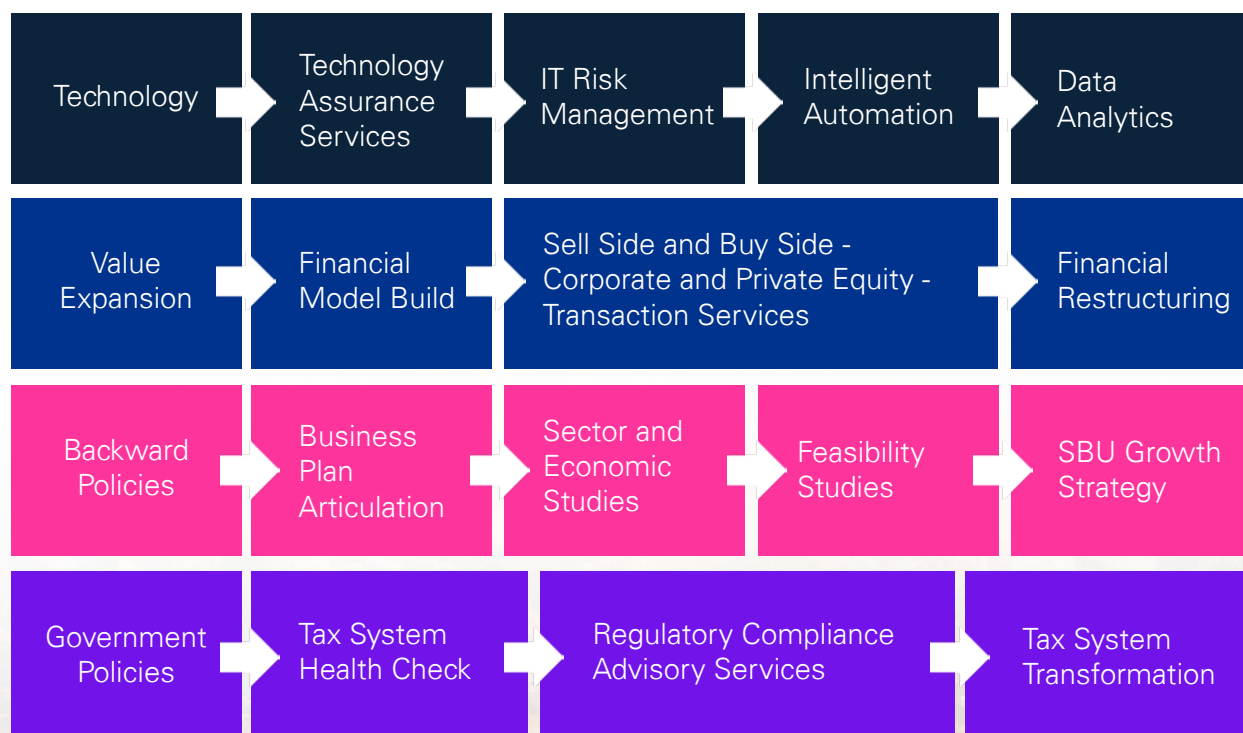
Why KPMG?

Our value proposition

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

KPMG Nigeria's Consumer & Industrial Markets practice consists of a network of experienced professionals with deep industry experience and insight, who have a track record of supporting leading FMCGs through challenging financial situations and transformational change processes. We are the most experienced professional services firm across the consumer sector in Nigeria.

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.



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