

BUSINESSDAY
INTELLIGENCE



ADAPTING TO MARKET HEADWINDS IN NIGERIA'S FMCG SECTOR

OCTOBER 2024

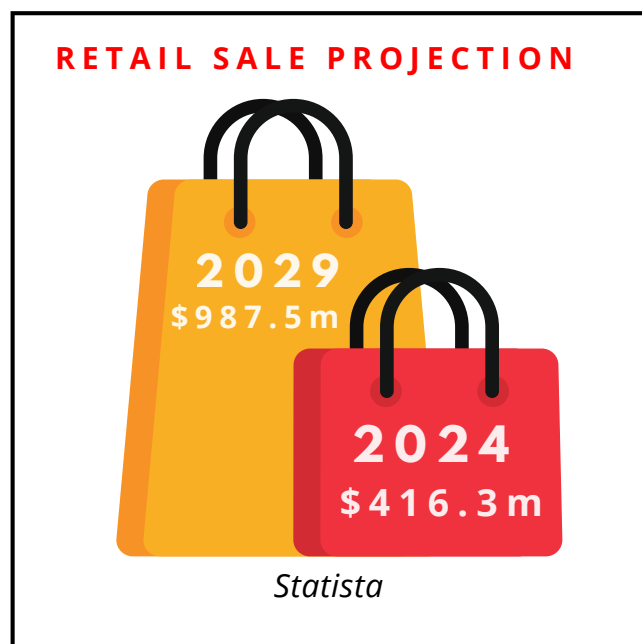
EXECUTIVE SUMMARY

INTRODUCTION

STRIKING THE RIGHT BALANCE

Nigeria's fast-moving consumer goods (FMCG) sector, one of Africa's largest, encompasses the production and sale of essential items such as food, beverages, personal care, and household products. The sector is a key driver of economic activity, fueled by the country's youthful and increasingly urban population whose consumption patterns are evolving. However, the industry faces significant challenges, including a highly price-sensitive market, as 63% of Nigerians were classified as multidimensionally poor in 2023.

To maintain competitiveness, FMCG companies must navigate inflationary pressures and supply chain disruptions by implementing strategic pricing, leveraging technology for efficiency, and tightly managing costs. Offering value-oriented products at affordable price points has become essential for meeting the diverse needs of Nigeria's consumers while also fostering sustainable growth in a challenging economic environment.



MARKET TREND

ANALYSIS

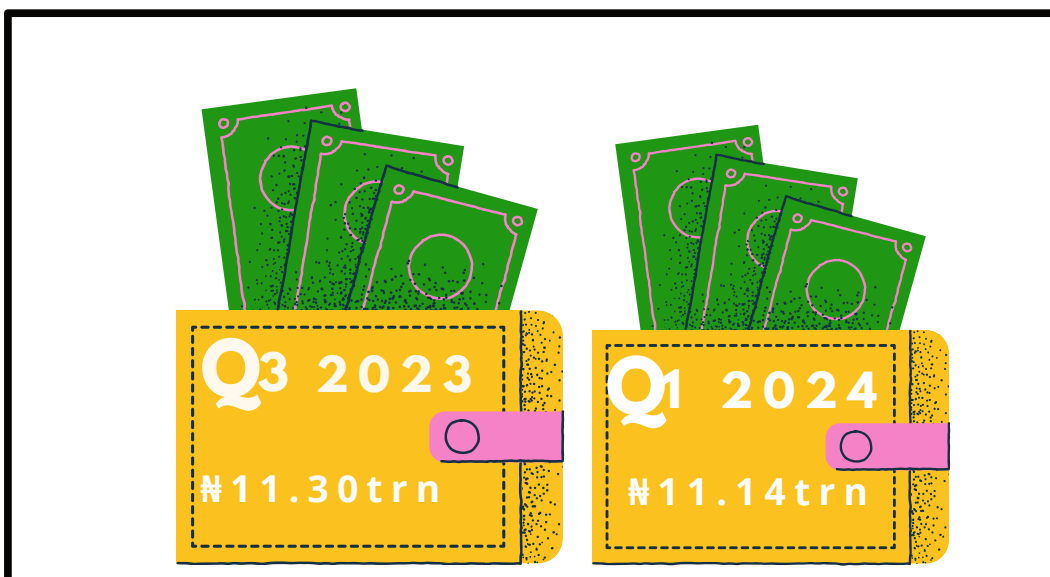
FMCG SECTOR IN NIGERIA

The Fast-Moving Consumer Goods (FMCG) sector in Nigeria is undergoing significant transformation driven by various economic, technological, and regulatory factors. In 2024, the sector faces a complex interplay of consumer behavior shifts, inflationary pressures, technological innovations, regulatory changes, and the growing influence of e-commerce. This section provides a detailed analysis of these market trends, highlighting key drivers, challenges, and emerging opportunities shaping the landscape.

Consumer Behavior Shifts: Price Sensitivity and Essential Spending

Consumer spending in Nigeria has been on a downward trajectory, with real household consumption expenditure decreasing by 5.13% in Q3 2023 and a further 1.40% decline in Q4 2023. By Q1 2024, consumer spending had dropped to ₦11.14 trillion from ₦11.30 trillion in Q3 2023, reflecting the challenges posed by inflationary pressures and reduced purchasing power.

CONSUMER SPENDING IN NIGERIA



Source: National Bureau of Statistics

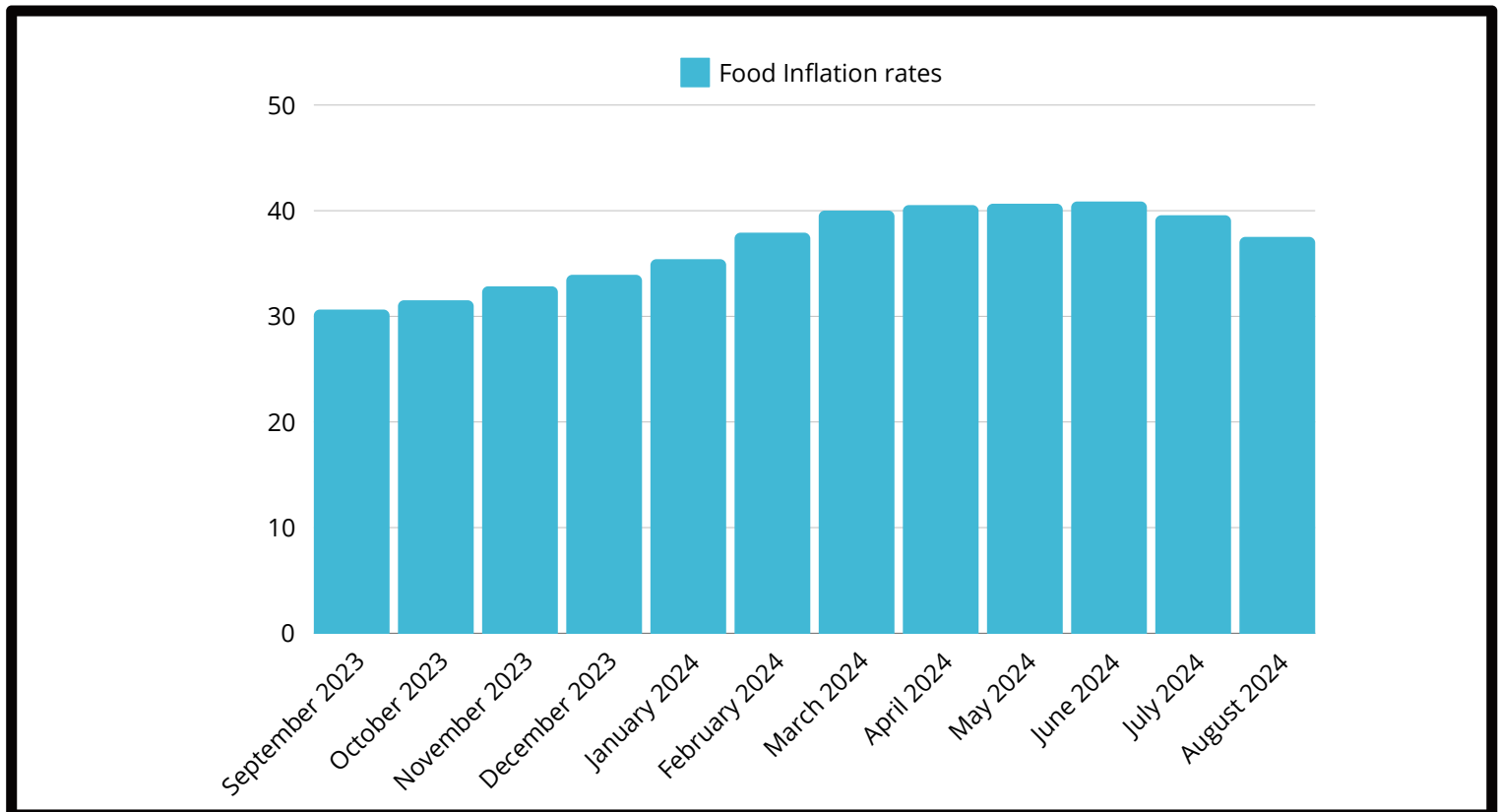
MARKET TREND

ANALYSIS

NIGERIAN CONSUMERS

Amid economic strain, Nigerian consumers have shifted their buying behavior towards essential goods such as food, healthcare, and household items. This trend is amplified by rising food inflation, which peaked at 40.87% in June 2024 before declining slightly to 37.52% in August 2024. As consumers prioritise basic needs, non-essential categories like luxury and leisure goods have seen a decline in demand. Retailers in the FMCG sector have responded by offering discounts and promotions to maintain sales volume, with many consumers actively seeking these deals.

FOOD INFLATION RATES IN NIGERIA



Source: National Bureau of Statistics

MARKET TREND

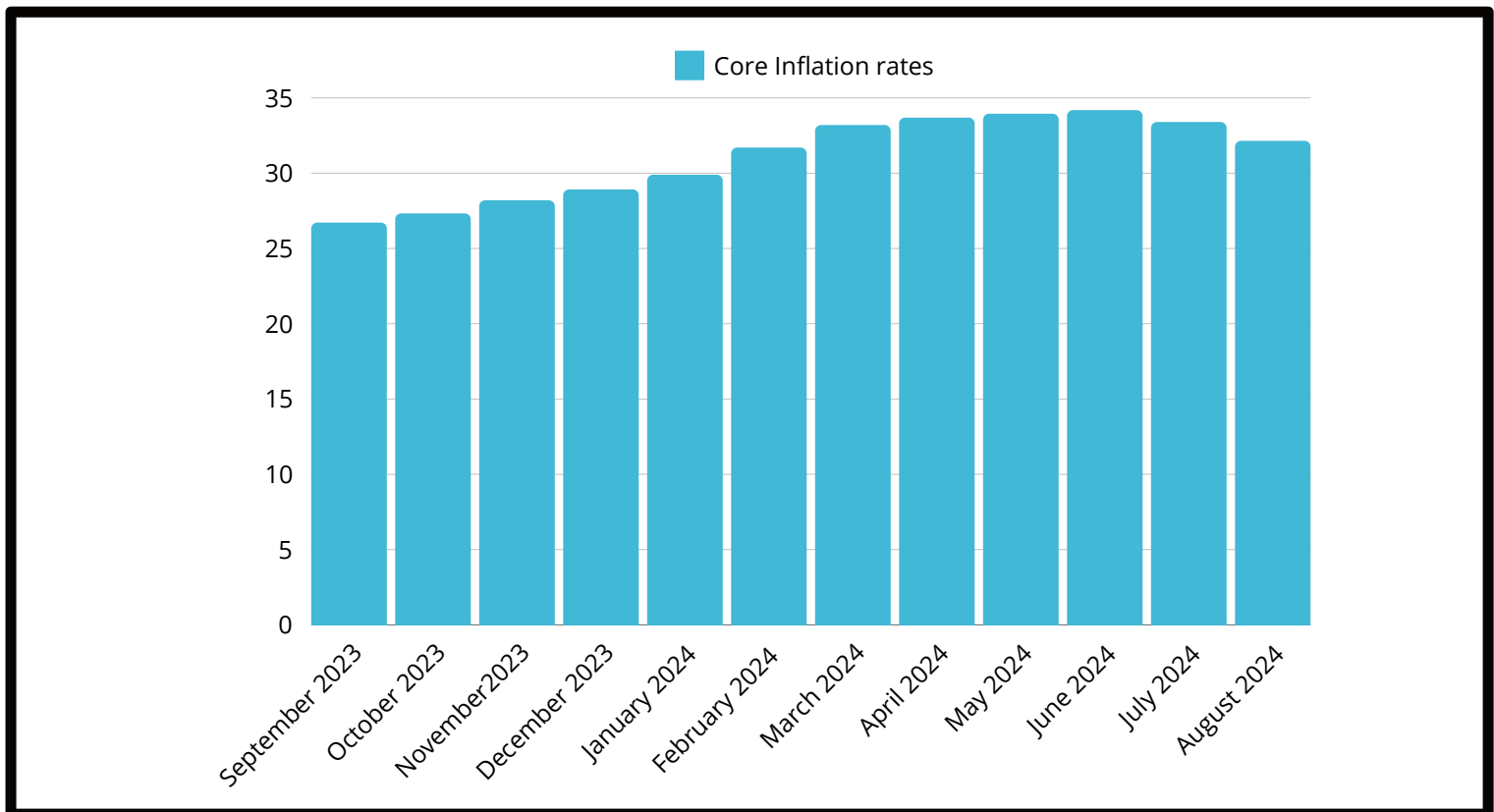
ANALYSIS

NIGERIAN CONSUMERS

Throughout 2024, the high inflation rate, averaging 33.95%, has increased price sensitivity among consumers. This shift has led many to prioritise affordability over brand loyalty, opting for private-label products or more economical alternatives.

Additionally, the collective buying model, where consumers pool resources to purchase goods in bulk, has gained traction, particularly within online communities.

CORE INFLATION RATES IN NIGERIA



Source: National Bureau of Statistics

E-COMMERCE

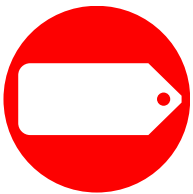
ANALYSIS

THE EVOLVING ROLE OF E-COMMERCE



01 — Internet Penetration

E-commerce growth in the Nigerian FMCG market driven by increasing internet penetration and competitive pricing.



02 — Price Comparison

E-commerce enables consumers to mitigate inflation by allowing price comparisons and securing better deals.



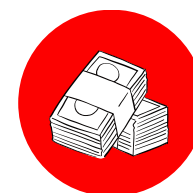
03 — New Distribution Channels

New distribution channels for FMCG companies, enabling access to previously untapped rural markets.



04 — Mobile Payment Solutions

Expansion of e-commerce beyond metropolitan areas to rural consumers due to wider accessibility and mobile payment solutions.



05 — Increased Spending

In 2023, the average Nigerian spent \$68 annually on e-commerce, with expectations of increased spending.



06 — Convenience

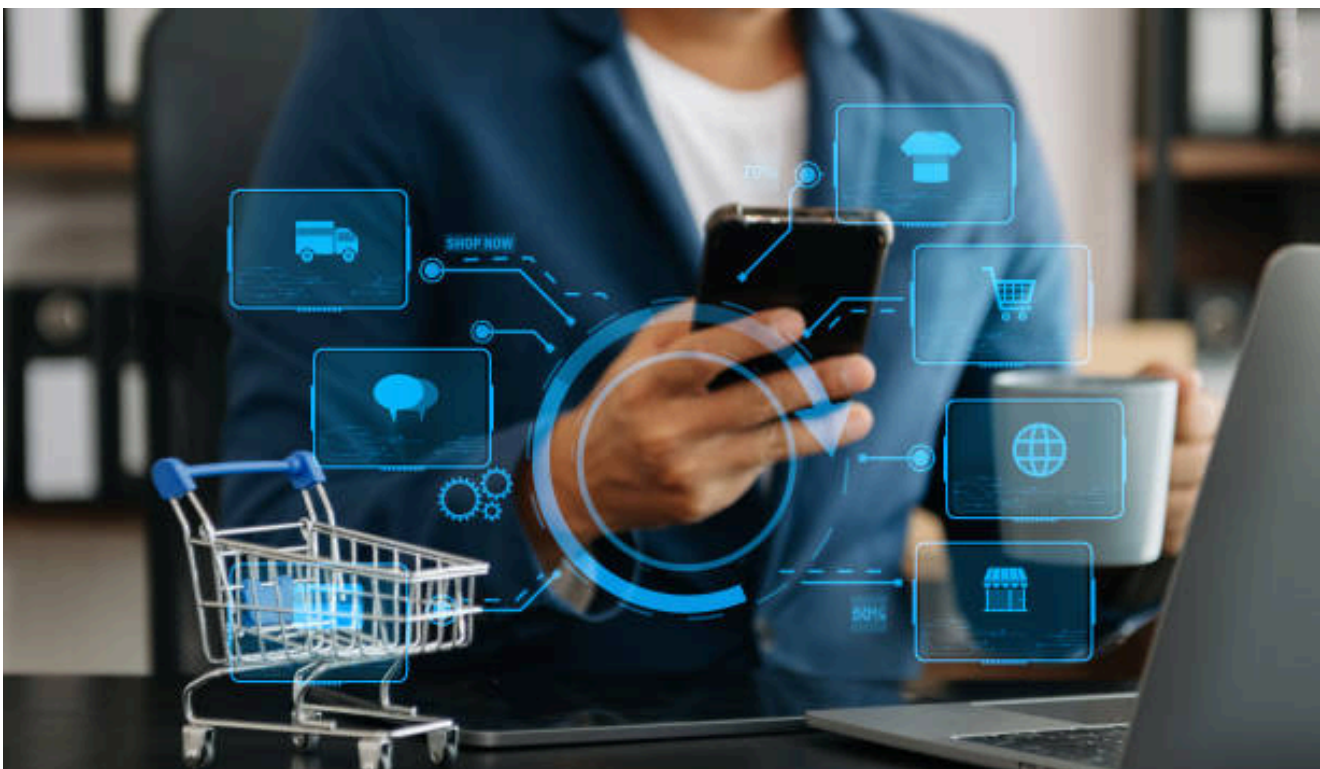
Consumers turn to e-commerce for convenience, price comparison, and better deals.

TECHNOLOGY

TECHNOLOGY

IMPACT OF INNOVATIONS

- Technological advancements in logistics, payments, and supply chain management are reshaping the FMCG sector.
- Digital payments and mobile wallets are facilitating smoother online transactions, boosting e-commerce growth.
- Data analytics is being used by retailers to, understand consumer preferences, optimize inventory management and personalize product offerings.
- Digital marketing and social media platforms are essential tools for FMCG brands to engage with consumers.
- These platforms are particularly effective for reaching younger, tech-savvy audiences.
- Social media and digital marketing offer a cost-effective means to build brand loyalty, Introduce new products and expand in the growing online retail market.



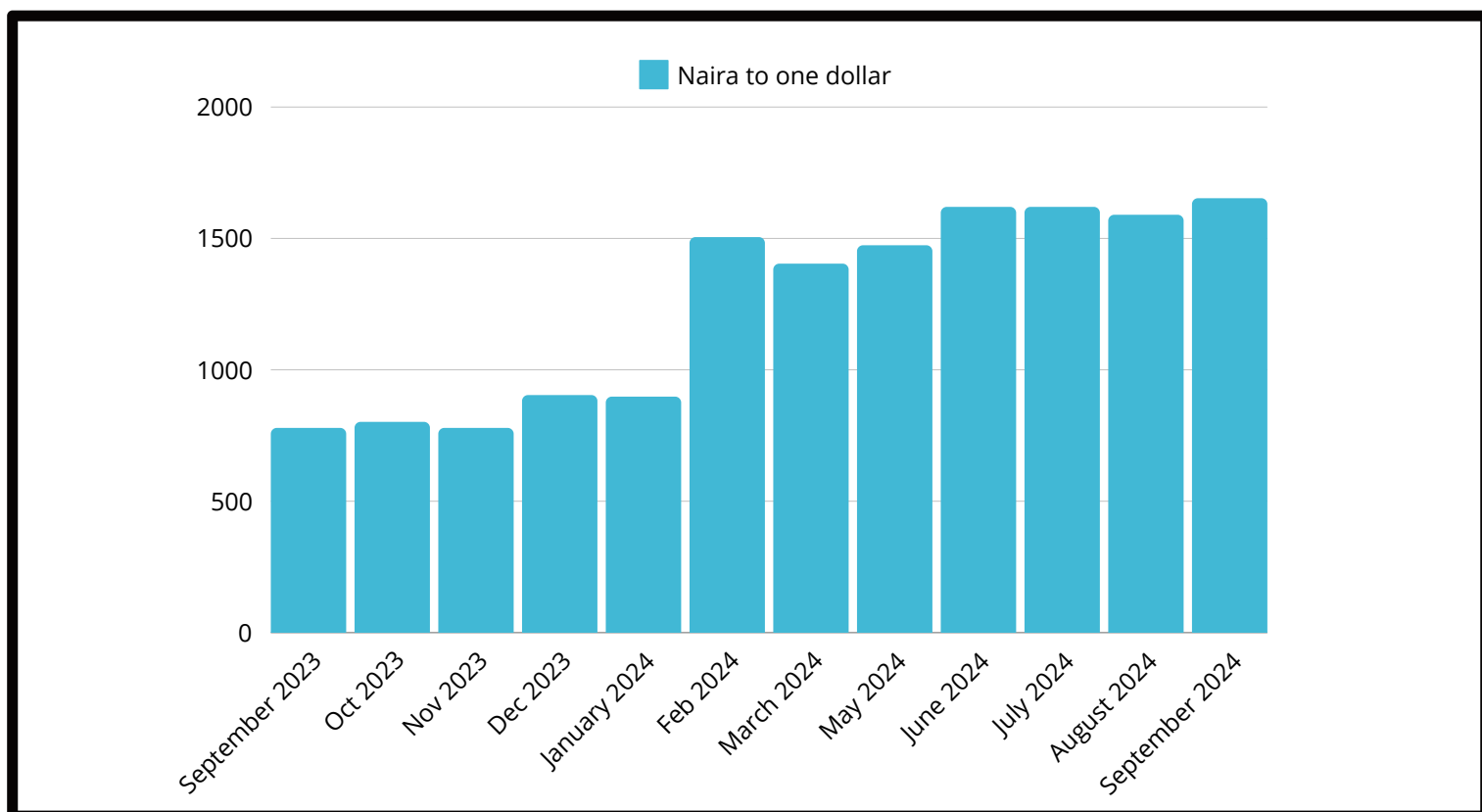
REGULATORY CHANGES

ANALYSIS

NAIRA DEPRECIATION

The depreciation of the Naira has had a profound effect on the FMCG sector. Between September 2023 and September 2024, the Naira weakened significantly from ₦779 to ₦1,653 against the U.S. dollar. This has driven up the cost of imported goods, including raw materials for FMCG production, leading to higher prices for end consumers.

NAIRA TO DOLLAR MONTH ON MONTH SEPTEMBER 2023 TO SEPTEMBER 2024



Source: Trading Economics

REGULATORY CHANGES

ANALYSIS

REGULATORY MEASURES

As a result, Nigerian consumers are increasingly opting for locally produced alternatives, creating opportunities for domestic manufacturers to fill the gap left by costly imports.

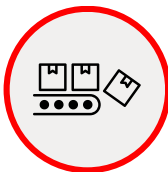
Regulatory measures aimed at encouraging local production and reducing import dependency are expected to further shape the sector in the coming years.

Government policies supporting agricultural development and local manufacturing, particularly in the food and beverage sub-sector, are creating opportunities for FMCG companies to localize their supply chains and reduce exposure to foreign exchange volatility.



Consumer Preference Shift

- Nigerian consumers are increasingly choosing locally produced alternatives.
- This shift creates opportunities for domestic manufacturers to meet demand previously filled by imports.



Regulatory Measures

- Government regulations are encouraging local production and aiming to reduce import dependency.
- These measures are expected to shape the FMCG sector in the future.



Supportive Government Policies

- Policies promoting agricultural development and local manufacturing are particularly important in the food and beverage sub-sector.
- These policies create opportunities for FMCG companies to localize their supply chains.



Foreign Exchange Volatility

- Localization efforts help FMCG companies reduce their exposure to foreign exchange volatility.

OPPORTUNITIES

ANALYSIS

OPPORTUNITIES AND EMERGING TRENDS

Local Manufacturing Growth



With exchange rate volatility making imports more expensive, there is a growing opportunity for FMCG companies to localize production. Investing in domestic manufacturing capabilities can help reduce costs and tap into the growing demand for locally produced goods.

Health and Wellness Products



Rising health consciousness among Nigerian consumers presents an opportunity for FMCG companies to introduce products in the health and wellness space. This includes fortified foods, organic products, and personal care items that cater to this growing demand.

Sustainability and Eco-Friendly Packaging



As global trends around sustainability catch on in Nigeria, FMCG companies that invest in eco-friendly packaging solutions and sustainable sourcing practices may appeal to environmentally conscious consumers. This can become a differentiator in a competitive market, particularly for premium brands.

Digital Transformation and Omnichannel Retailing



The integration of online and offline shopping experiences will become increasingly important as consumers seek flexibility in how they shop. Companies that successfully blend their physical presence with digital platforms will be better positioned to capture a wider market share.
