FMCG 2024 Sector Round-up and 2025 Forecast

The State of the Fast-Moving Consumer Goods (FMCG) Sector in 2024 and a 2025 Forecast

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Abstract

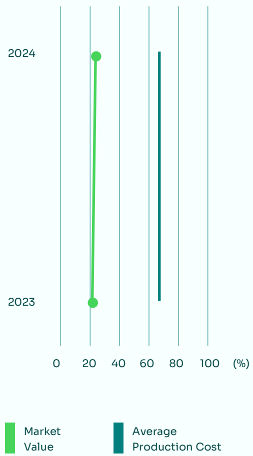
The Fast-Moving Consumer Goods (FMCG) sector in Nigeria suffered setbacks in 2024 due to economic shifts driven by inconsistent Government policies. Several multinational companies like Kimberly-Clark Nigeria, Pick n Pay, and many others exited Nigeria because of these changes, particularly after the free float of the exchange rate and the removal of the fuel subsidy. This led to increased inflation and depreciation of the Naira, prompting intervention from the Central Bank of Nigeria (CBN) to manage the crisis through aggressive monetary policies. Despite the challenges, Nigerian-founded businesses stepped in to fill the void, either by acquiring the businesses of exiting multinationals or creating alternatives. From a regulatory perspective, 2024 witnessed increased regulatory and supervisory activities by regulatory agencies like the Federal Competition and Consumer Protection Commission (FCCPC) that took steps to address issues of overinflation of prices by businesses during the pick of the inflationary periods. The Nigerian Customs Service (NCS) increased the customs exchange rate, which further escalated importation costs. However, with the introduction of the Foreign Exchange Matching System by the CBN and the commencement of oil refining at local refineries, promises of future growth in the sector is in sight. This also extends to the ongoing rise in population and consumer demand, combined with expected reductions in inflation, which suggests a positive outlook for Nigeria's FMCG sector in 2025.

Introduction

The FMCG sector in Nigeria is a vital component of the nation’s economy, serving as one of the largest contributors to labour employment, industrial growth, and consumer spending. However, the sector faced significant hurdles in 2024, driven by economic policy shifts and the broader global economic trends. This Forecast explores the effects of these challenges on the FMCG sector and how the industry is navigating through a rapidly changing economic landscape. It also discusses the role of multinationals, local businesses, regulatory agencies, and Government policies in determining the sector's trajectory for 2025.

Economic Challenges in 2024

Average cost of production and market value over time



Impact of Exchange Rate Adjustments and Fuel Subsidy Removal

The introduction of the free float of the exchange rate in 2024 marked a significant turning point for Nigeria's economy. This policy shift, coupled with the removal of the fuel subsidy, caused a steep rise in inflation and the depreciation of the Naira. With the cost of importing goods skyrocketing, the FMCG sector experienced an immediate negative impact, especially those relying heavily on imported raw materials and products. As the Naira lost value against the US Dollar, businesses found themselves struggling to maintain margins, passing on the increased costs to consumers. According to reports by Nielsen IQ in March 2024, a 17.4% decline in the volume of transactions occurred, due to the high cost of goods. For the major consumer goods companies, the average cost of production rose by 67% in the first half of 2024 compared to the first half of 2023. However, despite these challenging market conditions, the FMCG market value grew, increasing by 21.6% in 2023 and further accelerating to 24.8% in 2024.

Economic Challenges in 2024

Exit of Multinational Corporations

As a result of these unfavorable macroeconomic conditions, several multinational corporations made the difficult decision to exit Nigeria's market either by scaling down its operations, transferring ownership or selling their stakes completely. Companies like Kimberly-Clark Nigeria exited Nigeria in June, Pick n Pay exited Nigeria in October and sold its 51% stake in a Joint Venture with A.G Leventis, Diageo sold its 58.02% stake in Guinness Nigeria Plc to Tolaram Group in June, Heineken BV sold its majority stake in Champion Breweries PLC to EnjoyCorp Limited. Some other companies cut down its operations in Nigeria, Unilever Nigeria Plc ceased production of its home care and skincare products, including well-known brands like Sunlight and OMO, Nigerian Breweries PLC announced the closure of its nine production plants, and ShopRite Nigeria ceased operation in Kano State and closed a branch in Abuja.

The increased operational costs, due to the weakening currency and higher fuel prices, made it challenging for these companies to maintain profitability. Many of these multinationals had operated in Nigeria for years, but the combination of fiscal challenges and uncertain policy directions led them to divest. These exits left a gap in the FMCG sector, which was subsequently filled by Nigerian-founded businesses.

Notable Exits

DIAGEO Pick n Pay Kimberly-Clark

Notable Acquisitions

Guinness Nigeria, Champion

Notable Operations Slash

Unilever SHOPRITE

Local Businesses Step Up to Fill the Gap

Acquisitions and Expansions by Nigerian Companies

One of the most significant trends in the wake of multinational exits was the rise of Nigerian-owned companies stepping in to fill the vacuum left by foreign brands. Some companies took the opportunity to acquire the operations of multinational Firms that had decided to pull out. For instance, Tolaram Group acquired Diageo's 58.06% stake in Guiness Nigeria PLC in June; Oak and Safron Limited, a Nigerian Firm acquired the majority stake in the Belgian Conglomerate SIAT N.V. which holds 60% ownership stake in Presco Plc. These acquisitions not only provided Nigerian companies with an expanded market share but also enabled them to benefit from established brand recognition and supply chains.

Additionally, local companies launched new brands or expanded their operations to meet the growing demand for consumer goods. Notably, players like Bokku Mart expanded their presence and currently have over 60 retail stores in Lagos State which surpasses other retail stores like ShopRite, Prince Ebeano, Market Square, Justrite etc.

Similarly, OmniRetail, a B2B e-commerce platform launched its 50th Omnihub franchise in Lagos, aimed at bridging supply chain gaps and boosting the distribution of fast-moving consumer goods across underserved Nigerian communities.[1]

OmniRetail also acquired Traction Apps, a payment provider and inventory management solution for small businesses in Nigeria and aims to boost financial services and trade solutions for small and medium-sized enterprises (SMEs) within the fast-moving consumer goods (FMCG) sector.[2]

Local Businesses Step Up to Fill the Gap

Flour Mills of Nigeria Plc planned to allocate $100 million to establish a cassava-processing plant

Tomato Processing - Dangote Group launched Africa's largest tomato processing facility in Nigeria.

Nigerian Innovation and Market Adaptation

Beyond acquisitions, Nigerian companies also showed resilience through innovation. Faced with rising costs, local firms adapted their product offerings and supply chain strategies. They leveraged more cost-effective manufacturing processes, local sourcing of raw materials, and optimized distribution networks to combat the rising operational costs. By understanding local consumer preferences and needs, Nigerian-founded businesses were able to develop products tailored to the economic realities of a country facing inflationary pressures. For instance, Flour Mills of Nigeria Plc planned to allocate $100 million to establish a cassava-processing plant in Nigeria and reduce the import of starch as the Company spent around N1.8 Trillion on raw materials resulting in its profit declining by 91%.3 Similarly, Dangote Group launched Africa's largest tomato processing facility in Nigeria which aims to reduce Nigeria's reliance on imported tomatoes.[4]

Regulatory Measures and Consumer Protection

Role of the Federal Competition and Consumer Protection Commission (FCCPC)

With the rising cost of living, many businesses, especially in the FMCG sector, turned to price inflation as a strategy to cover increased costs. However, this practice led to growing concerns among consumers, particularly as essential goods became more expensive. The Federal Competition and Consumer Protection Commission (FCCPC), which is tasked with safeguarding consumer rights, stepped in to address these issues. The agency launched initiatives to regulate pricing strategies during periods of inflation, particularly targeting the unfair overinflation of prices.

FCCPC conducted investigations in several States including Bauchi, Osun, Katsina, Nasarawa, Anambra etc following reports of arbitrary price hike of essential food commodities in these States. This helped to prevent anti-competitive practices such as price-fixing, price gouging or cartel formation, safeguard consumers' interests and ensure fair market practices, necessitating fair pricing.

Impact of Price Regulation on Businesses and Consumers

The FCCPC's intervention aimed at curbing unfair pricing practices helped ease the burden on consumers. However, businesses in the FMCG sector had to balance regulatory compliance with the reality of rising production costs. While some businesses feared that regulatory measures would limit their ability to maintain margins, others adapted survival measures like shrinkflation which produced the long-term benefit of a more stable pricing environment, that ultimately benefited consumers and the economy.

States FCCPC conducted investigations

The Role of the Central Bank of Nigeria in Economic Stabilization

Aggressive Monetary Policies to Combat Inflation

In response to the rapid depreciation of the Naira and the spike in inflation, the Central Bank of Nigeria (CBN) took aggressive measures to stabilize the currency and control inflation. CBN's policies, including raising interest rates and introducing new foreign exchange mechanisms, were designed to manage the money supply, cash flow and curb inflation. The CBN raised the Monetary Policy rate five times in 2024 with the current rate raised from 27.25% to 27.50%.

Introduction of the Foreign Exchange Matching System

One of the key measures implemented by the CBN in 2024 was the introduction of the Foreign Exchange Matching System. This System was designed to discourage speculation in the foreign exchange market and improve the transparency of forex transactions. By matching demand and supply in a more efficient manner, the System aimed to bring stability to the exchange rate and reduce the volatility that had plagued the Naira in previous years. This initiative is expected to have positive long-term effects on the FMCG sector, particularly for businesses reliant on imports.

The Future of the FMCG Sector: Looking into 2025

Outlook for Inflation and Economic Recovery

Nigeria's inflation rate reached an all-time high of 40.87% in June 2024, creating significant pressure on consumers and businesses alike. However, in the second half of 2024, inflation started to stabilize, and it is expected that the aggressive monetary policies put in place by the Central Bank of Nigeria will lead to a gradual reduction in inflation in 2025. As inflation rates are anticipated to decrease, the purchasing power of Nigerian consumers is expected to improve, leading to more stability in the FMCG sector.

Population Growth and Increased Consumer Demand

Nigeria's population continued to grow rapidly in 2024, with a growth rate of 2.07%. This population increase is significant for the FMCG sector, as it represents a growing base of consumers who demand a wide variety of products. In fact, Nigeria is projected to add over 2 million people in 2025, which will directly contribute to the expansion of the consumer market. A larger population means increased demand for basic goods, which is essential for the profitability of companies in the FMCG sector.

40.8%

Nigeria's inflation rate reached an all-time high of 40.87% in June 2024

2.07%

Nigeria's population grew at 2.07% in 2024 and is estimated to increase by an additional 2 million people in 2025.

Positive Developments in the Energy Sector

Economic Boost

Local refining reduces import reliance, saving foreign exchange and strengthening the economy.

Reliable Power

State-managed electricity offers alternative energy for FMCG production.

Stronger Supply Chains

Local fuel and power improvements support cost-effective operations.

The commencement of oil refining at both Dangote Refinery and the Port Harcourt Refinery has also brought some optimism to the Nigerian economy. These refineries, which process crude oil domestically, reduce the country's reliance on imported fuel and thus save foreign exchange. It is expected that the foreign exchange savings by replacing imported fuel with locally refined products will have a positive impact on the economy, potentially strengthening the Naira and providing a more favorable environment for businesses in the FMCG sector.

Another emerging trend which would benefit stakeholders in the FMCG sector is the deregulation of electricity generation and distribution from the Federal to the State Governments. This move has seen the sprouting up of some States in commencing independent electricity generation and distribution. The concomitant effect of these measures is that different FMCG companies with manufacturing and production facilities located within these States will have alternative electricity supply sources.

Concluion: A Resilient FMCG Sector in the Face of Challenges

Despite the numerous challenges faced by Nigeria's FMCG sector in 2024, which includes economic instability, inflation, and policy changes, the sector has shown remarkable resilience. The exit of multinational corporations has opened new opportunities for local businesses, while regulatory measures have worked to protect consumers from unfair price hikes. Looking ahead, the outlook for the FMCG sector in 2025 appears optimistic, supported by population growth, economic stabilization, alternative energy sources and the potential benefits from domestic oil refining. While challenges remain, Nigeria's FMCG sector remains poised for recovery and growth, driven by both local innovation and increased consumer demand.

ENDNOTE

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About
Stren & Blan Partners

Stren & Blan Partners is an innovative and dynamic Law Firm with a compelling blend of experienced lawyers and energetic talents. We are focused on providing solutions to our client's business problems and adding value to their businesses and commercial endeavours. This underpins our ethos as everything we do flows from these underlying principles.

Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational corporations. We have developed a clear vision for anticipating our client's business needs and surpassing their expectations, and we do this with an uncompromising commitment to Client service and legal excellence.

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