



NIGERIA'S FMCG SECTOR: OPPORTUNITIES AND CHALLENGES FOR LOCAL AND INTERNATIONAL PLAYERS



ABSTRACT

Nigeria, with a burgeoning population of over 200 million people, has emerged as the largest market for Fast-Moving Consumer Goods (FMCG) in Africa. This is evident from the huge amount of household consumption expenditure, which stood at N61.07 trillion in the first half of 2023 alone. Additionally, Nigeria is one of the fastest-growing economies with a Compound Annual Rate of Growth (CARG) of 20% per annum. The thriving middle class has contributed to the country's large and increasingly affluent consumer base. The Nigerian FMCG sector is dominated by companies producing and selling personal care items, healthcare goods, food and beverages, and home care commodities, with 70% of the market being driven by food products and 30% by non-food products. As a result, the FMCG sector has become a significant contributor to the Nigerian economy. However, despite the country's potential, high-profile multinational companies (MNCs) have been exiting the Nigerian FMCG market. This is mainly attributed to the unique challenges of operating in the sector, which include infrastructural limitations, regulatory complexities, and intense competition, to mention a few.

This article addresses the challenges facing the Nigerian FMCG industry, identifies the opportunities available, and provides feasible solutions for growth. The discourse will be beneficial for both existing players and new entrants.



INTRODUCTION

Fast-Moving Consumer Goods, more commonly known as FMCGs, are a category of products that are in high demand among consumers and can be easily produced, transported, and purchased. These goods include both perishable and non-perishable products such as food and beverages and household supplies. Due to their high demand, FMCGs are typically sold quickly. However, their profit margins are generally low.

To understand the Nigerian FMCG sector, it is essential to scrutinise the market dynamics and factors that drive growth in the sector. One of the factors responsible for driving growth in the industry is the thriving rate of urbanisation. As more people migrate to cities and adopt modern lifestyles, there has been a shift in consumer preferences towards convenient and ready-to-eat products. This trend has spurred the growth of the packaged food and beverage segments. The Nigerian FMCG industry is a rapidly growing sector highly influenced by market dynamics and consumer trends.



REGULATORY COMPLIANCE REQUIREMENTS FOR FMCGS IN NIGERIA

There is no specific regulatory body dedicated to the FMCG sector in Nigeria. However, the regulatory functions of certain statutory bodies apply to the industry. These include the functions of the:

1. Corporate Affairs Commission (CAC)

The administration of the provisions outlined in the Companies and Allied Matters Act of 2020 (CAMA) falls under the purview of the Corporate Affairs Commission (CAC). According to the Act, all businesses operating within Nigeria must register with the CAC, with certain limited exemptions. Compliance with this provision is mandatory for all companies. As such, FMCG companies must register with the CAC and obtain a Certificate of Incorporation before embarking on their business activities. Section 78 of CAMA 2020 mandates every foreign company that intends to carry on business in Nigeria to be incorporated as a separate business entity in Nigeria, except the foreign company is exempted by the Minister of Industry, Trade and Investment.

Where a foreigner is a shareholder in the company, the minimum share capital required is 100 million Naira, (although CAMA 2020 provides for 10 million Naira), as such, the percentage of shares held by each shareholder which on the aggregate would cover the stated amount must be indicated on the Memorandum of Association of such company. The Companies are also required to file annual returns detailing their assets and liabilities. The requirement to file annual returns is mandatory and the failure to file annual returns for a period exceeding ten (10) years will result in the company being struck off the Register.

2. Standards Organisation of Nigeria (SON)

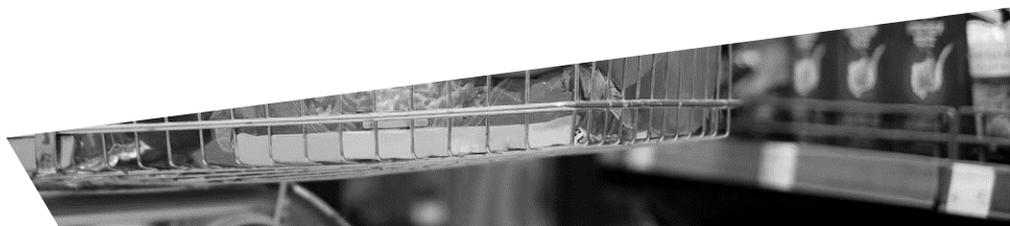
The Standards Organisation of Nigeria operates a certification scheme for products in Nigeria. As a statutory body responsible for standardizing and regulating the quality of all products in Nigeria, SON ensures that all locally manufactured products as well as imported products in Nigeria comply with applicable Nigerian Industrial Standards (NIS) before they are sold in the Nigerian market or exported. As such, all products manufactured or imported into Nigeria must apply for a certification from SON before they can be distributed and sold. Certified products are also monitored through periodic factory inspections and testing by SON officials to ensure consistent compliance with the NIS.

3. National Agency for Food and Drug Administration and Control (NAFDAC)

NAFDAC is a regulatory body that plays a vital role in protecting the health of the general public in Nigeria. Its primary responsibility is to regulate the manufacture, distribution, sale, importation, exportation, and consumption of medicines, food, chemicals, cosmetics, packaged water, and medical equipment throughout Nigeria. NAFDAC ensures that appropriate tests are conducted and standard specifications are maintained to ensure the effective control of the quality of food, bottled water, and raw materials, as well as the safeguarding of the production processes in factories and other establishments. To this end, food business owners are required to register with NAFDAC. The registration requirements may differ depending on whether the product is locally manufactured or imported. Upon successful registration, the products will be issued a unique NAFDAC Registration Number. This is to ensure that the product has met the necessary standard specifications and is safe for consumption. It is important to note that different food products must be registered separately, irrespective of whether they are produced by the same company.

4. Federal Competition and Consumer Protection Commission (FCCPC)

The FCCPC is a regulatory agency that was established by the Federal Competition and Consumer Protection Commission Act of 2018. Its core function is to promote fair, efficient, and competitive markets in the Nigerian economy.



The Commission achieves this mandate by enforcing the provisions of the Act, which prohibit anti-competitive behaviour and unfair trade practices. The Commission's efforts to promote fair competition and consumer protection have contributed to the growth and development of the Nigerian economy. The Commission's strict enforcement of regulations and consumer protection laws has also led to a reduction in fraudulent activities and anti-competitive practices.

The FCCPC plays a crucial role in facilitating access to safe products and securing the protection of consumers' rights in Nigeria. Its continued efforts to promote fair competition and consumer protection are essential for maintaining a robust and sustainable economy in Nigeria.

5. Federal Inland Revenue Service (FIRS)

Businesses must register with the Federal Inland Revenue Service (FIRS) for tax remittance purposes. Upon registration, a Tax Identification Number (TIN) will be generated for the business. The business entity can use the TIN to access the Tax ProMax portal for the purposes of filing returns and remitting various applicable taxes. Application for a VAT Number and a Tax Clearance Certificate (TCC) amongst others, can also be done on the E-portal.

6. State Inland Revenue Service (SIRS)

Each State has its Internal Revenue Service tasked with collecting income taxes levied on the monthly income of resident employees under the Pay as You Earn (PAYE) scheme. As such, FMCG companies must register with the relevant State Internal Revenue Service within six months of commencing business to ensure the remittance of their employees' income tax.

While the regulatory bodies listed above are not exhaustive, compliance requirements present a challenge to businesses. It is suggested that FMCG companies adopt and implement compliance management systems to aid in the evaluation, monitoring, and improvement of compliance efforts. This approach can help businesses overcome the perceived cumbersomeness of compliance requirements and ensure adherence to regulations.





OPPORTUNITIES IN NIGERIA'S FMCG SECTOR

The FMCG sector in Nigeria has undergone remarkable growth and transformation over the years. It is expected that the sector will continue to expand and create more opportunities in the coming decade. The following opportunities have been identified:

1. Large and Growing Consumer Base

Nigeria has the largest population in Africa, with approximately 217.5 million people as of September 2022. This youthful population, with a significant proportion under 30, is driving the demand for FMCG products such as food and beverages, personal care items, and household goods. Retail sales in Nigeria are projected to increase by 27% between 2022 and 2027, reaching a new peak of over \$160 billion. However, consumers are becoming more discerning, as quality and health consciousness influence their decisions.

2. Rising Disposable Income

Nigeria's middle class is expanding, increasing disposable income. This trend is expected to drive consumer spending on FMCG products, especially premium and discretionary items. According to a report by the African Development Bank, in 2020, 184.8 million Africans had daily per capita expenditure of between \$3 and \$5, while 77.9 million Africans spent between \$4 and \$10 daily on FMCG products. This translates to an average expenditure of \$642.25 million spent daily by Africans on FMCG products in 2020, a figure that continues to rise.

3. Urbanisation

The country's urban population is rapidly expanding, leading to an increased demand for convenience foods, packaged goods, and other fast-moving consumer goods. The rise in urban consumers also presents an opportunity for innovation and market penetration. Furthermore, urbanisation facilitates access to credit and a desire for better living standards. Consequently, a surge in demand for health and wellness products appears inevitable due to the growing urban population.

4. E-Commerce

The Nigerian e-commerce sector is experiencing rapid growth, driven by increasing internet penetration and a growing preference for online shopping. The proliferation of e-commerce platforms and direct-to-consumer (D2C) channels presents significant opportunities for the sector in Nigeria. As such, FMCG companies can leverage this trend to reach a wider audience and improve distribution efficiency.

5. Export Potential

The Nigerian FMCG sector has excellent potential for exports, particularly for processed foods, beverages, and personal care items. With the right market strategies, companies can expand their customer base and revenue streams by tapping into regional and international markets.

The African Continental Free Trade Area (AfCFTA) Agreement, launched in 2019 and ratified by 55 African countries, and the majority members of the African Union, aims to unify the approach to the movement of goods across African countries. This Agreement prioritises and promotes African trade over other continents. The AfCFTA is the world's most extensive free-trade zone, connecting 1.3 billion people with a combined gross domestic product (GDP) of \$3 trillion.

The total African exports are projected to reach USD 1 trillion by 2035, and implementing AfCFTA can further boost this figure by 29%. FMCG companies can take advantage of the benefits of AfCFTA by registering subsidiaries in these African countries.



These opportunities present a promising outlook for the FMCG sector in Nigeria, and businesses operating in this sector are well-positioned to take advantage of the expanding consumer base and rising disposable income. However, businesses must remain attentive to consumer preferences and evolving market trends to remain competitive and achieve sustainable growth.



CHALLENGES IN THE NIGERIAN FMCG SECTOR

The FMCG sector in Nigeria is widely considered to be one of the most promising in the region. However, despite its growth potential, the industry is grappling with several profound challenges. These challenges are multifaceted and complex, and include issues related to supply chain inefficiencies, market fragmentation, and regulatory hurdles, among the following:

1. Infrastructural Challenges

Nigeria is currently facing significant infrastructural challenges that are impeding the movement of products throughout the country. Poor road networks, unreliable power supply, and inadequate storage facilities are leading to a high rate of product spoilage and losses, resulting in a decline in profits for companies that manufacture and distribute fast-moving consumer goods.

In addition, frequent power outages at factories are having a detrimental impact on production activities, potentially causing damage to important factory equipment. Consequently, many FMCG companies are forced to rely on more expensive alternative power sources for production, increasing operational expenses, and the cost of goods, and ultimately reducing profitability.

These limitations pose significant obstacles for FMCG companies, resulting in supply chain disruptions and difficulties in maintaining product quality and availability.

2. Unstable Regulatory Environment

The policies implemented by the Government play a crucial role in determining the level of ease and efficiency with which businesses operate in Nigeria. However, the regulatory environment in Nigeria can be complicated and uncertain, with frequent alterations to regulations and policies. FMCG companies must be prepared to handle unexpected changes in trade policies, import restrictions, and taxation. They must navigate these challenges by obtaining the required permits, adhering to quality standards, and fulfilling tax obligations.

3. High Cost of securing Finance

Between May 2022 and July 2023, the Central Bank of Nigeria (CBN) raised the Monetary Policy Rate (MPR) by 13% and 16.75% respectively, resulting in an average increase of 575 basis points. As of March 2024, the MPR was increased from 22.75% to 24.75%. This high rate of interest has adversely impacted FMCG companies, as they have been struggling to obtain proper financing from financial institutions due to stringent collateral requirements and exorbitant interest rates. Consequently, these companies are facing increased financial pressure, as they grapple with the limited availability of longer-term equity through capital markets and private equity.

A comprehensive analysis of the financial statements of 10 FMCG firms, conducted by the BusinessDay revealed that the total finance cost for these firms increased by a staggering 469.4% to reach N376.4 billion in H1 2023 from N66.1 billion during the same period in the previous year.

These unfavourable circumstances have significantly hampered the growth and development of FMCG companies, as they struggle to secure financing for their expansion and development initiatives, leading to their struggle for survival.

4. Prevalence of Informal Retail Channels

The Nigerian FMCG sector faces significant challenges that impede its growth and profitability. One of the most pressing obstacles is the prevalence of informal retail



channels, which are difficult to regulate and monitor. The resulting production of counterfeit goods undermines the reputation and goodwill of FMCG companies, ultimately impacting their financial performance.

To combat this issue, FMCG companies need to develop efficient distribution networks that can penetrate Nigeria's vast and diverse market. However, the lack of well-developed distribution channels in rural areas poses a considerable barrier.

5. Socio-economic Factors

In addition to these challenges, socio-economic factors present significant hurdles for FMCG companies. Nigeria's economy is vulnerable to external shocks such as fluctuations in oil prices, political instability, and security threats. Further, high unemployment, inflation, and the cost of living significantly affect consumers' purchasing power.

It is, therefore, critical for FMCG companies to continuously evaluate the affordability of their products and services, considering the ever-changing dynamics of disposable income. Failure to do so may result in declining consumer spending and hinder business operations.

Despite these challenges, the Nigerian FMCG industry continues to attract local and foreign investments. Local companies are expanding their operations and product offerings, while international companies are establishing a more significant presence in Nigeria. Ultimately, businesses that adapt to the changing market conditions are likely to succeed in Nigeria's FMCG sector.





RECOMMENDATIONS

In light of the co-existence of opportunities and challenges within the Nigerian FMCG industry, it is recommended that business entities take the following measures to optimize productivity and profitability:

1. Market Research

Conducting comprehensive market research is essential for understanding consumer preferences, identifying trends, and assessing competition. This knowledge can aid in developing products and marketing strategies tailored to the Nigerian market.

2. Distribution Network

Establishing a robust distribution network is crucial for reaching consumers across Nigeria's vast and diverse geography. Companies should explore partnerships with local distributors and retailers to improve market penetration and accessibility.

3. Product Localization

Adopting products to suit local tastes, preferences, and cultural norms can enhance acceptance and loyalty among Nigerian consumers. This may include adjusting packaging, flavours, or formulations to align with local expectations.

4. Innovation and Differentiation

Investing in product innovation and differentiation can help FMCG companies stand out in the highly competitive market. This may involve introducing new products, improving existing ones, or offering unique value propositions to consumers.

5. Compliance and Risk Management

Prioritizing compliance with regulatory requirements and adopting robust risk management practices is imperative. This includes ensuring product quality and safety, managing supply chain risks, and protecting intellectual property rights.

By following these recommendations, FMCG companies operating in Nigeria can maximize productivity and profitability, while also positively impacting the Nigerian economy.



CONCLUSION

The FMCG sector in Nigeria presents significant opportunities for growth. Nigeria's low labour costs render local manufacturing an appealing option for FMCG enterprises to curtail production costs and effectively compete in the market. However, operating within this domain necessitates meticulous planning, strategic investments, and a profound understanding of the unique challenges and dynamics in the sector. By capitalising on the opportunities and surmounting the challenges astutely, FMCG companies can position themselves for success in Nigeria's dynamic and constantly evolving market landscape.

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THE AUTHORS



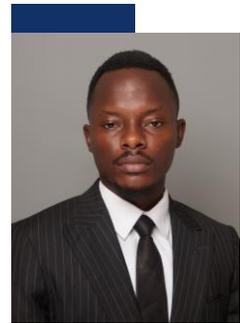
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