UNLOCKING GROWTH IN THE CPG SECTOR

APRIL 2021

AMERICAN BUSINESS COUNCIL
Promoting Nigeria-America Economic Partnership

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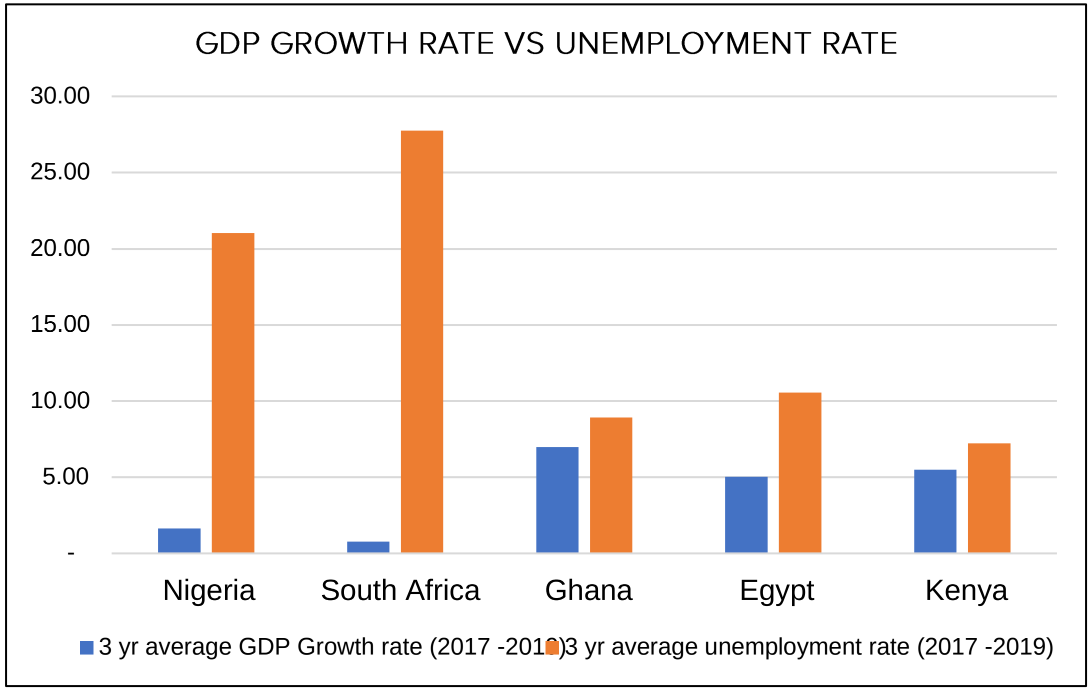
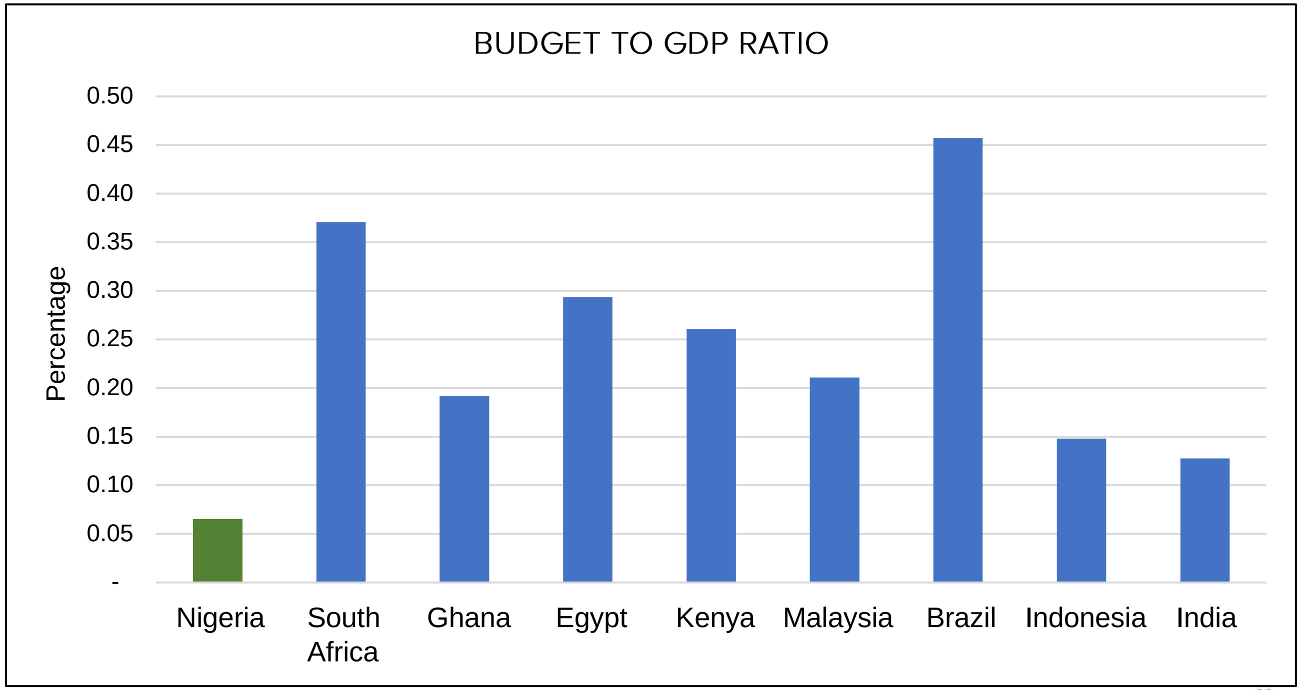
AFRICA'S GROWTH FUNDAMENTALS

Metrics	1st	2nd	3rd	4th	5th	6th
Biggest economies in Africa (by GDP)	Nigeria	South Africa	Egypt	Algeria	Morocco	Kenya
Top 5 fastest growing economies 2019	Rwanda (8.7)	Ethiopia (7.4)	Cote d'Ivoire (7.4)	Ghana (7.1)	Tanzania (6.8)	Benin (6.7)
Countries with best growth in consumer products sector	Ghana	Kenya	Nigeria	South Africa	Uganda	Ethiopia





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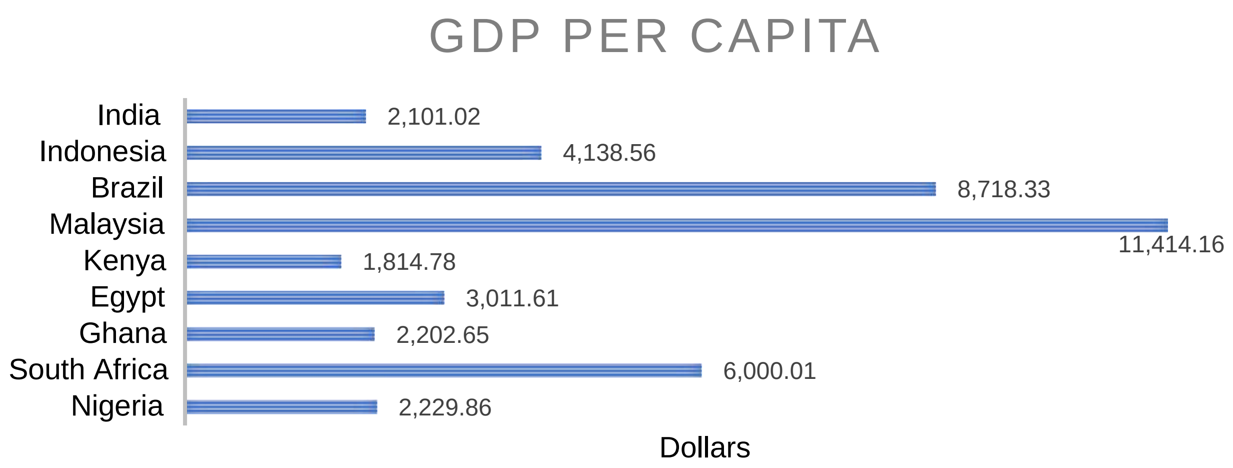
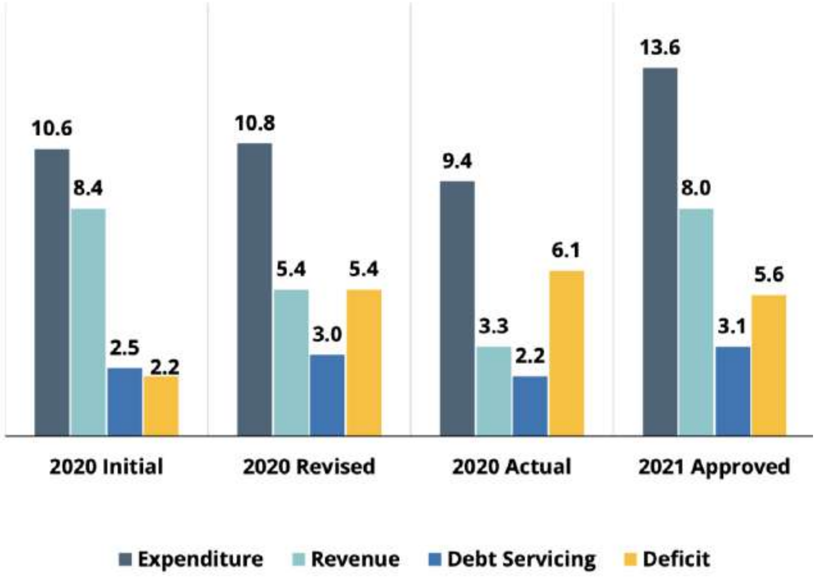
KEY DRIVERS IN CPG MARKETS

- Increased **government spending** to increase aggregate demand (AD); 25% of Nigeria's budget focused on debt servicing.
- Population density
- Credit to private sector
- Spending power to purchase cheaper goods
- Supporting infrastructure to facilitate sales
- Africa is in a prime position to dominate the FMCG market: 2/3 of Africa's $1.4 trillion retail spending (2016) was on FMCG goods.
- Global wealth fell by $7.2 trillion (COVID-19)



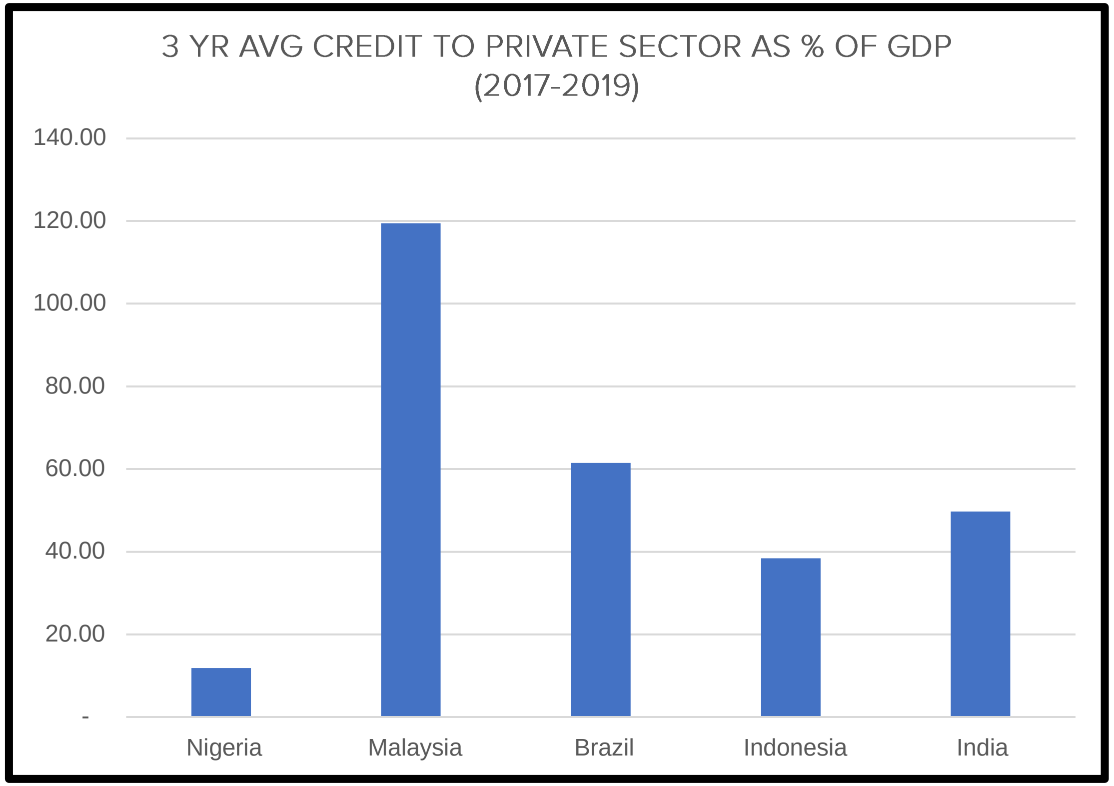


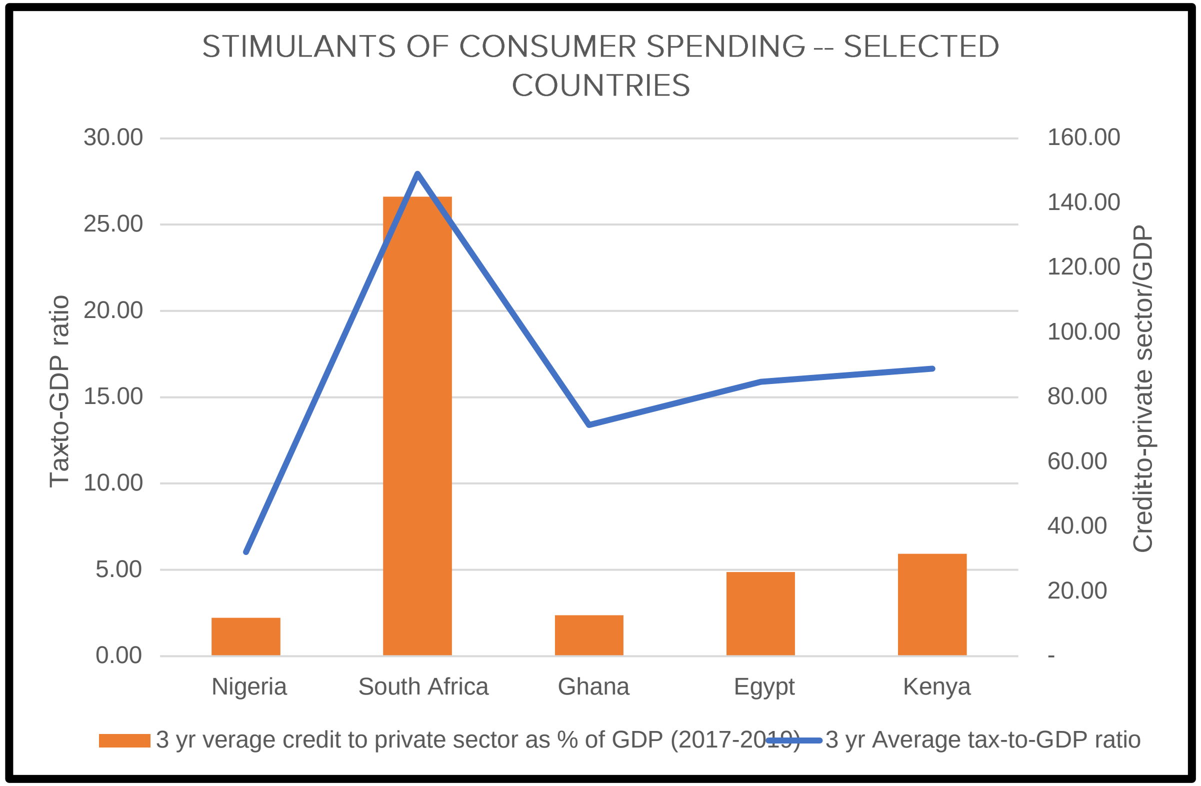
FGN Budget Expenditure, Revenue, and Debt (in $ trillion

KEY DRIVERS IN CPG MARKETS

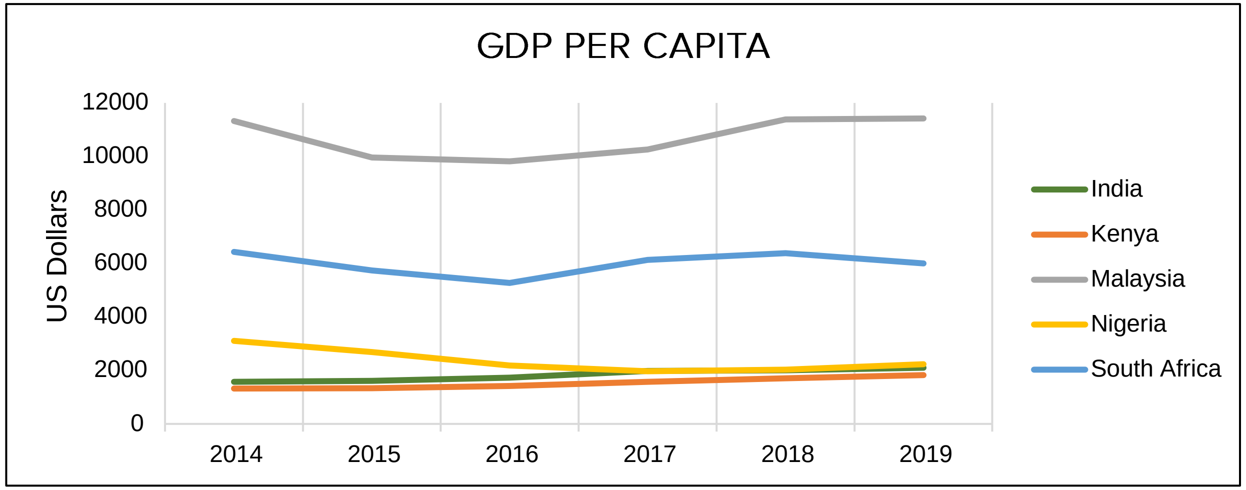
Limited credit to private sector to stimulate consumer spending. Nigeria rates low compared to its African and non-African developing nations.

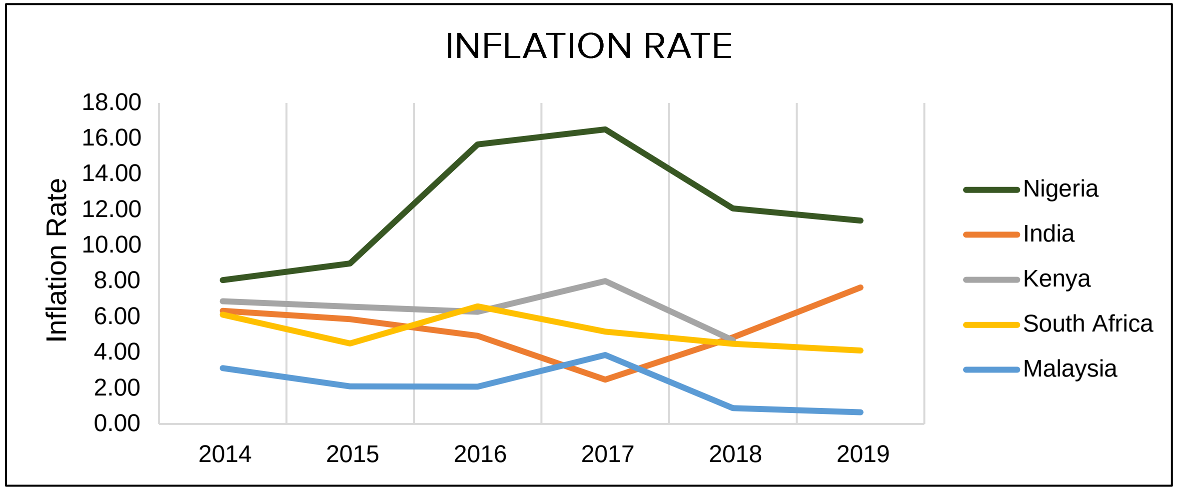
Reduced tax rate in Nigeria signals an opportunity to increase disposable income but potential is reduced by high CPI

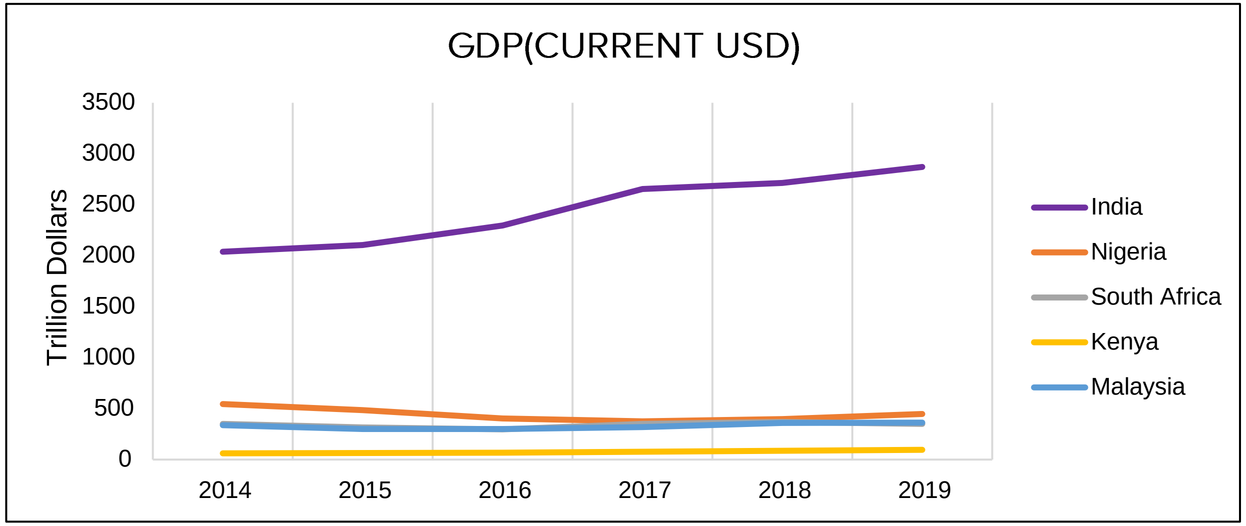


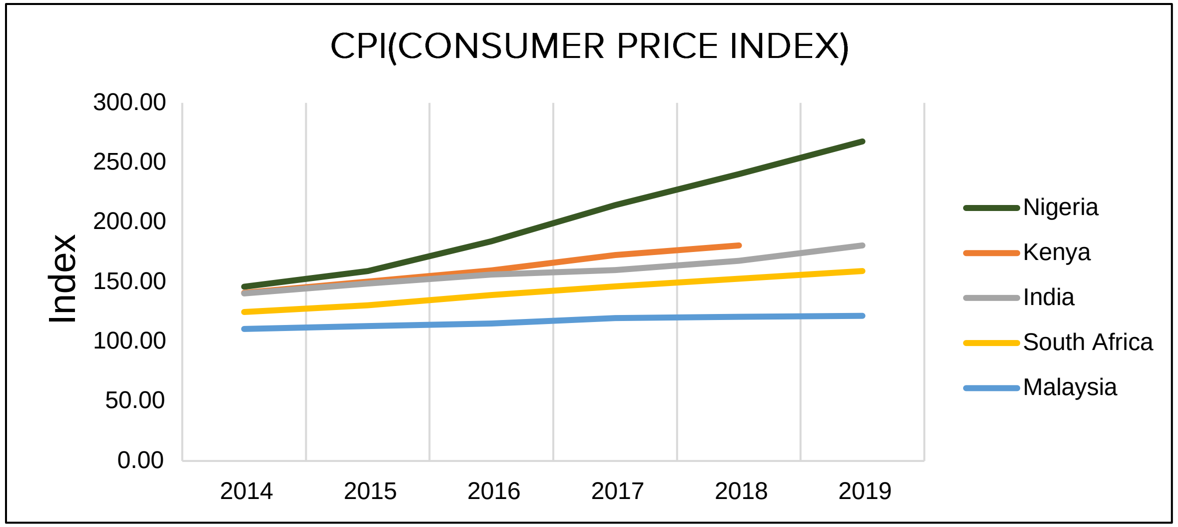


CPG SECTORAL OUTLOOK FOR NIGERIA, INDIA, SOUTH AFRICA AND KENYA









POPULATION AND NATIONAL INCOME OUTLOOK FOR NIGERIA, INDIA, SOUTH AFRICA AND KENYA (2)

Criteria	Nigeria	India	South Africa	Kenya
Size	Fast-moving consumer goods (FMCG) sector is the 3rd largest contributor to the Nigerian economy, estimated at 16% of GDP.	FMCG sector is the 4th largest sector of the Indian economy.	FMCG is the fourth largest contributor to Gross Domestic Product with a contribution of about 15%.	The wholesale and retail trade is the 5th largest contributor to Kenya's GDP accounting for at least 8.4% of Kenya's GDP.
Policy Changes And Likely Impact On CPG	Land border closure CBN list of 44 items not eligible for FX	Investment approval of 100% foreign equity in single brand retail and 51% in multi brand retail Production linked incentive scheme to boost export	New Consumer Protection Act	
Growth And Growth Forecast	Revenue grew at a 5-year CAGR of 10.7% in 2019. Turnover growth has been steady since 2016 and rose 2.6% y/y in 2019. The NBS Foreign Trade in Goods Statistics (Q4 2019) report revealed that the Food, Beverage and Tobacco subsector of the FMCG sector, contributes about 5% of Nigeria's Gross Domestic Product (GDP). FMCGs constitutes 17% of the total value of equity on the NSE Dec 2019	According to an FMCG industry overview, revenues of the FMCG sector reached $ 52.75 bn in FY18, and are estimated to reach $ 103.7 bn in 2020	Growth in the industry is projected to reach 2.4 percent per annum until 2020, with the non-store or online retailing segment growing at 6.6 percent, well ahead of in-store retailing at 2.3 percent.	Revenue is expected to show an annual growth rate (CAGR 2021-2025) of 11.00%, resulting in a projected market volume of US$36m by 2025
Market Trends	The shift of consumers to more of the local brands, as well as brands from Africa and Asia due to affordability as opposed to traditional USA/EU brands Price sensitivity Digital engagement, Healthy living	Digital engagement Rural consumption has increased Organised sector growth	increasing adoption of online channels by consumers Price sensitivity	Higher sales at formal retailers and better distribution Increased proportion of middle-income households. Higher consumer demand for branded products. More average household budget for packaged food and FMCG products. Formal distribution channels and supermarkets.

POPULATION AND NATIONAL INCOME OUTLOOK FOR NIGERIA, INDIA, SOUTH AFRICA AND KENYA (2)

Criteria	Nigeria	India	South Africa	Kenya
Challenges	Demand and supply disruptions caused by COVID-19 Local input suppliers lacking capacity and commercial knowledge	Demand and supply disruptions caused by COVID-19	Consumer confidence is at its lowest level since 1985, coupled with declining disposable income.	Demand and supply disruptions caused by COVID-19 Anti-competitive behavior – through counterfeit products, uneven tax compliance enforcement and cartels
Government Regulations	Land border closure Currency depreciation	A new Consumer Protection Bill with special emphasis on setting up an extensive mechanism to ensure simple, speedy, accessible, affordable and timely delivery of justice to consumers. Goods and Services Tax (GST) is expected to transform logistics in the FMCG sector into a modern and efficient model	New Consumer Protection Bill with special emphasis on preserving consumer rights further	changes in the tax regime, ongoing currency depreciation
Technologies – Impact	Fast Moving Consumer Group (FMCG) distribution space with technology enabled outsourced logistics	Growing e-commerce- It is estimated that 40% of all FMCG consumption in India will be made online by 2022	E-commerce penetration will be 41.1% in 2021 and is expected to hit 53.1% by 2025.	E-commerce penetration will be 34.6% in 2021 and is expected to hit 53.6% by 2025.
Peculiar Trends Or Issues	To cope with the growing expenses of packaging, local manufacturers and well-established international brands directed their product offerings towards smaller quantities and plastic packages	Rise in rural consumption driving the FMCG market. It contributes around 36% to the overall FMCG spending	With cut-throat competition and little help from the macroeconomic environment, FMCG companies are prioritizing cost control and operational efficiencies.	shifting consumer trends has driven growth in formal retail, with 30.0% of the Kenyan population now shopping in formal retail establishments

NIGERIA

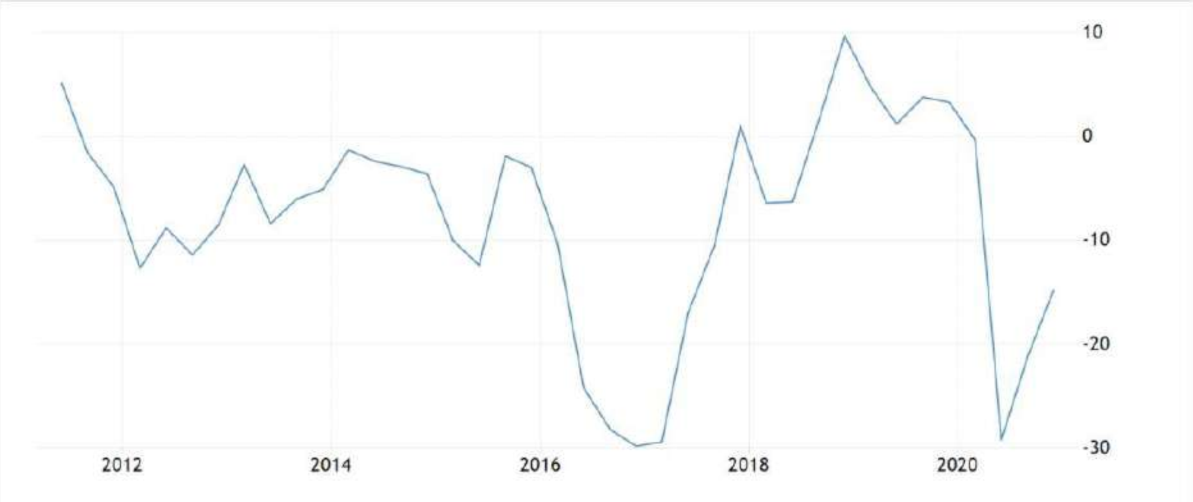
COUNTRY PROFILE: NIGERIA

Å The NBS Foreign Trade in Goods Statistics (Q4 2019) report revealed that the Food, Beverage and Tobacco subsector of the FMCG sector, contributes about 5% of Nigeria's Gross Domestic Product (GDP). FMCGs constitutes 17% of the total value of equity on the NSE Dec 2019

Å The rising middle-income class and steady economic growth positions Nigeria as an attractive investment destination for Consumer Goods players globally. However, sluggish economic recovery, tight consumer spending and widening income inequality have slowed the growth in the consumer goods sector since the 2016 recession.

Å Harsh operating environment given poor infrastructure, rising inflation, trade and FX restrictions, porous land borders and logistical setbacks have also dampened the performance of industry players

CONSUMER CONFIDENCE NIGERIA

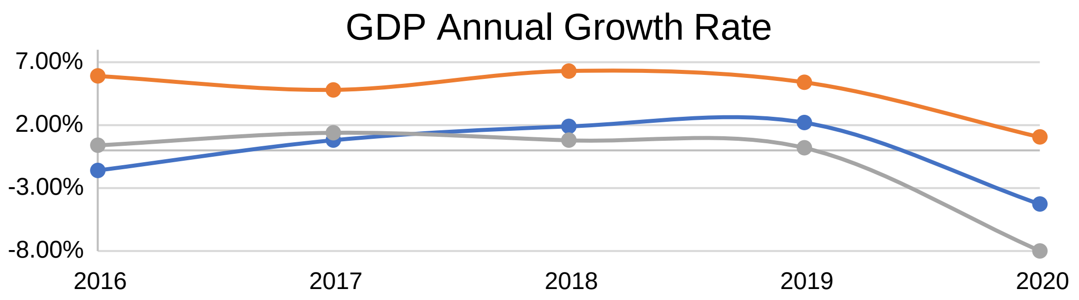


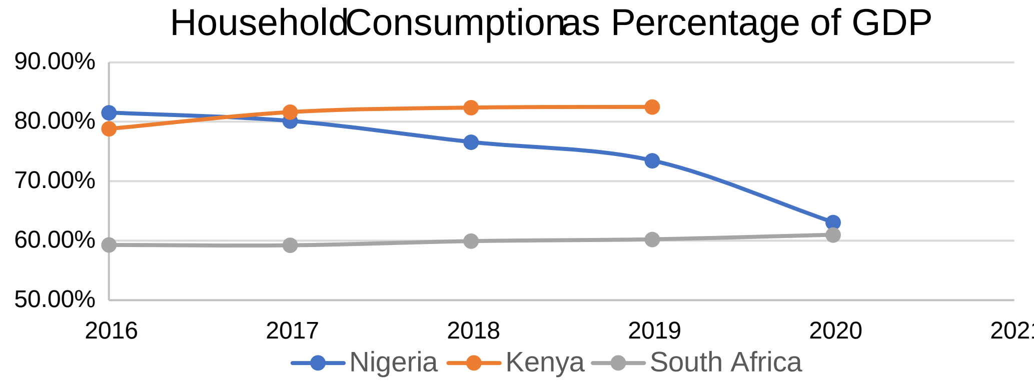
GROWTH IN THE NIGERIAN CPG SECTOR

Å The Economist Intelligence Unit expects that FMCG spending will increase in viability through 2030, and Africa is probably the single most profitable sector for FMCG spending expansion bar East Asia.

Å With one of the youngest populations globally, a growing middle class, and increasing urbanization, Nigeria is the largest consumer market in Africa, worth roughly $370 billion.[1]

Å The NBS Foreign Trade in Goods Statistics (Q4 2019) report revealed that the Food, Beverage and Tobacco subsector of the FMCG sector, contributes about 5% of Nigeria's Gross Domestic Product (GDP). Also, Agribusiness contributed 25.2% of real GDP in the same period and is valued at ₦31.9 trillion[2] and has an overwhelming $10billion private sector investment oopportunity.[3]





In 2020, declining disposable income and widening income inequality, made worse by the pandemic hurt consumers, leading to tight consumer spending and low volumes and margins for corporates in the sector.

Source: 1. Signé, Landry. 2018. Africa's Consumer Market Potential: Trends, Drivers, Opportunities, and Strategies. Washington, DC: Brookings Institution.
2. KPMG 2020
3. UNDP

NIGERIA TODAY

Å Weak economy

Å High inflation

Å Weakened currency

Å Reduced remittance from diaspora

Å High unemployment and underemployment

Å Logistics challenge (Ports, Trucking, Roads)

Å Border closure

Å Insecurity

FACTORS DRIVING CHANGE AMONGST FMCG PLAYERS IN NIGERIA/WA

Changing market dynamics

Influenced by digitization, new business models and multi-channels of trade

Changing consumer behaviour

Customers are making lesser trips to the stores and now prefer to gather information on the internet about a brand. E-commerce is also thriving

Changing demographics

Millennials interacts with brands more extensively online and now influence brand perception

Consumption habits

Consumers are now placing greater emphasis on health and wellness products

Access to greater share of market

Increasing competition with local producers for consumer attention. Local producers are leveraging on direct relationships with consumers.

New realities

Post covid-19, Consumers will be less likely to visit retail outlet and shopping centers regularly, and would prefer to shop online

Cheaper imports

Free trade with West Africa is leading to the flow of cheaper local products across the region

Purchasing Power

Weak purchasing power of consumers caused by rising inflation especially in Nigeria and some other parts of West Africa

Mass Markets

Customers are being attracted to brands with innovative product designs and local contents in their advertisements and campaigns

Dominance of traditional trade, emerging but still small universe of modern trade, dearth of data or insights of shopper and trade behaviour, etc.

IS THE CONSUMER GOODS INDUSTRY CHANGING?

Brands Are More Relevant Than Ever

- The consumer-packaged goods (CPG) industry has changed in the wake of the global pandemic, but one thing remains constant: relevance matters.
- New habits, preferences and attitudes are emerging.
- The ways in which consumers buy and the ways in which companies must market to them are changing; brands are selling direct to to consumers or closer to home.
- Those companies that adapt to the shifts we are seeing in consumer and channel preferences and remain relevant have the potential to rebound quickly and outmaneuver the uncertainty that lies ahead.
- Consumer preferences are changing quickly. They are buying different products today and through channels they do not use normally. CPG leaders can take advantage of this

Imperatives

- Need to get more granular about segmentation and capture richer data from the ecosystem
- Brands must be audited and understood thoroughly to chart the engagement journey with the consumer going forward
- Brands must connect with customers in more relevant ways
- Data will help to reveal where to invest for growth and to identify and prioritize the value that each consumer segment represents.
  - Where are the high-growth areas?
  - What is the current and future profitability potential?
- CPG companies channel strategy must incorporate new channels and methods of commerce
- Need to reimagine and realign the portfolio/category and re-examine the different roles that various brands play within the portfolio

HARNESSING OPPORTUNITIES IN THE CPG SECTOR

Market	Å Remaining competitive ; generating new avenues for sales and profits Å Driving growth by entering new categories Å Increasing Market share and moving towards market dominance positions in: o Brand and category share o Overall FMCG market share Å Growing product and category penetration Å Logistics efficiency Å Pipeline visibility up to the end user
Consumer	Å Creating products and matching consumers' evolving tastes, preferences and needs Å Reaching new customers Å Growing the share of wallet from current customers
	Å Å
	Å