



Impact of COVID-19 on the Nigerian Consumer & Industrial Markets

April 2020

KPMG in Nigeria

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Respond Not React

The COVID-19 pandemic brings unprecedented challenges. Demand for many goods and services has fallen dramatically, whilst some manufacturers either have shortages or are overwhelmed. In Nigeria and around the world, borders are being closed and societies are having to change the way they live. As entire countries come under quarantine orders and consumers around the world try to reduce human contact, manufacturers need to recognise that their response to the novel COVID-19 Pandemic will have a significant impact on their business. Those that respond by rising up to the occasion would seek innovative ways of dealing with the situation while those who react may struggle with adapting to the changes they need to make to remain profitable and resilient in these times.

Nigeria's high dependence on Chinese imports aggravates its vulnerability. In 2019, raw materials constituted 70% of the total imports from China into Nigeria and according to the National Bureau of Statistics (NBS), Asia and Europe contributed 86% of Nigeria's imports in Q4 2019. The restrictions currently imposed on cross border trade has significantly distorted supply chains for manufacturers and we are beginning to see the effect on the Nigerian economy. Manufacturers need to be more agile, local and responsive to consumer needs, whether it be by increasing supplies or relying more on e-commerce. Agile organisations which can meet the needs of their consumers by localising their supply chains, offering a high degree of convenience and communicating clearly with their target market, will better ride through the crisis.

For most retailers and fast moving consumer goods companies (FMCGs), business continuity will depend on the quality and viability of both their suppliers and their customers. Hence the need to seek partnerships with local suppliers and distributors on innovative supply and distribution models and channels that will ensure the availability of products and services to customers and consistent customer

engagement through out this period. For example, in view of the lockout in most cities across the world and in Nigeria, many restaurants are offering online orders and home deliveries and in some instances refreshing their menus entirely to appeal to customers who have for the most part been home bound.

In Nigeria, states like Lagos and Ogun, which are major production hubs have been shut down by the government to effectively curb the spread of the virus. We have articulated the key monetary and fiscal measures of the Federal Government of Nigeria (FGN), aimed at cushioning the economic impact of the virus. Organisations need to work in tandem with the government to ensure that any stimulus or actions are aligned. This can help lessen any short-term pain and potentially give way to long-term opportunities.

During these uncertain times, businesses must act with Integrity and Empathy to navigate the current challenges and retain their customers when the crisis ends. By treating customers in the right way now, organisations are able to continue to nurture and likely to retain them in the long-term.

Our publication seeks to address the key issues that manufacturers could be facing in these challenging times and our recommendations on the FMCGs, Industrial Markets, Agribusiness, Retail/E-Commerce. We have also highlighted how these companies can leverage technology to implement a long-term Digital Strategy to drive customer reach and continuous engagement.



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Sector Overview

The fast-moving consumer goods (FMCG) sector represents one of the largest sectors in Nigeria. It is mainly characterised by companies that supply low-cost products that are in constant high demand. Products that are classified under the FMCG banner include food and beverages, home and personal care, pharmaceuticals, etc. The term “fastmoving” stems from the fact that FMCG products usually have a short shelf life and are non-durable.

The NBS Foreign Trade in Goods Statistics (Q4 2019) report revealed that the Food, Beverage and Tobacco sub-sector of the FMCG sector, contributes about 5% of Nigeria’s Gross Domestic Product (GDP). This signifies the importance of the sector to the Nigerian economy. The Nigerian Stock Exchange’s (NSE) market capitalisation report for December 2019 also highlights the importance of the sector as FMCGs constitutes 17% of the total value of equity on the NSE.

From a retail perspective, FMCG is often cited as a low margin – high volume game. Seeing as profit margins are usually rather slim, firms operating in the FMCG sector mostly employ a strategy focused on driving top line sales and by extension increasing market share. Within categories, there is little differentiation of products, with resulting intense price competition that often times translates into a ‘price war’. To boost profitability, FMCGs, aim to drive customer loyalty and product differentiation through a combination of strategies. Those with the winning strategies and products are able to command higher price points across product portfolio. However, considering the price war and the inability of FMCGs to transfer cost increases to customers, it is imperative for players to manage input cost to sustainably drive healthy product margins.

The lockdown of the major cities in Nigeria and the current foreign exchange devaluation due to drop in crude oil prices, arising from the COVID-19 Pandemic has impacted all sectors in Nigeria. The impact on FMCGs has been mixed as players in Food and Beverage & Pharmaceuticals have been deemed as providers of essential products and services that are allowed to continue operations during the crisis.

The following sections summarise the impact and key policy recommendations for the FMCG sector:

| Parameter | Impact | Comments |
|---|--------|--|
| Supply-side | | |
| Production shutdown | High | With the exception of companies involved in the production of essential items, the lockdown directive by the FGN and select State Governments has resulted in the discontinuation of production activities. |
| Supply chain disruption/ Higher cost of imported raw materials | High | <ul style="list-style-type: none"> The COVID-19 Pandemic has seen certain restrictions placed on the flow of both people and goods across international borders and even locally in Nigeria. People and goods are the lifeblood of all businesses and disruption of these flows, even for a short period, can have a rapid and severe impact on the immediate condition of a business. Where possible, the margin and credit implications of sourcing from alternative suppliers on a temporary basis should be considered. Using a local supplier may result in an uplift in costs – whilst the current devaluation of the Naira will weigh heavily on imported raw materials. Identifying how these costs may (or may not) be transferred to the customer may also help prioritise the response from a business. |



Current and Potential Impact on the Sector

| Parameter | Impact | Comments |
|---|--------|--|
| Supply-side (Cont'd) | | |
| Route-to-market (RTM) challenges | High | <ul style="list-style-type: none"> The lockdown restrictions has impacted the RTM adopted by most of the companies. Given the restrictions, it has been challenging for companies with essential products who are still open to move their products through the wholesalers in the market, some of whom are closed down. Also the retail route is also challenged due to transportation constraints and limited visibility of open retail outlets. The most significant change during and after the COVID-19 crisis will be the surge in e-commerce. Consequently, there will be a need for organisations to maximise e-commerce potential and logistics. The ability of FMCGs to leverage the integration of delivery services and fintech providers within the retail sector will be a game changer. |
| Demand-side | | |
| Demand fluctuations | High | <p>The COVID-19 Pandemic has also impacted the purchasing power of consumers in the short and mid term. There has been an increased demand arising from panic buying of essential items at the expense of non-essentials.</p> <p>While it is expected that the economy will fully reopen within the year, based on experiences in other countries such as China, there is a risk that the recovery in discretionary spending is likely to be slow.</p> |
| Price revisions | High | The increased demand for essential goods has resulted in a price spike. On the other hand, companies producing non-essential items may have to provide incentives such as price discounts to spur discretionary spend. |
| Securities challenges | High | COVID-19 related job losses in Nigeria is expected to worsen the already bad security situation in the country, resulting in further disruptions to the RTM strategies of FMCGs, especially in the Northern Nigeria. |
| Funding side | | |
| Cashflow | High | The fall in expected cash inflows has necessitated the need for a comprehensive cash management strategy to maintain business continuity. This has impacted the ability of FMCGs to fund operating costs, resulting in the elimination, reduction or deferment of certain costs, especially administrative and overhead costs not linked to production. |
| Finance cost | High | <p>Generally, FMCGs will be less able to fulfil their debt obligations as liquidity positions deteriorate due to reduced cash flows. Even strong, well-capitalised, and well-managed businesses are going to have to work hard to manage cash. There is a high risk that some businesses previously considered viable will fail as many are facing a period with zero revenue, with lack of discretionary spending.</p> <p>The FGN has issued directives on loan moratoriums to cushion the effect of the pandemic on the financial positions of companies, especially small and medium sized companies (SMEs).</p> |



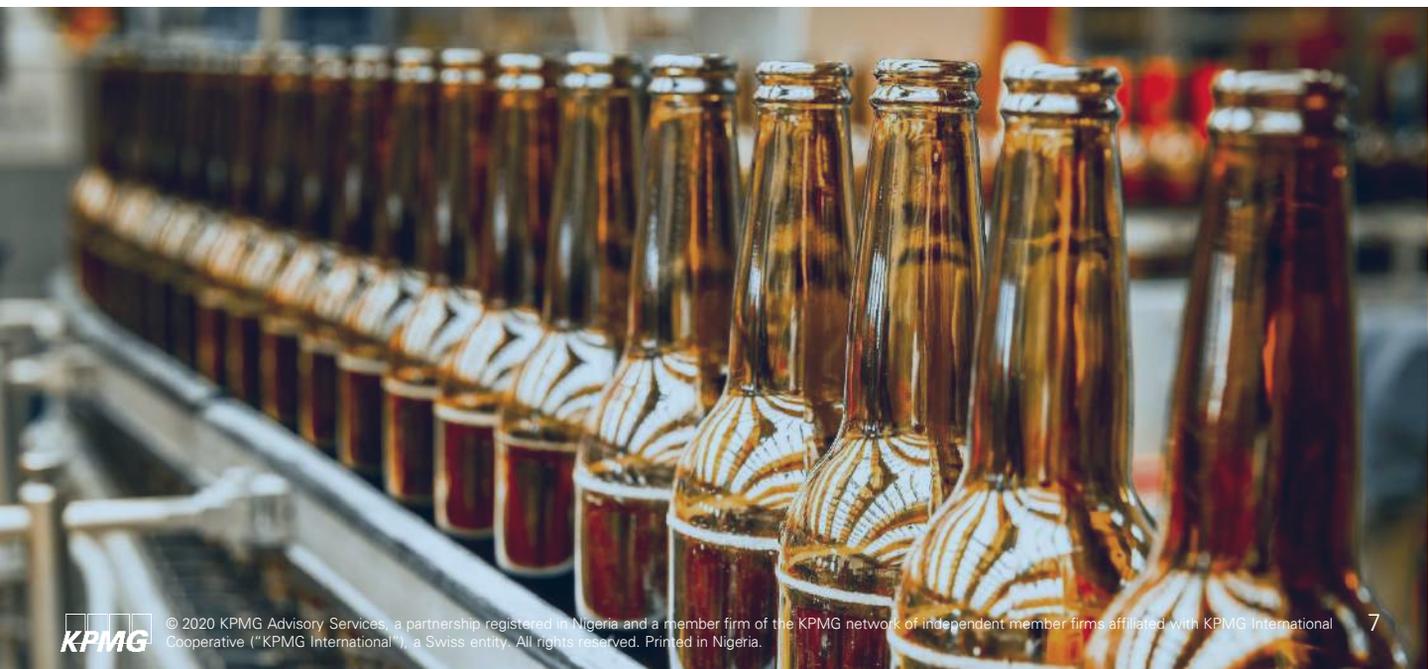
Key Recommendations for Industry Players

| Focus area | Short-term | Medium to long term |
|--|--|--|
| Improve RTM (Route to Market) | <ul style="list-style-type: none"> Complement the distributor network with direct-to-consumer strategies in order to ensure constant supply of products and enhance profitability | <ul style="list-style-type: none"> Ensure all major suppliers undertake a similar assessment to understand where their inputs are sourced from and identify potential bottlenecks |
| Strengthen the supply chain | <ul style="list-style-type: none"> Perform a vendor capability and criticality assessment to understand where all inputs used by the business are sourced from both directly and indirectly, and explore multiple supply options Improve stock management, replenishment and distribution model | <ul style="list-style-type: none"> Develop and test run contingency supply options, locally source inputs and alternative manufacturing facilities that can be relied upon |
| Cash management and capital requirement | <ul style="list-style-type: none"> Improve visibility of funding requirements through robust short-term cash flow forecasts Establish tighter controls over cash and bring in cash-related KPIs, to seek to reduce leakage. Draw down on all credit lines and seek to restructure existing terms and conditions | <ul style="list-style-type: none"> Manage communications and interactions with relevant stakeholders (lenders, suppliers, landlords and tax authorities) e.g. build facility headroom or incremental financing Rapidly explore alternative financing options/ restructuring plans with investors/ financiers |
| Reposition the organisation | <ul style="list-style-type: none"> Identify COVID-19 impact on revenue generation and design and implement sales force effectiveness strategies Remote workforce assistance Ensure open communication with customers to inspire confidence and re-affirm delivery capabilities Continuous assessment and response to competitive intelligence Working-capital management and cost optimisation e.g. inventory management and extension of payable days. | <ul style="list-style-type: none"> Extreme automation of processes Functional digital transformation Supply chain realignment Data driven approaches to audits/ monitoring of high spend/ high risk areas Ongoing cyber and fraud monitoring Modify business model and operational structure for post-COVID environment For large corporates, the dynamic review of assets that will thrive post-COVID, should enable the company to recover quicker. |



Key Recommendations for Industry Players

| Focus area | Short-term | Medium to long term |
|--|--|--|
| <p>Improve customer experience and protect the people</p> | <ul style="list-style-type: none"> • Implement health and safety plans to ensure the safety and welfare of the employees • Deploy necessary technologies and guidelines to assist with remote work • Reassure of continuity of service delivery. Customers need to know how their providers are dealing with issues directly related to COVID-19 • Effective digital delivery of services is essential while organisations deal with staff shortages, office closures • Maintain discounting discipline by considering flexible terms and conditions, generous return policies, or including additional services to increase your total value proposition • Businesses must endeavor to contribute cash, products in the fight against COVID 19 or risk losing the confidence of consumers and investors alike | <ul style="list-style-type: none"> • Evaluate the possibility to leverage on logistic partners/ employees to reach the nearer customers (focus on the last mile) • Remote working still allows opportunities to build your sales forces' skills through virtual training and mentorship. Invest any quiet time in revamping sales policies, marketing materials, and other infrastructure. • Develop blue prints for mega-sales events to clear inventory surpluses • Invest and strengthen the overall sustainability strategy of the business on a going forward basis |





Key Recommendations for the Government

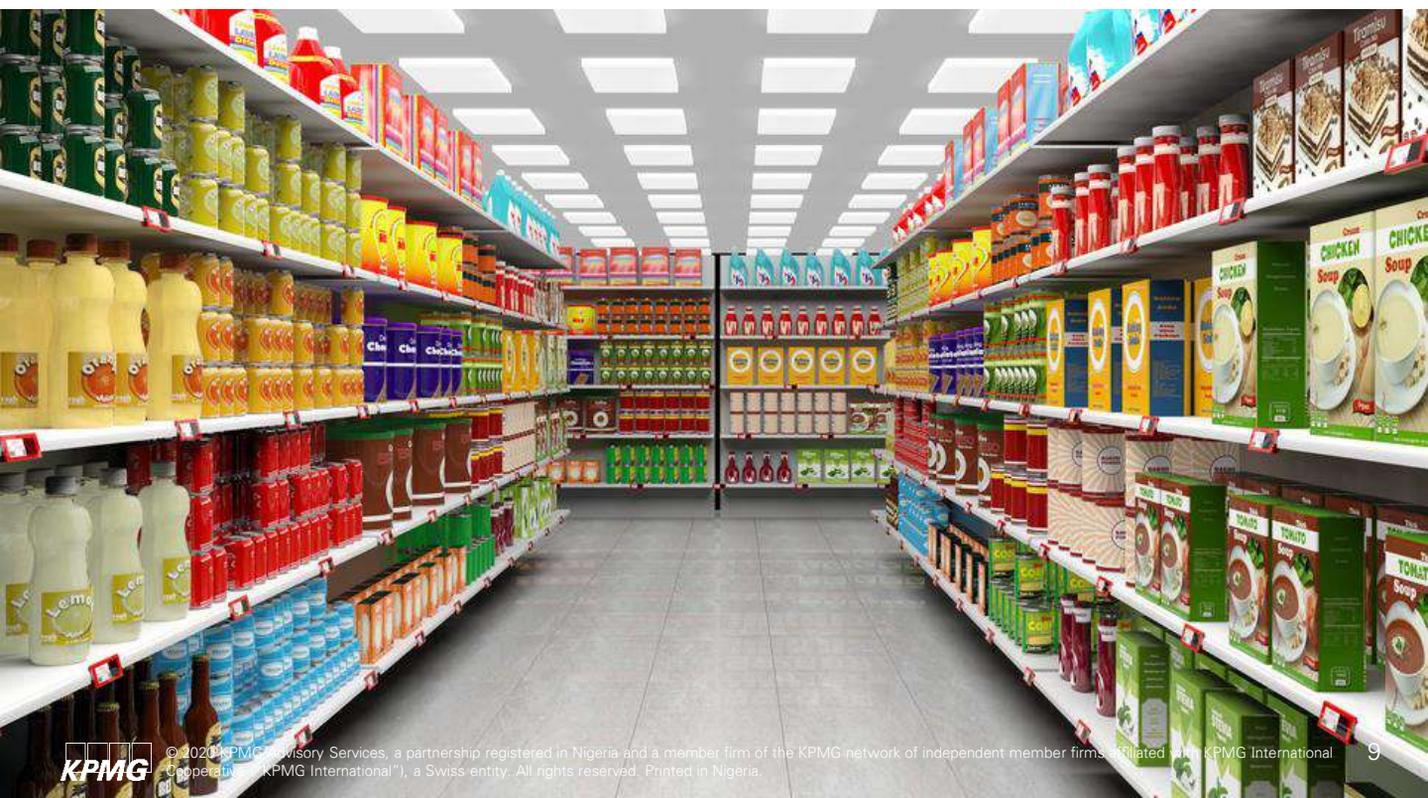
| Focus area | Short-term | Medium to long term |
|---|---|--|
| Tax, compliance requirements and fiscal policies | <ul style="list-style-type: none"> • Deferral of income tax payments for small and medium companies by FIRS | <ul style="list-style-type: none"> • Temporary relief or suspension of payments of outstanding tax obligations • Temporary reduction in tax rates or exemptions of businesses from some specific taxes e.g. VAT, CIT etc. • Accelerating VAT refunds • Development of tax recovery measures and roadmap for implementation |
| Improve liquidity and working capital, hence overall financial stability | <ul style="list-style-type: none"> • Extend short to medium term intervention credit facilities to FMCGs at low interest rates to fund working capital and mandatory capex | <ul style="list-style-type: none"> • Banks to grant moratorium on existing long-term loans • Loan restructure to align relevant terms and condition/ financial covenants to the current realities of the FMCGs • Adequate insurance coverage against extreme business disruptions |
| Support for final consumers | <ul style="list-style-type: none"> • Price controls for food and medical supplies • Commissions waiver on local currency electronic fund transfers. • Moratorium on debt payments on commercial banks and government loans | <ul style="list-style-type: none"> • Accelerated pension payments to final consumers whose jobs were impacted by COVID-19 • Personal income tax rate reduction/ exemptions • Re-evaluation of WHT on dividend • Effective implementation of unemployment insurance benefits |





Key Recommendations for the Government

| Focus area | Short-term | Medium to long term |
|------------|---|--|
| Others | <ul style="list-style-type: none"> • Social relief packages • Food stalls set-up by the Government and FMCGs to feed daily income earners for free • Essential businesses may hire employees of non-essential businesses who are idle due to business closure to help meet spikes in demand • Publication of guidelines and preventive measures in various languages, coupled with disinfection of public spaces across Nigeria | <ul style="list-style-type: none"> • Gradual opening of markets/malls within social distancing norms • Development of local raw material capacity in order to effectively manage supply disruption risks • Increased infrastructure spend to drive a robust rural and urban road and transportation infrastructure that will ease raw material supplies and distribution of finished products for FMCGs. The project and funding structure of these projects should be considered by the FGN to drive a sustainable long-term implementation plan • Implement plans to link the Apapa and Tin Can ports via rail, hand over Warri port to private concessionaires, and the single window for trade for improved goods clearance service delivery • Reduce duties on imported raw materials that critical to FMCGs. • Create special incentives for FMCGs to accelerate the growth of local manufacturing |



Industrial Markets





Sector Overview

- Sector largely comprises Building & Construction (B&C) and Packaging & Containers (P&C) and is largely driven by government policies and infrastructure spend.
- In recent times, the sector has witness the influx of international building and construction firms seeking partnership with the FGN to bridge the infrastructure gap in the country
- 2019 Q3 GDP shows 11% growth in the Cement sub-sector. YoY growth is 6.87%.
- The B&C industry is expected to grow to N9.5 trillion by 2021 from N6.8 trillion in 2018. While key players plan capacity expansion, competition in the domestic market is on the increase, with a knock-on effect of border closure on exports.

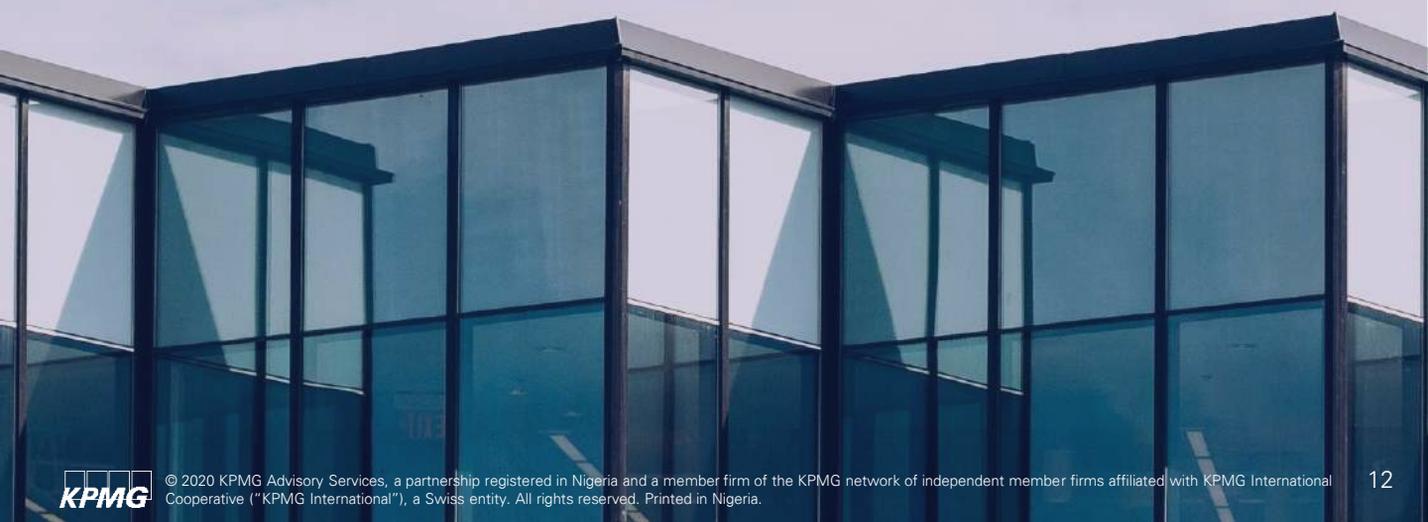
The following sections summarise the impact and key policy recommendations for the Industrial Markets sector:

| Parameter | Impact | Comments |
|-----------------------------|--------|---|
| Production impact | High | <ul style="list-style-type: none"> • Lockdown restrictions may necessitate factory shutdown for some industries • P&C production for essential goods may continue in the short-term, but shortage of raw materials in the medium term could significantly impact the sub-sector. • When production resumes, companies will need to review and implement adequate HSE policies and protocols to ensure the safety of lives from Covid-19. • The resumption of ongoing projects would depend on containment success and pace of economic recovery that follows. |
| Demand slowdown | High | <ul style="list-style-type: none"> • Dwindling government revenue and Covid-19 lockdown/social distancing are having negative impacts on ongoing and potential infrastructure projects. • Lockdown and restrictions on construction and other non-essential business activities are also hurting demand. • Slowdown in demand for P&C, in view of the demand-supply disruptions in the FMCG sector. • Exports have been negatively impacted, even prior to the COVID-19 Pandemic, by the border initiative of the FGN. |
| Cashflow constraints | High | <ul style="list-style-type: none"> • Cashflow is expected to contract across players in the sector, given slowing demand. • Debtors' period is expected to elongate. • Inventory build-up is also expected due to crisis-induced demand slowdown. • This presents an opportunity to players to holistically review their end-to-end value chain to implement stringent cost management strategies to ensure survival. In the long-term, the use of consultants to implement sustainable cost optimisation strategies should be considered. |



Current and Potential Impact on the Sector

| Parameter | Impact | Comments |
|--------------------------------|--------|--|
| Supply chain disruption | Medium | <ul style="list-style-type: none"> Delays in ongoing and planned expansionary and maintenance projects/ investments. Delays in clearing goods (other inputs, machinery, etc.) at the port and banking instruments. Further increase in already high selling and distribution cost. Raw materials largely locally sourced via backward integration for cement. However, there may be shortages for packaging businesses in the medium term. |
| Labour force | High | <ul style="list-style-type: none"> Labour force availability constraints due to movement restrictions, while some expatriates required for key operations may have left the country. Salary freeze and cuts are likely during the crisis and post-crisis period. Businesses with digitised operations will better support staff working remotely, especially back office operations such as Finance and HR. |
| Product price | High | <ul style="list-style-type: none"> Price reduction is expected, as producers seek to spur demand in the short and medium term. |
| Finance cost | Medium | <ul style="list-style-type: none"> Similar to FMCGs, Industrial players would be less able to fulfil their debt obligations as liquidity positions deteriorate due to reduced cash flows. In view of the size of the players in this sector, the impact of financing is expected to be medium as they have better access to funding and are more able to renegotiate existing loan terms. The need for financial advisers should be considered to provide restructuring advise that will support negotiations with lenders in view of the current market realities. |





Key Recommendations for Industry Players

| Focus area | Short-term | Medium to long term |
|---|--|--|
| Tax and Regulatory | <ul style="list-style-type: none"> • Take advantage of extension of tax filing deadline by FIRS • Take advantage of payroll tax relief for staff retention, when bill is passed • Avoid decisions that might lead to regulatory infractions and future exposure | <ul style="list-style-type: none"> • Apply for tax-holiday • Advocate for more harmonisation and/ or relief on multiple layers of taxes and levies |
| Improve liquidity and working capital, hence overall financial stability | <ul style="list-style-type: none"> • Renegotiate bank facilities based on CBN regulatory forbearance • Actively monitor cashflow and expenses to ensure sustainability • Improve visibility of funding requirements through robust short-term cash flow forecasts | <ul style="list-style-type: none"> • Manage communications and interactions with relevant stakeholders (lenders, suppliers, landlords and tax authorities) e.g. build facility headroom or incremental financing • Rebuild trust with stakeholders to support sustainable financial restructuring • Rapidly explore alternative financing options with investors/financiers |
| Supply chain | <ul style="list-style-type: none"> • Improve stock management, replenishment and distribution model • Complement the distributor network with Direct-to-Consumer strategies in order to ensure constant supply of products and enhance profitability | <ul style="list-style-type: none"> • Supply chain realignment by considering partnership with logistics service providers/ other stakeholders to ease supply chain challenges • Perform a vendor capability and criticality assessment to understand where all inputs used by the business are sourced from both directly and indirectly, and explore multiple supply options |
| Support for end customer | <ul style="list-style-type: none"> • Price reduction to spur demand • Engage customers through other online channels | <ul style="list-style-type: none"> • Digitise business operations • Automate marketing efforts |





Key Recommendations For Industry Players

| Focus area | Short-term | Medium to long term |
|---|--|---|
| <p>Reposition the organisation</p> | <ul style="list-style-type: none"> • Identify COVID-19 impact on revenue generation and implement mitigating strategies • Continuous assessment and response to competitive intelligence. Ensuring data-driven decisions • Holistically review CAPEX, inventory management, extend payables duration and obtain hair-cut on existing contracts | <ul style="list-style-type: none"> • Explore leading-edge automation of manufacturing processes • Functional digital transformation, across the value chain • Data driven approaches to audits/ monitoring of high spend/ high risk areas • Ongoing cyber and fraud monitoring • Modify business model and operational structure for post-COVID environment • Assessment of company portfolio health and growth/ rebalance strategy |
| <p>People</p> | <ul style="list-style-type: none"> • Provide adequate support for remote working, including reimbursements for data and power costs Provide framework to guide remote working • Set up an empowered multidisciplinary COVID-19 response team • Ensure regular and transparent communication with staff and union on developments and key decisions to inspire confidence and re-affirm ability for deliver • Consider annual leave for employees who may not be currently engaged • Provide extra compensation for frontline employees or those that have to physically report to work. • Provide protective equipment such as masks and gloves for employees who have to report to work | <ul style="list-style-type: none"> • Align performance management and target setting to the new normal • Recalibrate performance targets. Adopt relative, rather than absolute targets • Leverage online training and development tools to drive cost-effective learning • Review compensation model for cost-saving opportunities without negatively impacting employee perceived value • Avoid cancelling share-based schemes, due to accelerated impact on finances |



Key Recommendations for the Government

| Focus area | Short-term | Medium to long term |
|---------------------------|--|---|
| Tax and Regulatory | <ul style="list-style-type: none"> • Extension of timeline for tax remittance • Promotion of electronic channels for tax remittance • Deferred submission of supporting documentation for tax filing • Exempt worst-hit players from social security contributions such as the Industrial Training Fund (ITF) and Nigeria Social Insurance Trust Fund (NSITF) • Suspension of tax audits <p><i>Please note that the first three recommendations above relate to measures that have already been put in place by the government</i></p> | <ul style="list-style-type: none"> • Temporary relief or suspension of payments of outstanding tax obligations • Temporary reduction in tax rates or exemptions of businesses from some specific taxes e.g. VAT, CIT etc. |



Agribusiness





Sector Overview

| | |
|---|---|
| Sector contribution to GDP and employment | <ul style="list-style-type: none"> • Real GDP contribution of 25.2% in 2019 vs. 25.1% in 2018 • Employed 35.1% of total employment in Nigeria (2019). |
| Market size | N31.9 trillion (2019) |
| Capital importation in agriculture sector (per cent of total FDI) | US\$489.9 million and 2% of total capital importation (2019) |
| Agribusiness value chain | The Agribusiness value chain has been classified into: Input Producers (IPs), Agriculture Production (APD) and Agro Processors (APRs) |
| Agriculture output segments (% value of contribution to GDP) | Crop (88%), Livestock (7%), Aqua-culture (4%) and Forestry (1%) |

The following sections summarise the impact and key policy recommendations for the Agribusiness sector:

Current and potential impact on the sector

| Parameter | IPs | APD | APRs | Comments |
|--------------------------------|------|--------|--------|--|
| Cashflow constraints | High | Low | Medium | <ul style="list-style-type: none"> • Majority of agribusiness entities are SMEs, with minimal cashflow buffer to meet a sudden increase in working capital requirements that would arise from the extension of credit to customers and farmers which would be necessary post-COVID-19 crisis alongside falling revenues • IPs who have to rely on imports would have significant price shocks due to exchange rate impact • However, the various stimulus intervention packages by the CBN may be available for industry players particularly in APD to help cushion the impact of cashflow constraints |
| Production shutdown | High | Low | Medium | <ul style="list-style-type: none"> • The directives of the FGN on restriction of movement exempts essential services, which would include APD. However, the categorisation is unclear for APRs and IPs. This can potentially cause food scarcity and shortage of essential inputs for agriculture production |
| Supply chain disruption | High | Medium | High | <ul style="list-style-type: none"> • Challenges around supply chain and logistics of transportation even for essential businesses, due to the restriction of movements and closure of interstate land borders across several states of the Federation is expected to have a negative impact on both the demand and supply side of the agriculture value chain |



Current and Potential Impact on the Sector

| Parameter | IPs | APD | APRs | Comments |
|--|--------|--------|------|--|
| Labour force | High | Low | High | <ul style="list-style-type: none"> Staff redundancies are expected amongst IPs and APRs, most of which are currently on shutdown. Contract labour arrangements are expected to increase post-COVID-19, which would affect permanent labour and rehire arrangements. |
| Lockdown/movement restrictions | High | Medium | High | <ul style="list-style-type: none"> The release of grains from the national strategic reserves and the social interventions of various state governments are expected to cushion the impact of food shortages but may have a downward impact on food prices for private agriculture businesses The impact is higher for IPs and APRs, due to the likely effect of lower demand from agriculture producers |
| Increased insecurity and unrest | Medium | High | High | <ul style="list-style-type: none"> The potential for increased insecurity and unrest across the country arising from hunger and shrinking income, especially for daily income earners, pose significant threats to players in the Agribusiness value chain. The country is likely to witness increased incidence of armed robbery and attacks on farms and food trucks which could cause food shortages |





Key Recommendations for Industry Players

| Focus area | Comments |
|---|--|
| Cashflow management | <ul style="list-style-type: none"> Companies should take advantage of the various stimulus packages rolled out by the FGN for both short and medium term cashflow management and working capital support |
| Cost optimisation | <ul style="list-style-type: none"> Due to falling revenues, players will need to consider cost optimisation opportunities within the businesses to ensure profitability Conversion of fixed costs inputs to variable costs, where possible and adherence to a policy of incurring expenditures on a need basis may be considered |
| Contract reviews | <ul style="list-style-type: none"> There may be need to review existing contracts and explore escalation clauses towards ensuring optimal value for money. |
| Efficiency in supply chain logistics and RTM initiatives | <ul style="list-style-type: none"> Agribusinesses will need to consider various supply chain logistics and RTM initiatives towards identifying the optimal option to address the challenges posed by the COVID-19 Pandemic. |





Key Recommendations For The Government

| Focus area | Short-term | Medium to long term |
|--|--|---|
| Easing financial stress in the sector | <ul style="list-style-type: none"> • Reduction in interest rates • Grant extended moratoriums and repayment holidays for interest and principal repayments of credit facilities | <ul style="list-style-type: none"> • Dedicated agribusiness funds to be established at reduced interest rates and easily accessible to agribusinesses • Tax and import duty waivers for players in the sector |
| Easing supply chain constraints | <ul style="list-style-type: none"> • Categorisation by the FGN and state governments of transport logistics companies as essential services. This should also include IPs (fertilizers, seeds etc.) • Harmonisation of lockdown restrictions across all the states to ensure policy consistency and clarity for ease of planning | <ul style="list-style-type: none"> • Develop partnerships between agribusinesses and logistics transport unions to ease supply chain constraints |
| Sustaining demand for agriculture produce | <ul style="list-style-type: none"> • Government off-take of agricultural produce to guarantee demand for agribusinesses • Implement gradual opening of markets/ malls within social distancing norms | <ul style="list-style-type: none"> • Personal Income Tax (PIT) incentives to be granted to consumers to increase disposable income and spur demand |
| Post COVID-19 response | <ul style="list-style-type: none"> • Develop a post COVID-19 response plan to use Agriculture to stimulate the economy • Leverage on the current momentum in respect of production of rice, cassava, poultry, etc. to jump start the economy | <ul style="list-style-type: none"> • The Agribusiness sector has huge potential for employment. The FGN should continue to provide support and increase incentives to players that create a high employment pool |

Retail and E-Commerce





Sector Overview

The retail and e-commerce sector in Nigeria constitutes the formal retail business and online trading of goods and services. The sector has witnessed some challenges in the last few years ranging from digital trust, distribution channels, high cost of shipping, macroeconomic issues, infrastructure challenges amongst others.

However, as the world grapples with the COVID-19 pandemic, there is a significant economic and business impact being felt globally. With the lockdown directives in many countries and guidance around social distancing to counter the COVID-19 threat, retail and e-commerce businesses have been significantly impacted. Retailers around the world like many other businesses are scrambling to adapt to the pressures being felt in this period.

The following sections summarise the impact and key policy recommendations for the Retail and E-Commerce sector:

| Parameter | Impact | Comments |
|--|--------|--|
| Supply-side | | |
| Supply chain disruption | High | <ul style="list-style-type: none"> As countries place varying restrictions on international and domestic movements, retailers of essential commodities are beginning to see potential supply chain disruptions, especially in the transportation and distributions of goods. With closure of interstate borders across many states in Nigeria, the safety and security of employees of essential service providers as they commute during the period of lockdown is also of serious concern to many businesses. While the existing uncertainty around how the pandemic shapes up may result in a rise in spend by consumers for essential commodities, the slight boost to sales may be defused by a drop in levels in 'stock-in-trade' due to potential supply chain disruptions. The coming weeks would begin to test the resilience of supply chains to keep pace with the impact of this pandemic. |
| Pressure on alternate distribution channels | High | <ul style="list-style-type: none"> As non-essential businesses are directed to close and the social distancing measures are implemented across major cities of the country, some consumers are shifting to online channels to procure essential commodities such as groceries and other household items instead of physical visit to stores However, delayed deliveries, poor customer service, questionable return policies, cyber fraud concerns which have contributed majorly to the trust deficit in the e-commerce sector may largely grow worse if not properly managed. E-commerce companies will also need to equip their employees with the appropriate resources to manage operations remotely with little or no disruption |



Current and Potential Impact on the Sector

| Parameter | Impact | Comments |
|---|--------|--|
| Demand-side | | |
| Decrease in demand for non-essential goods | High | <ul style="list-style-type: none"> As the government in Nigeria and across countries implement lockdown directives across major cities, the e-commerce and retail businesses are seeing a drop in discretionary spending on non-essential goods. Merchants on major retailing platforms are seeing a reduction in sales. The market for non-essential goods is likely to crash as the general consumer sentiment will be to conserve cash due to the uncertainty of the duration of COVID-19 exigency. Retailers and e-commerce businesses in non-essential commodities are faced with the risk of revenue drop as the pandemic lingers. |
| Potential decline in disposable income | High | <ul style="list-style-type: none"> The collapse of the global oil price, driven by geopolitics as well as reduced demand in the face of the current pandemic is set to lead to a major drop in government spending in the current year. This definitely will result in increased liquidity issues and foreign currency pressure for the government and consequently for businesses. The impact of this revenue pressure during and post COVID-19 Pandemic has varying implications for different businesses and individuals, and will likely lead to potential decline in disposable income for low/ middle income earners with attendant impact on purchasing power |





Current and Potential Impact on the Sector

| Focus area | Short-term | Medium to long term |
|--|--|---|
| Manage supply chain disruptions | <ul style="list-style-type: none"> Assesses the impact of supply chain disruptions on the business in the immediate and short term Assess how a decline in consumer demand will impact the medium to long term growth plans of the business | <ul style="list-style-type: none"> Review contracts with suppliers to understand potential liability in the crisis events and how best to manage legal risks |
| Improve overall financial stability | <ul style="list-style-type: none"> Review cash flow/ liquidity and working capital management strategies to adapt both in the short and medium term | <ul style="list-style-type: none"> Work with financial advisers to assess and implement suitable best-in-class working capital management techniques Explore renegotiation of rental contracts invoking Force Majeure if necessary Implement cost optimisation mechanisms to reduce cost and minimise leakages Defer capital costs not required in the short-term |
| Distribution channels | <ul style="list-style-type: none"> Review demand predictions and contingency plans in line with current realities Explore alternate and innovative distribution channels Assess the cyber and fraud risk implications of increased pressure on digital channels | <ul style="list-style-type: none"> Enable digital channel as one of the brand's distribution channels, as the adoption of online shopping would likely increase post COVID-19. Engage more logistic partners to enable store-to-home delivery Ensure on-going cyber and fraud monitoring to mitigate the risk of cyber attacks and data breach |
| Customer engagement | <ul style="list-style-type: none"> Engage customers through various online channels and align the purchasing and interaction channel strategy with customer expectations Enable innovation of online customer experience to encourage home-bound consumers to purchase products Implement customer experience measurement Ensure real-time monitoring on how and when people are talking about the company | <ul style="list-style-type: none"> Implement Company Loyalty Program (personalised promotions and coupons) to improve sales Develop and implement mechanisms for effective customer engagement in order to build and maintain customer trust post COVID-19 Measure and optimise social media strategy |



Key Recommendations for the Government

| Focus area | Short-term | Medium to long term |
|---|---|---|
| Tax, compliance requirements and fiscal policies | <ul style="list-style-type: none"> • Suspension of tax audits • Indirect tax relief for donations (monetary, goods and services) | <ul style="list-style-type: none"> • Temporary relief or suspension of payments of outstanding tax obligations and temporary reduction in tax rates • Create incentives for retail product manufacturing |
| Improve overall financial stability | <ul style="list-style-type: none"> • Interest and principal repayment concessions | <ul style="list-style-type: none"> • Banks to grant moratorium on existing long-term loans • Refinance loans and amend relevant financial covenants • Gradual opening of markets/ malls within social distancing norms |
| Support for consumers | <ul style="list-style-type: none"> • Price controls for essential commodities • Waive relevant charges on digital payments/ transfers | <ul style="list-style-type: none"> • PIT rate reduction/ exemptions • Accelerated pension payments to final consumers whose jobs are impacted by the COVID-19 Pandemic |



Leveraging on Digital in FMCG & Retail



Sector Overview

Digital is about leveraging emerging technologies and resultant capabilities to redefine financial, business and operating models. The advent of various technologies across the manufacturing, customer engagement, payments and other landscapes has created significant opportunity for business disruption and scaling.

A significant number of organisations across the consumer and industrial markets space either want to or are doing some work around digital transformation and better embedding technology into their operations. The COVID-19 outbreak and the resultant measures put in place to limit its spread (most especially social distancing and varying lock-down measures) have resulted in a heightened need for new ways of working across the consumer and industrial markets sector.

Most significant has been the increased drive for remote working and the need to leverage digital channels for operations execution. The new situation places a strain on traditional non-digital avenues of operation in the sector and tests the depth of technology uptake as digital interactions become the primary option to customers.

Current and potential impact of COVID-19 disruptions

| Parameter | Impact | Comments |
|--|--------|--|
| Production | High | <ul style="list-style-type: none"> With the enforcement of lockdowns, labour availability for execution of production operations is limited. Hence, production operations not classified as essential would grind to a halt This situation underscores the need to leverage automated production solutions such as the digital twin to ensure that production operations (however scaled down) can continue through a disruption |
| Marketing and customer engagement | High | <ul style="list-style-type: none"> Social distancing and lockdown measures have limited the ability to engage customers on a one-on-one basis to establish relationships and drive business development There has been an increase in the utilisation of digital and online platforms for customer engagement and information dissemination and this trend is expected to continue progressively into the future |
| Supply/ Distribution chain pressure | High | <ul style="list-style-type: none"> Different factors ranging from panic buying, to customer uncertainties, restricted movement etc. have caused shocks to the entire supply chain operations. The current situation calls for a more responsive and agile supply chain that leverages data insights to simulate the operational impact of external risk factors that can potentially affect uninterrupted production and seamless distribution up to the last mile. Thus allowing the business to respond appropriately |
| Finance and cash operations | High | <ul style="list-style-type: none"> The migration to online and digital platforms for customer engagement has also led to an increase in the leveraging of digital payment platforms for transaction initiation/ fulfilment The challenges of cash handling and difficulties with deposits/ cheque clearing enhance the need for organisations to integrate payment platforms/ solutions in their operations |



Current and Potential Impact of COVID-19 Disruptions

| Parameter | Impact | Comments |
|-------------------------------|--------|--|
| Back-office operations | High | <ul style="list-style-type: none"> • With the advent of remote working, business back-office operations, including finance, compliance, HR, etc. have been executed leveraging digital solutions where they are available. • Organisations and processes with heavy reliance on manual interventions and physical human interactions have been halted or discontinued • There is an impact of this shift on the scalability of organisations IT infrastructure and availability of relevant tools to support operations and employee working; servers, communication devices, mobile end-user devices, etc. |
| Cyber security | High | <ul style="list-style-type: none"> • With the increased migration to digital platforms and online working across organisations there is also an increased focus on the need to maintain confidentiality, reliability and security of business and customer information. • Various assessments have showcased an observed increase in phishing attacks and other cyber threats using COVID-19 as bait. This may result in enhanced business and personal financial losses as a result of the evolving new ways of work and leveraging of digital platforms. |



COVID-19: Panacea for enhanced digital transformation



Key Recommendations Across All Sectors

| Focus area | Short-term | Medium to long term |
|--|--|---|
| Production | <ul style="list-style-type: none"> Evaluate and implement automated plant and machinery leveraging leading technologies like Internet of Things (IoT) | |
| Enhance digital customer engagement | <ul style="list-style-type: none"> Leverage available digital platforms (social media, payment platform solutions, etc.) to engage customers Enable self-service and scale automation both for customers and employees alike | <ul style="list-style-type: none"> Develop and execute holistic digital engagement framework to migrate the business from strictly brick and mortar focused to digitally enabled/ platform based Create incentives to encourage customer utilisation of digital platforms |
| Supply/ Distribution chain pressure | <ul style="list-style-type: none"> Implement solutions to support gathering of relevant data on supply chain requirements and lead times so analytics can be leveraged for future supply chain modifications and decisions Implement “uberised” structure and digital support, leveraging data insights, to support distribution chain operations | |
| Finance and cash operations | <ul style="list-style-type: none"> Prioritise digital payment solutions to enable transaction consummation | <ul style="list-style-type: none"> Diversify payment operations capabilities for customers across multiple platforms (cash, POS, online payments and mobile apps) Integrate input from various platforms into primary financial management solutions enabled by cloud technologies |
| Infrastructure and Cyber | <ul style="list-style-type: none"> Provide information to employees and customers on cyber security risks and key mitigation measures Constitute and implement relevant monitoring protocols for cyber events Ensure relevant cyber security applications (malware/ spam/ ransomware, etc.) are up to date Assess key processes and jobs and determine end-user systems and communication infrastructure requirements and provide need-based resources | <ul style="list-style-type: none"> Develop detailed business continuity and infrastructure scalability frameworks including processes for monitoring infrastructure load and performance Implement end-to-end cyber security protocols and solutions to protect at risk assets and infrastructure |



Key Recommendations Across All Sectors

| Focus area | Short-term | Medium to long term |
|---------------|---|---|
| Others | <ul style="list-style-type: none"> • Migrate relevant operations to online platforms • Leverage Virtual Private Network solutions to access on-premise automation solutions • Comprehensive business risk scenario planning so that business leaders are well guided on the many risk indicators they need to proactively monitor and respond to | <ul style="list-style-type: none"> • Develop detailed digital transformation agendas for business operations including: <ul style="list-style-type: none"> • Process enhancements and customer journey assessments • Digital solution implementation • Governance • Cloud solution utilisation • Security frameworks |



COVID-19: Panacea for enhanced digital transformation

The current business disruptions occasioned by the COVID-19 Pandemic are a test and showcase of the ability of digital to support business resilience and continuity amidst external shocks.

How prepared are you to respond to the current and potential future disruptions and shocks?

Appendix: Supervisory Authorities' Responses



Supervisory Authorities' Responses

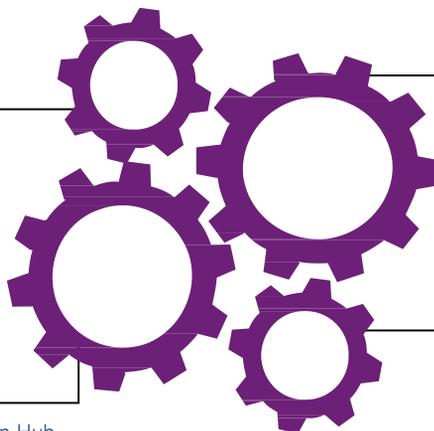
Monetary Measures

Improved FX Supply

- Improving FX supply to the CBN by directing oil companies and oil servicing companies to sell FX to the CBN rather than the Nigerian National Petroleum Corporation

Development Finance

- Nigerian innovation hubs (Co-creation Hub and Ventures Platform Hub) jointly raised US\$105,000 to curtail pandemic spread
- Mobilisation of US\$2 million for key support from United Nations to FGN



Interest Rates

- Monetary policy rate retained at 13.5%
- Cash Reserve Ratio (CRR) and Liquidity Ratio unchanged at 27.5% and 30% respectively
- Interest rates for all CBN intervention facilities have been reduced from 9% to 5%

Loans and Credit Relief

- Over N1 trillion in loans to boost local manufacturing and production across critical sectors
- Additional N100 billion intervention fund in healthcare loans to pharmaceutical companies and healthcare practitioners intending to expand/build capacity
- Identification of target local pharmaceutical companies to be granted funding facilities
- Additional one year moratorium period for all CBN intervention loans
- Creation of N50 billion credit facility for affected households and SMEs

Fiscal Measures

Federal Government

- Downward revision of 2020 budget, with benchmark oil price revised lower to US\$30/bbl from US\$57/bbl and oil production target to 1.7mbpd vs 2.3mbpd previously.
- Establishment of a N500billion Covid-19 crisis intervention fund
- Applied for loans worth about US\$6.9billion from multilateral lenders
- Withdrawal of US\$150million from the Nigerian Sovereign Wealth Authority (NSIA) Stabilization Fund to support FAAC shortfalls.
- Debt and interest moratorium have been granted to states on Federal Government and CBN-funded loans

Legislative

The House of Representatives on Tuesday, 24 March 2020 passed the Bill which seeks to:

- Protect employees from loss of jobs as a result of COVID-19 by granting a 50% income tax rebate on the total actual amount due or paid as pay-as-you-earn (PAYE) tax under the Personal Income Tax Act, 2004 (as amended), to Nigerian companies who retain all their employees from 1 March 2020 to 31 December 2020
- Suspend import duties on medical equipment, medicines and personal protective gears required for the treatment and management of COVID-19 for three months, effective 1 March 2020.
- Introduce a new moratorium on mortgage obligations of Nigerians under the National Housing Fund.

Tax

- Extension of timeline for filing of value added tax and withholding tax from the 21st day to the last working day of the month, following the month of deduction
- Extension of the due date for filing of companies' income tax (CIT) returns by one month
- Use of electronic platforms for payment of taxes and processing of tax clearance certificates
- Filing of tax returns by taxpayers without audited financial statements which must be submitted within two months of the revised due date of filing
- Proposed creation of a portal where documents required for desk reviews and tax audits will be uploaded by taxpayers for online access by the tax authority
- Submission of tax returns online by taxpayers via efiling.firs.gov.ng or by designated e-mail accounts published by the FIRS.

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