Jackson, Etti & Edu

THE FMCG SECTOR IN THE COVID-19 ERA

A CHALLENGE OF CONVERSION OF CRISIS TO OPPORTUNISTIC GAINS

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SETTING THE TONE

The emergence of the novel Coronavirus (COVID-19) on the world scene, no doubt, has been a destabilizing factor to the world in ramifications never envisaged by the business community or indeed, humanity in its entirety. No matter what gains there might appear to be for some industries in terms of the spike in the demand for their goods and services, the real truth is that one form or the other of the dividends of the tragedy called COVID-19 comes back haunting players in such industries in many ways than the seeming gains of increased demand and sales.

As the world continues to grapple with the COVID-19 pandemic, one unintended consequence of this high impact event is the alteration in consumer purchasing behaviour. Driven, no doubt, by survival instinct and a pervasive fear of running out of essential items required to see them through a challenging time of unpredictable duration, consumers have sporadically changed their shopping behaviour of 'consistent periodic shopping' to 'stockpiling style shopping' consumables in an unprecedented pattern. This observed change in consumer behaviour has played out since the COVID-19 outbreak in China and its attendant severe disruption of global supply chains. This situation was further aggravated by stringent measures, such as lockdowns, put in place by various governments of the world to control the spread of the virus. Whilst countries of the African continent have so far reported fewer cases than most of those of Asia, America, and Europe, they are not immune to its disruptive energy and consequential negative dividends, from an economic perspective, at the very least.

The Seeming Gains Or Potential For Gains For The FCMG Sector

The challenge identified above has resulted in immediate pressure on FMCGs and their distributors as to how to cope with high levels of demand for the supply of basic foodstuff now being stockpiled by consumers. Beyond basic foodstuff, we have witnessed huge demands for essential non-food medical products such as sanitisers, medical face masks, toilet papers, amongst others.

According to Nielsen, an online market research platform, "Consumers around the world are actively stockpiling emergency supplies as concerns grow that the novel coronavirus (COVID-19) could become a worldwide pandemic. They're also starting to think beyond emergency items, such as basic foodstuffs, including canned goods, flour, sugar, and bottled water. Concerns are having a ripple effect on non-food essentials as well. In the U.S., sales of supplements, fruit snacks and first aid kits, for example, are all on the rise".

The foregoing observation is a truism as far as Nigeria is concerned, as a lot of us including the authors of this piece have in an unprecedented manner shopped for our various homes in a manner that suggested that the likes of Cadbury, Unilever, CHI, TGI, Diageo, Extreme Manufacturing, PZ Cussons, amongst others, were closing shop forever or that the stockpiled goods could never be exhausted. Crowding at grocery stores and emptying of the shelves all suggest one thing – *FMCGs are the beneficiaries of the COVID-19 Era. Demands are high and sales on a progressive trajectory!*

As part of the measure put in place to enforce social distancing and limit the spread of COVID-19, the Federal Government of Nigeria directed that all schools, organizations, and businesses in Abuja, Lagos and Ogun States should close from March 30, 2020. There is no doubt that a lot of businesses are going to be suffering and are indeed suffering from the effect of this lockdown, notwithstanding any temporary arrangements (virtual working) they might have put in place for the period. However, the Implementation Guidelines for Lockdown Policy (the Guidelines) as released by the Presidential Task Force on COVID-19 exempted some businesses from the lockdown and a careful perusal shows that the FMCG Sector, on many fronts, is a major beneficiary of this consideration.

In the first place, manufacturing as a business is exempted, especially as it relates to the manufacture of food, drugs, pharmaceuticals and essential products relating to the response. It is a sound argument that virtually or at least, the major goods in this sector remain essential and companies can continually produce to meet the upsurge in demand. Secondly, retail outlets, such as food markets, supermarkets, and shops (including those in the malls) selling food and essential non-food are exempted from the lockdown. This means that the channels of trade necessary for the manufactured goods to be sold remain open for FMCG companies to take advantage of, maximizing the opportunities presented by this crisis. Thirdly, restaurants will seem to fall within the business of food and drinks also exempted under the Guidelines, to the extent that they are engaged in delivery services without dine-in. This further expands the market for FMCG during this period. Very importantly is number four which relates to the exemption granted to the business of transport and logistics. The concession to continue to manufacture and the ready-made markets in the retail outlets and food deliveries will mean nothing if there is no way to ensure the distribution and delivery of those goods to the various sales channels where consumers can reach them without much ado.

The high demand (borne out of lockdown and increased sanitary practice) for essential goods manufactured by the FMCG Sector coupled with the preservation of trading channels and necessary logistics in terms of transportation to support the supply chain mechanism all point to the fact that the COVID-19 pandemic may have presented a good opportunity for this sector.

The Central Bank Policy Measures contained in a Circular released to Deposit Money Banks and the general public on March 20, 2020 contains some palliatives which relevant companies in the FMCG Sector may be able to take advantage of, especially where they fall into the Small and Medium Enterprises (SMEs). These include the extension of a moratorium of one year on all principal payments, effective March 1, 2020 on all CBN intervention facilities. Complementary to this is the reduction in interest rates on all applicable CBN intervention facilities from 9% - 5% percent per annum for 1 year from March 1, 2020.

Thus, all FMCG companies currently enjoying any CBN intervention facilities with moratorium have been granted an additional one-year break at a reduced interest rate for the period. This should invariably help with the much-needed funds to keep up with the pressure of production to meet the rising demands of this period.

Further palliatives that FMCGs enjoy during this period include special fast-track arrangements put in place by regulators, such as the Custom, Ports

Authorities, NAFDAC, amongst others, to ensure quick clearance of essential goods should help businesses to a large extent.

ALL SET FOR GAINS WITH THE EXEMPTIONS AND THE PALLIATIVES?

The question is whether, with the sharp rise in demand for FMCGs, exemption from the lockdown policy and the financial palliative granted by Government; all is well for companies in this sector. The answer seems to be far away from an automatic 'yes' without some level of deliberateness and strategic thinking on the part of the Management of companies in this sector. A few clogs remain in the wheel that must be surmounted to take full advantage of the opportunities thrown up by COVID-19.

Limit to the Purchasing Power of the Consumer

The upsurge in the demand for goods may very well be a fallacy in the long run. As it would seem, a lot of consumers have gone out of their ways and pockets to stockpile this period and may have very little left to maintain a hitherto culture of consistent periodic shopping which provided a steady and predictable sales levels for FMCG companies.

This problem is further aggravated by the fact that the economy is generally on a downturn with many companies considering lay-offs and gradual reduction of staff salaries by up to 50%. This will affect the purchasing power of consumers and consequently affect the earnings of FMCG companies.

Supply Chain and its multi-faceted Challenges

Indeed, the Government has thought well by giving palliatives to ensure continuous production, as well as granting exemptions to trading channels and transportation and other relevant logistics necessary to guarantee the availability of goods to consumers.

Nevertheless, a lot of FMCG companies source a good number of their raw materials from outside of Nigeria and there are likely to be challenges associated with obtaining such materials from their suppliers in the various countries, who are probably having their share of COVID-19 disruptions. Even where raw materials can make it to the borders, port and customs clearance may come with its bottlenecks, especially as greater attention is likely to be given to medical/pharmaceutical goods over the general consumer goods.

Indeed, whilst relevant Government agencies such as the Port Authorities, Customs, NAFDAC, amongst others, have come up with concessionary policies to aid clearance of goods within this period, the reality is that the bulk of this work is being carried out by Level 12 and below officers who have been asked to stay back at home. The shortage of manpower at the relevant agencies in the face of an ineffective IT system is going to negate any concessions already granted by Government. The resultant delay is likely to throw up issues of quality assurance for some products that are required to be maintained at certain temperature levels or other storage conditions.

The transportation and logistics companies to carry raw materials from the ports to the factories and finished products to distributors and other trading channels are not without their COVID-19 induced peculiar challenges that are completely beyond the control of FMCG companies. For instance, these companies are dealing with human resources issues in respect of their staff who also want to stay away from work during this period for fear of the virus. Some employers also prefer their workers to be away from work to avoid any liabilities for them contracting the virus in the course of work or the disease being transmitted to one staff by the other. Thus, their operations are not at optimal and probably at an extra cost which further impacts production cost. We do know that a company like DHL did make a release of closure during this period.

Infrastructure Deficit to Support Remote Working

The culture of working from home is new to a good number of the Nigerian workforce. Thus, getting that culture right may pose some challenge in terms of dedication and discipline. Power supply and effective internet may militate against the performance of even the well-intended employee. Another related challenge is how to monitor and evaluate performance.

A related problem to the internet is its effectiveness to support a high level of e-commerce that comes at a time when people are restricted from going out.

A CRISIS IS AN OPPORTUNITY TOO GREAT TO MISS - CIRCUMVENTING THE HURDLES TO CONVERSION

Surmounting the challenges identified above is possible, as all there needs to be done is to come up with careful strategies to deal with them. A few tips are offered below.

1.

Take advantage of the e-commerce window by exploring online orders and encouraging your distribution networks in the same direction. The lockdown policy and the consumer behaviour of the millennials dictate this to a large extent.

2.

Localize your transportation and logistics arrangements as much as possible. A lot of the multi-national logistics companies would be subject to their international guidelines at this time and such guidelines may have dictated how much work they can do at this or not do at all. However, special arrangements with reputable local companies and indeed, upcoming ones may help in resolving challenges around transportation, distribution, and delivery of goods. Perhaps, a good time for FMCG companies to have their own logistics department to some extent.

3.

Regular engagements with the regulators are most important at this time. This helps in keeping taps with every initiative specially initiated for this period and you can have inputs or modifications t in a manner that suits your business.

4.

Local sourcing is an evitable route to survival. To avoid a lot of the problems (both external and internal to Nigeria) associated with sourcing, importation, clearance, and distribution of raw materials at this time, companies are encouraged to more than ever before, explore to what extent some of these materials can be sourced in Nigeria and assist in the production to ensure a sustainable supply.

5.

Effective transportation system to convey workers who are essential to the production and operations of the company, to and from work daily with minimal stress.stress.

6.

Infrastructure support for remote workers is a major consideration during this period. The most dedicated worker may be frustrated by lack of power supply, difficulties in purchasing diesel/petrol to run generators or a broken-down generator, internet epilepsy, amongst others. Companies would have to be ingenious with coming up with a package to support workers around these infrastructure issues to ensure maximum performance. This could be by conversion of transport allowance to support some of these or an outright grant for these purposes. The latter is most likely to further encourage employees.

7.

Take advantage of the economic stimuli measures introduced by different financial institutions and authorities, as it might just be the key to your survival during this period and beyond. Loans with reduced interest rates, prolonged moratorium, tax breaks, amongst others.

8.

Human resources challenges are bound to come up. Incomes of companies are being affected and Managements are considering the best ways to stay afloat. The questions have arisen to how much of existing staff are required with the downturn in; how much of their salaries can the company reasonably pay. Answers naturally coming up suggest lay-offs and reduction of salaries. How does the company execute on these without incurring major human resources crisis and litigation? We reckon proper legal advice through the process becomes a sine qua none.

CONCLUSION

This write-up, therefore, recognizes the health and socio-economic crisis that has been foisted on the world by COVID-19 but notes that even in this lies some opportunities for FMCGs to progress their businesses. Nevertheless, these opportunities do not come without their challenges, such that, it is only those companies that have put in place a deliberate strategy to circumvent the challenges and navigate between them and the opportunities thrown up that would be real winners during and post COVID-19.

It is our humble view that succeeding on this path requires the services and expertise of legal advisers to assist with attendant business restructure; loans restructure and taking advantage of palliatives; human resources challenges; regulatory engagements; and general crisis management. Our Firm, Jackson, Etti & Edu with a dedicated focus to the FMCG Sector is well-positioned, knowledgeable and experienced to assist you in navigating through this and coming out as champions.

For more information on any of the issues raised above, please contact our FMCG team below:

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