

FMCG sector: Walking the tightrope between margins and prices

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Issues impacting retailers, manufacturers under the spotlight at The Consumer Goods Forum Global Summit in Cape Town from 15 to 17 June

The fast-moving consumer goods (FMCG) industry in South Africa is currently facing a double challenge of rising input prices resulting from a volatile rand, in conjunction with the knock-on effect on food prices of the severe drought gripping large swathes of the country. How can FMCG manufacturers and retailers mitigate the impact on the bottom line – their own and that of their customers? How can they best walk the tightrope between maintaining profit margins on the one hand and remaining affordable to cash-strapped consumers on the other?



These and other challenging questions facing both FMCG manufacturers and retailers will be cast under the spotlight at The Consumer Goods Forum Global Summit, to be held this year at the Cape Town International Convention Centre from 15 to 17 June 2016. The co-chair of The Consumer Goods Forum and chairman of Pick n Pay Stores, Gareth Ackerman, will host the CEOs from the world's most influential consumer and retail brands, such as Alibaba, Facebook, Walmart, Sainsbury's, Nestle, McCain and PepsiCo, at the prestigious event.

Guy Lundy, a trends analyst and strategy consultant specialising in the retail and consumer sector across Africa, says many FMCG companies have had little choice but to absorb food price inflation by not passing on increased prices to struggling consumers, opting instead for lower profit margins.

"This is affecting especially the manufacturers of dairy and chicken products, which have small margins to begin with. Especially the multi-nationals, who have to report to their parent companies in foreign currency, are bearing the brunt – their revenue targets are eroded each time the exchange rate goes down," Lundy says.

He says FMCG companies are reacting to these challenges in two ways:

- Consolidation and mergers – to effect enhanced economies of scale – have increased in recent years, as have moves to diversify into new product areas.
- Companies have used their resulting increased muscle to expand into markets north of South Africa in an effort to reduce reliance on the local market to stay afloat.

FMCG companies are also striving to contain food price inflation by driving efficiencies throughout the supply chain through the use of technology such as radio frequency identification (RFID). This technology enables companies to see exactly how long it takes a particular product to leave the factory and eventually end up in the hands of the customer. The data generated is enabling manufacturers and retailers to collaborate on joint solutions to dramatically improve efficiency.

Ruediger Hagedorn, senior manager, collaborative value chain initiatives and projects at The Consumer Goods Forum, says: "This need for efficiency is extremely important. By working together and taking an end-to-end value chain approach, the 400 members of The Consumer Goods Forum are looking at effective ways to drive this efficiency across geographical and company borders. Our member companies are actively collaborating to address and anticipate these changes and are aiming for interoperability and scalability through applied voluntary processes and standards and improved tools and systems. This will not only help keep supply chain costs down, but will also help secure greater consumer trust."

Lundy adds that there has also been a tendency in the FMCG industry towards 'tooling up' in terms of modern machinery to increase the speed of production and reduce costs. "Robotisation and mechanisation wherever possible is now the norm across the sector, and over the past few years, companies have been increasingly investing in newer technology to replace older machines," he says.

More than 800 delegates from over 365 companies in 40 countries will debate issues such as sustainability, food safety and security, and global environmental practices at The Consumer Goods Forum Global Summit – the first of its kind on the African continent. Manufacturers, retailers and service providers within the consumer goods industry can register [here](#) to attend.

Read more at <http://www.theconsumergoodsforum.com/> and <http://www.tcgfsummit.com/>.

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