

'The Big Rip-Off'

'Sura Traders Take Customers to the Cleaners'

Efficient market hypothesis has shown that perfect markets (pure competition) are most efficient in the allocation of resources. It also suggests that deviation from this market model creates room for distortions. A recent study carried out by Financial Derivatives Company (FDC) and Channels Television reveals that some commodity prices in Sura market are on the average 20% higher than Oyingbo. This is probably due to the fact that the market is closer to the elites, thus validating the notion that in the real world, markets are far from perfect.

The objective of the study amongst others is to identify the factors responsible for price differences as well as the impact of the covid-19 pandemic on food prices. The possible effects of the Third Mainland Bridge closure on commodity prices were also considered. A recent study by traffic monitors revealed that the average travel time in Lagos metropolis is approximately 2 hours during the peak period. The metropolis loses about N4.6trillion on an annual basis due to traffic congestion. The closure of the bridge will further reduce labour productivity, increase revenue losses and widen price differential across markets.

The study also shows that market proximity, higher logistics costs and income inequality play a crucial role in commodity pricing across markets.

INTRODUCTION

Price discrimination is a characteristic of imperfect markets, where identical products are sold at different prices in different markets. There are four major types of market structure ranging from 'monopoly' to 'perfect competitive market'. In-between the spectrum are monopolistic competition and oligopoly. It is believed that perfect markets are most efficient in resource allocation due to its features (perfect information and freedom of entry and exit). Hence, any deviation from this model will create room for distortions. Unfortunately, real world markets are mostly imperfect. The nature of these markets creates room for price discrimination.

The reasons for price discrimination include:

- **Differences in the slope of the demand curve:** Sellers tend to charge higher prices in markets where demand is relatively price inelastic. In this kind of market, buyers are less price sensitive.
- **Market segmentation:** The distance between two markets and the attendant costs of navigating both markets also influences the extent to which sellers can practice price discrimination.

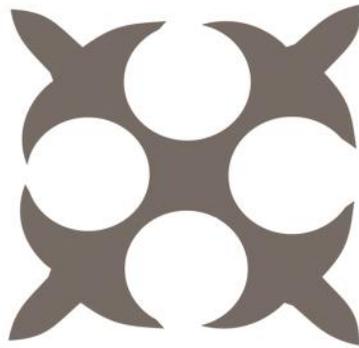
It is in this context that we carried out a survey in three of the major food markets in Lagos state (Iddo, Oyingbo and Sura) to identify the factors responsible for price differential as well as the impact of the covid-19 pandemic on prices. We also considered the possible effects of the Third Mainland Bridge closure on commodity prices.

SUMMARY OF FINDINGS

Section (A): Factors Responsible for Price Deviation

- **Market proximity:** We observed relative price stability in markets with close proximity. On the average, commodity prices at Iddo and Oyingbo markets are relatively the same while Sura market is approximately 20% higher than Oyingbo. We also noticed that both Iddo and Oyingbo markets are landing points for agric commodities, which to a large extent affects pricing.

Food Items	Iddo (N)	Oyingbo (N)	Sura (N)
Garri (Bag) Yellow	21,000	21,000	22,000
Cap Rice (50kg Bag)	27,000	28,000	28,500
Beans (Bag) Oloyin	18,000	18,000	20,000
Plantain Bunch	2,500	2,000	3,000
Yam 1 Tuber (Large)	2,000	2,000	2,000
Beef	1,700	1,500	2,000
Palm oil (5 litres)	2,400	2,500	2,500
Pepper (Big Basket)	20,000	15,000	22,000
Tomatoes (Big Basket)	40,000	35,000	43,000
Onion bulb (Big Bag)	35,000	30,000	37,000



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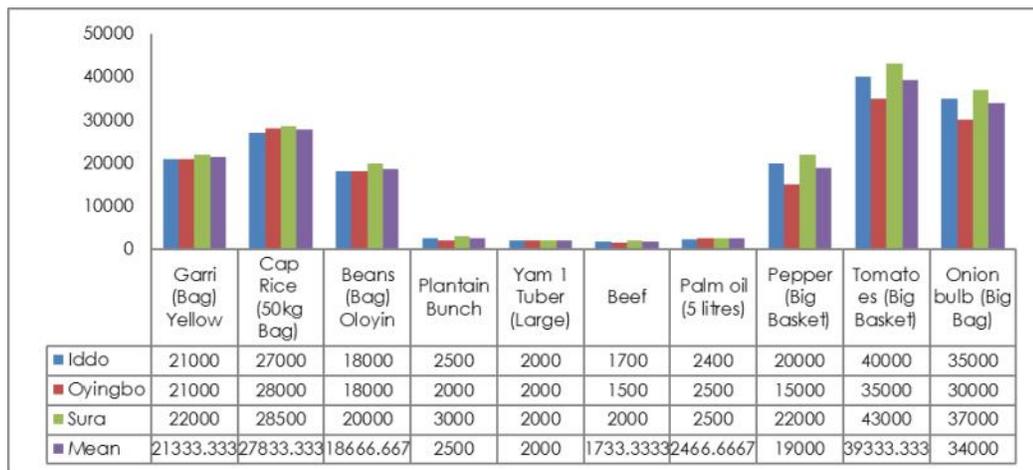
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- Geographical Location and Demography:** On the average, food prices were 20% higher in Sura market than Oyingbo. This is partly due to the geographical location of the market as well as the income level of buyers. Sura is closer to Ikoyi, Lekki and VI while Oyingbo is closer to Yaba and Ebute Metta. It is perceived that individuals with higher income levels tend to be less price sensitive.
- Higher Logistics Costs:** Another major factor influencing commodity prices in various markets is the increase in transport costs. The farther the market is from the production point, the higher the cost of logistics and this reflects in commodity prices. On the average, logistics costs have surged by over 50% in the last 4 months.
- Perishables:** The nature of the product also affects pricing. This is because lack of adequate storage facilities prompt sellers to lower prices to encourage timely sales.

Section (B) Deviation of prices from the mean

The graph below gives the average prices of food items tracked in the three markets – Iddo, Sura and Oyingbo. On the average, food prices were higher in Sura Market, partly due to the geographical location, income level of buyers as well as its distance from the other two markets (higher logistics costs). The slight difference in the price of beef could be largely due to the nature of the product (highly perishable). Even though, our study shows a wider difference in the price of other perishables such as tomato and pepper, it could be largely due to the timing of the survey as the prices of these commodities tend to decline in the evening.



Deviation from the mean

The table below shows the deviation of prices from the mean across the three markets. Our survey shows a wider price deviation in Sura market as commodity prices were mostly higher than the average (mean) across the three markets. The reason for this is not farfetched as the close proximity of Iddo and Oyingbo reduces the chances of price disparity.

Food Items	Deviation from mean (Iddo)	Deviation from mean (Oyingbo)	Deviation from mean (Sura)
Garri (Bag) Yellow	-333.33	-333.33	666.67
Cap Rice (50kg Bag)	-833.33	166.67	666.67
Beans (Bag) Oloyin	-666.67	-666.67	1,333.33
Plantain Bunch	0.00	-500.00	500.00
Yam 1 Tuber (Large)	0.00	0.00	0.00
Beef	-33.33	-233.33	266.67
Palm oil (5 litres)	-66.67	33.33	33.33
Pepper (Big Basket)	1,000.00	-4,000.00	3,000.00
Tomatoes (Big Basket)	666.67	-4,333.33	3,666.67
Onion bulb (Big Bag)	1,000.00	-4,000.00	3,000.00

Section (C): Pandemic Impact on Food Prices

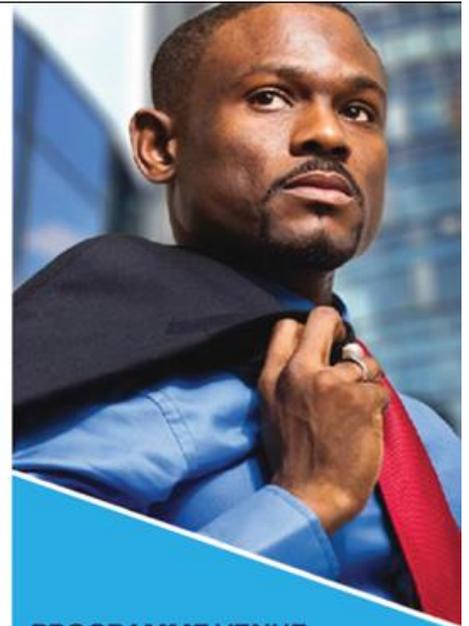
The covid-19 pandemic has roiled both global and domestic commodities markets. This is evident in the spike in food prices as seen in the table below. On average, commodity prices have jumped by over 100% in the last 6 months. The impact of this would be compounded by the closure of the 3rd Mainland Bridge.

Food Items	Jan'20 (N)	Jul'20 (N)	% change
Garri (Bag) Yellow	7,200	21,000	191.7 
Cap Rice (50kg Bag)	27,500	28,000	1.82 
Beans (Bag) Oloyin	15,000	18,000	20.0 
Plantain Bunch	1,200	2,000	66.7 
Yam 1 Tuber (Large)	800	2,000	150.0 
Beef	1,200	1,500	25.0 
Palm oil (5 litres)	2,000	2,500	25.0 
Pepper (Big Basket)	6,000	15,000	150.0 
Tomatoes (Big Basket)	8,000	35,000	337.5 
Onion bulb (Big Bag)	15,000	30,000	100.0 

2020 EXECUTIVE EDUCATION PROGRAMMES

EXECUTIVE PROGRAMMES	DATE	FEE
Advanced Management Programme 34	Starts- June 15	N5,740,000
Advanced Management Programme 35	Starts- August 24	N5,740,000
Management Acceleration Programme 8	Starts- June 22	N1,095,000
Management Acceleration Programme 9	Starts- August 24	N1,095,000
HR Academy	Starts- July 13	N1,800,000
Senior Management Programme 76 (Lagos)	Starts- July 13	N2,932,500
Senior Management Programme 77 (Abuja)	Starts- June 22	N2,950,000
Senior Management Programme 78 (Lagos)	Starts- October 5	N2,932,500
Owner Manager Programme	Starts- September 7	N2,900,000

ONLINE PROGRAMMES	DATE	FEE
Strategic Marketing for Competitive Advantage	June 19 - July 19	N35,000
Making Strategy work in times of global disruption	July 16 - August 6	N100,000
Remodelling Sales for Enhanced Productivity	June 26 - July 17	N150,000
Turning Strategy into Action	August 10 - 14	N262,500
Authentic Leadership	July 6 - August 21	N296,000
Women in Leadership	August 4 - 7	N198,750
Advanced HR Management	July 28- 29	N165,000
Building and Leading the 21st Century Team	August 12 - 22	N273,500
Understanding the Agribusiness Value Chain Seminar	August 13 - September 3	N127,000
Stepping up to Management	September 29 - 30	N165,000
Managing People for Strategic Advantage	August 4 - 6	N232,500



PROGRAMME VENUE

Km 22, Lekki-Epe Expressway,
Ajah, Lagos

TIME: 9:00 am - 5:00 pm

PRIOR REGISTRATION

is mandatory to secure a place on
the seminar.

Discounts (only one category applicable)

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Financial Times London



Section (D): Impact of the Third Mainland Bridge Closure on Commodity Prices

A major concern recently is the adverse effect of the 3rd Mainland Bridge closure on commodity supply and prices. According to a recent report by the Lagos Business School, 1,600 of 25MT, 5,060 of 8MT and 13,500 of 3MT trucks bring foodstuff into Lagos state on a daily basis. The closure of the Bridge implies that vehicles will have to use alternative routes, thereby increasing traffic. The resulting impact will be disruption in the commodity supply chain and an increase in food inflation (currently 15.18%). There will also be a reduction in the average food consumption as consumers rationalize their spending.



Section (E): Key Challenges in the Food Value Chain

- **Insecurity:** A major threat to food security is the herdsmen crisis and insurgency in food producing states. The fear of being assassinated has prevented farmers from operating at their full capacity. The resulting impact of this is a shortfall in commodity supply, which creates some sort of market disequilibrium, thereby pushing up prices.
- **Higher transport costs:** Logistics costs have consistently remained a threat to commodity prices. This was compounded by the 18% increase in the pump price of PMS. In the last 4 months, average cost of transportation has increased by over 50%. This is weighing on profits and further pushing prices up.
- **Weak demand:** There has been reduced demand due to a fall in consumer disposable income as a result of the Covid induced economic paralysis. Consumers are rationing income to effectively meet their daily needs.
- **Inadequate storage facilities:** Poor storage facilities especially for perishables like tomatoes and pepper is also a major constraint to supply. This coupled with seasonality, production constraints and weak demand, are widening the gap between the actual and equilibrium price.

- **Partial re-opening of the market:** The staggered operations of food markets are weighing on the ease of loading-to-sale process of major markets such as Iddo. On market days, traders now have to worry about off-loading, stocking and also attending to customers simultaneously. This has resulted to delays in the loading schedule. Another effect is the overcrowding at markets, which is a major concern for increasing community spread of the virus.

Section (F): Conclusion

Price discrimination is not Nigeria-specific but a universal phenomenon. It is a natural function of higher logistics costs and location. The impact of this will be compounded by the closure of the 3rd Mainland Bridge. To attain food sufficiency and avert food insecurity, it is imperative to address the long lasting issues affecting the food supply chain (distribution and storage). Logistics and adequate storage facilities are highly essential to ensure availability and affordability of food.

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