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Retail Food Sector

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Report Highlights:

Prospects exist for U.S goods and services despite the general economic slowdown (GDP growth rate of 1.3%). There is a growing supermarket industry in Kenya and competition intensifies. Agents/distributors remain the key to developing exports of U.S consumer-oriented food items.

Includes PSD changes: No

Includes Trade Matrix: No

Annual Report

Nairobi [KE1], KE

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Market Summary

- Organized retailing accounts for 20% of the total market share, targeting upper and middle-income groups. These market segments reside in the urban centers. The informal sector is the largest (70-80%) and rural based where the bulk of the population lives.
- 70% of the products sold are locally produced and 30% imported from the European Union, Middle East (World Trade Center- Dubai), South Africa among other countries.
- The convenience, power of self-selection, competitive pricing and comprehensive product range is a growing trend of the food retail sector.
- Two supermarkets (Uchumi and Nakumatt Holding Ltd.) dominate the retail sector in terms of volume of sales and branch network of retail outlets. Metro Cash and Carry, a wholesale and retail South African firm ranks third.
- The supermarkets sell a wide range of goods from groceries to household goods, electrical appliances to furniture, toys to clothing, stationery to cosmetics. The average annual turnover of these supermarkets is about US \$ 50 Million and they have over 8 retail outlets in the five major urban centers in the country.
- The other (mini-supermarkets) have an annual turnover of US \$ 0.625-2.5 Million and 1 to 3 retail outlets in Nairobi, strategically located near public transport designated areas and/or residential areas.
- The large expatriate community, a growing urban middle class (5 to 10 percent of the population) and exposure to the Western lifestyle accounts for the increased demand. The urban population is 10 to 12 per cent of the total population and tend to have more disposable income than their rural counterparts.
- 1999/2000 fiscal year recorded an increased supply of foodstuffs and lowering of value added tax from 16% to 15%. Generally, imports of food and beverages dropped by 11%. The inflationary rate has remained relatively stable at 3.5% in 1999/2000 fiscal year.

Advantages	Challenges
On-going restructuring of the Kenyan economy is enhancing free trade.	Long distance between Kenya, and US consequently, high product pricing. Quotation of C.I.F. Vs f.o.b. is more favorable.
The image of imported products is positive.	Lack of promotional activities (trade/food shows) of US products.
Growing trend of the retail industry due to a growing urban population and exposure to the Western lifestyle.	US goods are more highly priced than those of competitors. Buying decisions are more price sensitive than quality conscious.
Generally, the low quality, packaging and labeling of the locally produced goods compared to the imported give the latter comparative advantage.	Lack of brand awareness and product awareness by the importers, consumers and the retailers.
Inconsistent supply of imported goods.	High tariff rates and bureaucracy involved in clearing imported food products.
	Limited infrastructure and inefficient distribution system.

Section II. Road Map to Entry

A. Supermarkets and Hypermarkets

Entry Strategy

On-going restructuring of the Kenyan economy is supporting increased trade. The government has opened up the market to more entrants. Product representation and personal contact is crucial for effective market coverage. This can be achieved through one or a combination of the following:

- Establishing a local distributor or representative.
- Selling through an agent or distributor or
- Joint ventures with established outlets.
- Using the Cochran Fellowship Program to expose the industry to the US trade shows (FMI/US Food Export Showcase in Chicago, Gulf Food 2001 etc.) or US exporters participating in Kenya's annual shows, specifically, the Agricultural Society of Kenya's show in Nairobi and HORTEC (fresh produce) show.

By stocking high volume of goods and making them readily available to the market, the Kenya-US freight time will not be an issue. Currently, distributors/agents source the US goods from either consolidators in United Arab Emirates or Europe. The market is too small to warrant the establishment of a manufacturing plant.

Market Structure

Kenya's food wholesaling and distribution is relatively simple and direct.

- No direct importation from the United States. Products from the US are imported via consolidators in Dubai(United Arab Emirates) or suppliers in South Africa.
- Importing Companies or agents sell the goods directly to the supermarkets and/or through appointed distributors/wholesalers. They do no promotional activities, unlike the local manufacturers.
- Locally manufactured goods are sold either directly to the supermarkets and/or through appointed distributors. Apart from the wholesalers/distributors, most of the small retail shops do purchase from the bigger ones (supermarkets).

Company Profiles

Retail Name and Outlet Type	Ownership	Sales	No. of Outlets	Locations	Purchasing Agents
Uchumi Supermarket, hyper	Local	US\$ 96 Million (2000) US \$ 86 Million (1999)	18 15 of the outlets are concentrated in Nairobi.	Nairobi, Mombasa, Eldoret, Nakuru, Kisumu	Directly from local manufacturers and Agents
Nakumatt Holdings Ltd. Supermarket	Local	US\$ 44.5 Million(1998)	8 (5 of these outlets are in Nairobi).	Nairobi, Mombasa, Eldoret, Kisumu.	Directly from local manufacturers and Agents
Metro Cash and Carry Wholesale, Retail	Foreign	N/A	2 (another outlet to be opened in Eldoret by Feb.2001)	Nairobi, Kisumu	Importer, Wholesaler/ Agent Direct purchase from local manufacturers.

Competition is through pricing and comprehensive products range (local and imported). Bulk buying and economy of scale result in competitive buying prices, hence, lower shelf prices.

The location of branches in strategic places encompassing a good catchment area combined with long operating hours including weekends and public holidays allows everyone especially the working person the convenience to shop.

Local advertising agencies and affiliates of international advertising agencies and market research companies complement this. The most widely used advertising media being the press, television and radio.

B. Convenient Stores, Gas Marts, Kiosks.**Company Profiles**

Retailer Name and Market Type	Ownership	Sales	No. Outlets	Locations	Purchasing Agent Type
Mini-supermarkets (Independent stores)	Local	US\$ 0.625 – 2.5 Million (1999)	1 to 3 outlets per mini-supermarket	Nairobi and small trading centers in the outskirts of main centers.	Distributors/ Agents, From the bigger supermarkets in category A and a few of them directly from the manufacturers
Convenient stores/gas marts	Multi-national Oil Companies (Mobil, Caltex, Shell, BP and Total)	N/A*could not disclose this information.	Caltex-14 Mobil-20 BP-10 Total-18 Agip-N/A Elf-N/A	Gas stations in the 5 major urban centers(Nairobi, Mombasa, Eldoret, Kisumu, Nakuru)	Local Wholesalers/Distributors *Mobil Mart also buys directly from the manufacturers

Convenient stores and gas marts sell a limited line of basic foodstuffs and imported candy, confectioneries and snack foods purchased from local distributors. The price of goods is often higher than that of the supermarkets and range of goods limited. Most of the gas marts also do sell fast foods.

Entry Strategy

A local agent/distributor can ensure that products are consistently available in the market.

C. Traditional Markets

Characterized by small retail shops located mainly by the roadside and rural centers. Street hawking also falls under this category. Very basic foodstuffs and convenient household goods are sold at a "reasonable" price. The limited supply is

drawn from the larger supermarkets or wholesale distributors. This market serves the low-income group. Imported products are very difficult to sell in this market. No entry strategy would therefore, be recommended.

Section III. Competition

- European Union (largely the United Kingdom) is the biggest supplier of the imported goods followed by the Middle East and South Africa. There is no direct importation from the U.S. but via South Africa and/or the United Arab Emirates (Dubai). The US market share is therefore, very small.
- Multinationals like Unilever, Nestle, Proctor and Gamble, Cadbury, Best Foods (formerly CPC Ltd.) have processing plants in the country. Their existence makes the locally produced goods cheaper than the imported. Some do import similar products to meet the local demand from their branches in either Europe or South Africa.
- Among the sectors that have expanded rapidly are snack foods, soups and sauces, tinned foods (corned beef, Tuna Fish, beans, jams and marmalades, cherries, peanut butter), dairy products (cheese and powdered milk), fruits and fruit juices, salad and vegetable oils.
- The limited wine market is dominated by brands from South Africa, Italy, France, Germany, Spain, and Hungary.
- The products present in the market from the U.S. are Heinz tomato sauces, Cherries-Maraschino, peanut butter, mayonnaise (American Garden products) and some varietal Californian wines.

Section IV. Best Product Prospects

Local production of the following products is wanting in terms of quantities and quality.

A: Products present in the market, which have Good Sales Potential

- Breakfast cereals
- Sauces and soups (e.g. Tomato sauce)
- Salad dressings (e.g. Mayonnaise) and vegetable oils.
- Bread spreads like peanut butter, jams and marmalades
- Confectionery items, candies, nuts, salted snacks etc.
- Rice, sugar, milk and milk products.

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

- Breakfast cereals (the dominant brand is Kellogg's imported from the UK)
- Dairy products-cheese and powdered milk (from New Zealand, and EU),
- Pet foods (from UK and the local manufacturers)
- Confectionery items, candies, nuts and salted snacks.
- Fruit Juices; supply is inconsistent and the local production does not meet the demand.
The imported juice is mainly from South Africa.
- Rice, sugar and beans

C: Products not Present Because They Face Significant Barriers.

Quarantine requirements restricts importation of non-processed poultry and meat products. Any imported foodstuff is required to meet specified standards as stipulated by Kenya Bureau of Standards depending on the credibility of the country of origin and/or pre-shipment inspection.

Section V. Post Contact and Further Information

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