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Retail Food Sector

Market Dynamics in Kenya's Retail Food Sector (Supermarkets)

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Report Highlights:
Despite the current situation in Kenya's retail food sector (supermarkets), the market continues to be viable and vibrant. Good prospects exist for U.S. food and agricultural products.

Includes PSD Changes: No
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Market Dynamics in Kenya's Retail Food Sector (Supermarkets)

Kenya's retail food sector has in the recent past been dominated by two major supermarket chains namely, Uchumi Ltd. and Nakumatt supermarket. Both chains reportedly have a combined market share of 70 per cent. The other 30 per cent is shared between second tier and independent stores such as Tusker Mattresses, Ukwala Supermarkets, Skymart, and Woolmart etc.

In the last five years, the sector experienced rapid growth both in sales volume and number of retail outlets opened countrywide. The market has also experienced dynamic shifts in customer and brand loyalty. This was as a result of competitive pricing, comprehensive product range and introduction of non-traditional conveniences such as pharmacies, bookstores, automated teller machines, and delicatessens, fresh produce section, bakeries and even in-store restaurants.

As a result of the rapid growth, some of the less competitive supermarkets such as Metro Cash and Carry (South African) have closed. Unlike the Ugandan and Tanzanian markets where the South African chains Shoprite and Game dominate. Local Kenyan supermarkets are strong enough to make it difficult for foreign competitors to get into the market.

Uchumi Supermarkets

Uchumi is currently the only publicly listed supermarket chain in East Africa, trading in the Nairobi Stock Exchange. The Government of Kenya (GOK) is a minor shareholder (9.5 per cent), others being, Kenya Wine Agencies Ltd. (KWAL) and Industrial and Commercial Development Corporation (ICDC).

Previously, Uchumi supermarket was the largest and most popular retail outlet both in terms of network of outlets and number of customers. It was credited for having revolutionized the retail food sector by giving customers a variety of products to choose from and introducing the concept of self-service. It has also been a major outlet for local manufacturers and suppliers of fresh produce (over 2500 suppliers with an 85 to 15 ratio in favor of local suppliers vis-à-vis imports). The name 'Uchumi', which is Swahili for economy, has a very strong retail heritage.

The October 30, 2001 earnings announcement of a 68 per cent decline heralded the beginning of a trend. Prior to this, the supermarket had reported profits annually for 14 years, maintained a significant growth in turnover over the same period and had no long-term liabilities. Uchumi was so liquid that excess funds had been invested in treasury bills.

Detecting trouble, the Board of directors appointed a new Managing Director who started a major house cleaning through, cost cutting, hiring of new managers, sprucing up the brand image and launching of new products. Uchumi embarked on major national and regional expansion strategy that would cost Kshs. 2.5 billion (US $ 32 million) in five years and spent Kshs. 400 million (US $5 million) on capital expenditures such as an inter-branch information technology network. The new managing director's turnaround strategy was to invest the excess funds in the company's core business instead of the money market.

The expansion strategy did not pay off as expected. A spate of spiraling costs emanating from expansion, coupled with sluggish sales growth against a backdrop of a declining revenue growth sank the company deep into debts and deferred dividend payouts.

The Kshs. 246 million (US $ 3 million) losses recorded by the chain at the end of financial year 2003 left the market shaken as year 2002 had recorded a Kshs. 80 million (US $ 1 million) pre-tax profit. A net loss of Kshs. 699 million (US $ 9 million) was announced in 2004.

The media reports that mismanagement, corruption, inefficiencies and the high cost of operations are the main factors that caused the downward trend, leading to a significant drop in the share price.

In 2005, the retail chain faced serious financial challenges that saw its shareholders inject Kshs. 1.1 billion (US $ 15 million) through a rights share issue.

The fall: Uchumi supermarket however, went down in June 2006 under the weight of indebtedness and was closed after the management board declared it insolvent. It owed creditors (banks and suppliers) more than Kshs. 3 billion (US $ 41 million) against a total asset base of Kshs. 1.8 billion (US $ 24 million). This left the consumer market with no option but to shift loyalty to remaining chains.

The rescue effort: After 45 days of closure, the GOK injected Kshs 675 million (US $9.4million), as part of cash required to kick start Uchumi's business operations. Various shareholders are expected to inject some Kshs. 300 million ($ 4.2 million) as part of recapitalization of the Company. Key Uchumi creditors, Preferential Trade Area (PTA) bank and Kenya Commercial Bank (KCB) have formally agreed to a 12-month moratorium on the company's principal loans. Key suppliers have accepted a staggered payment plan for outstanding amounts owed to them with firm commitments on their part to resume supplies.

The chain initially re- opened 5 of its super stores within Nairobi down from 30 stores countrywide. And has announced as July 27, 2006 that all other branches will soon re-open.

At national level Uchumi has provided ethical competition in the supermarket and retail business and also served as a check against monopolistic tendencies by one or two chain supermarkets. Despite its financial problems, Uchumi has been tax compliant and (one of the top 40 taxpayers in the country) and has not defaulted on its loan repayments.

Nakumatt Holdings Ltd.

Nakumatt is a privately owned supermarket chain and previously, the second largest player in the market, but now the most significant in light of Uchumi's woes.

It is credited for developing exclusive in-store outlets that offer a wide choice of local and international brands. Nakumatt has mastered the law of successful retailing by transforming shopping into a lifestyle experience providing everything from automobile spares, clothing, furniture, music equipment, restaurants, shoes, photo labs etc. The chain store has 17 outlets strategically located in the major towns/cities countrywide (Nairobi, Mombasa, Kisumu, Eldoret) targeting the high-end market.

To compound the challenges facing the retail market sector, Nakumatt is reported to be under investigation on claims of tax avoidance and evasion amounting to Kshs. 18 billion (US $ 243 million) adding further uncertainty in the market.

Tusker Mattresses Ltd.

A family owned business that has expanded in the recent past, is increasing competition within the market. It targets the middle and low-income consumers.

The chain store has 12 outlets strategically located near bus stations/public transport system and spread within the major towns in Kenya (Nairobi 8 stores, and one store each in Eldoret, Nakuru, Athi River and Ongata Rongai). Tusker Mattresses is also reported to be under investigation on claims of tax and evasion.

Ukwala Supermarkets

Another family owned business and at relatively the same market level with Tusker Mattresses. Basically, targeting the same kind of customers and competing on price.

The chain store has 8 outlets located in Nairobi (5) and Eldoret (3).

Other Retailers

There are an estimated 40,000 retail outlets in Kenya according to trade sources, 70 per cent of which are based in Nairobi.

The Future

It is not competition or adverse market conditions but sheer incompetence, poor management and lack of business ethics that distort the market in Kenya.

The retail food sector is continues to be viable and vibrant even taking into account the issues raised above. When Uchumi closed two months ago, more than 30 companies put in bids to buy it. Second-tier players have intensified their presence in the market through promotions and price offers since the fall and rise of Uchumi supermarkets.

Good prospects exist for U.S. food and agricultural products in Kenya. Finding and working with good agents and distributors remains the key to developing exports of U.S. consumer-oriented food items.

Consumer purchase decisions are largely based on brand awareness, market value and service level. With the modest growth in the economy over the last three years consumer spending is expected to increase as well. The consumer has become more sophisticated, demanding quality, variety and exceptional service