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Kenya

HRI Food Service Sector

Report

2002

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Report Highlights:
U.S. exporters of high value consumer products face intense price competition in the Kenyan HRI sector. The HRI sector 's core business is food service with little direct importation. Typically, imported products are handled by a core group of key traders/wholesalers. The HRI sector access new U.S. consumer products through the supermarkets.

Includes PSD changes: No
Includes Trade Matrix: No
Annual Report
Nairobi [KE1], KE

Section I. Market Summary

Despite the last five years of economic stagnation, Kenya is an emerging market with potential for U.S. consumer products. Most products are locally sourced with the rest being sourced from South Africa, EU countries and United Arab Emirates. Changing eating habits and a growing tourist industry are some of the factors contributing to increased demand in the hotel and restaurant industry.
The hotel and restaurant industry is simple but diverse. The food service sector is divided into hotel and restaurants; most of the classified hotels are located in Nairobi and at the Coast and the restaurants are found in the major cities.

Advantages and Challenges Facing U.S. Products in Kenya

Advantages	**Challenges**
U.S. producers offer quality and variety of products for the food service industry.	Higher prices for U.S. food products relative to local market products.
U.S. products have a positive image in the East African region.	Lack of awareness of the variety, diversity and service of U.S. products by the Kenyan importers, distributors and consumers.
The growing tourist industry is demanding more international foods.	High tariffs and bureaucracy involved in importation of foodstuffs discourages would-be interested importers of U.S. food products.
	Proximity of South Africa and Europe to the East African market.

Section II. Road Map For Market Entry

A. Entry Strategy

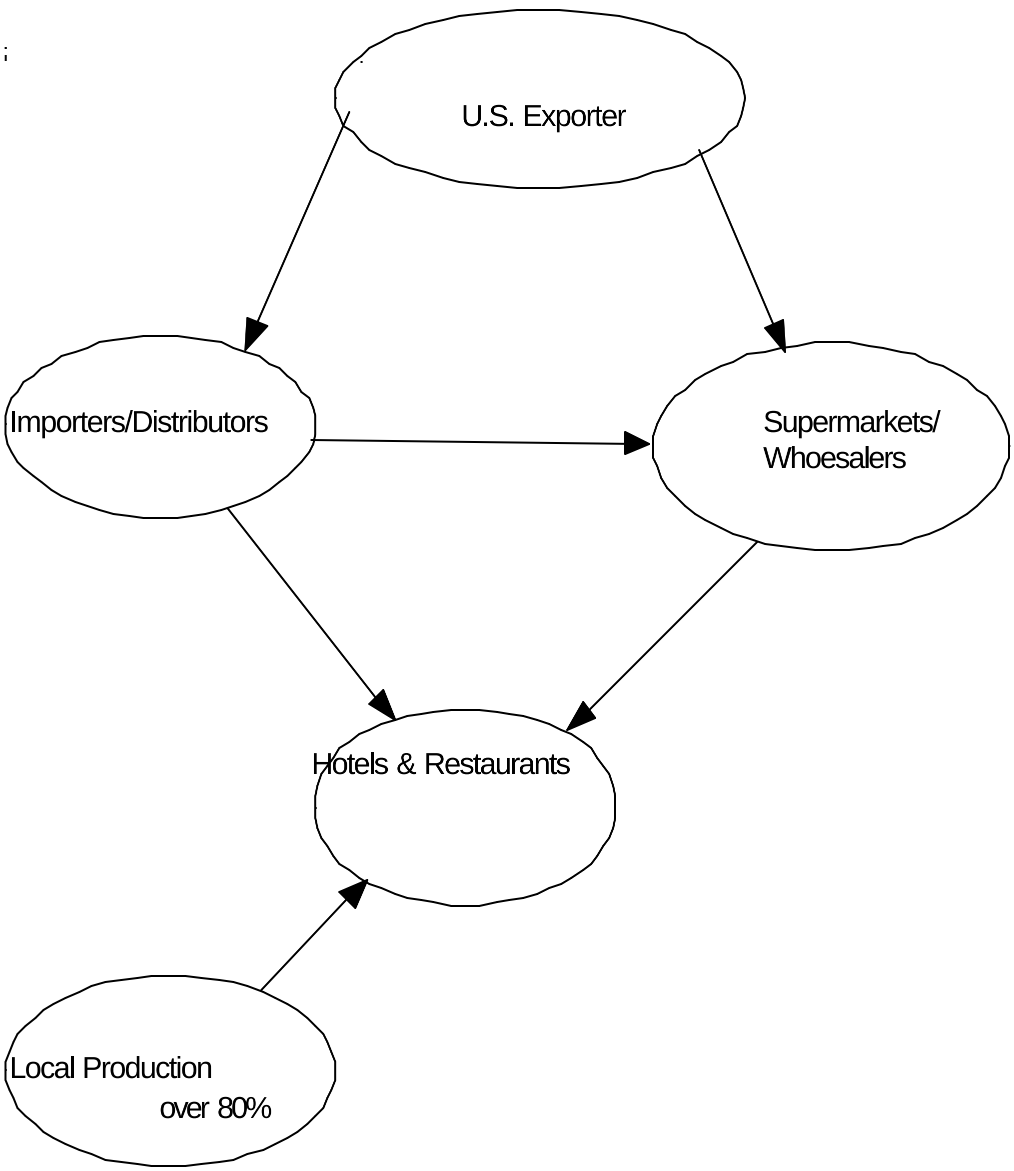
The best way for a U.S. company interested in exporting products to the HRI market is to find an importer, distributor or wholesaler who will take care of all the customs clearances and will advise the exporter how to comply with all the regulations for each product, such as labeling, packaging, import duty, sanitary regulations, etc.

B. Market Structure

Most of the classified hotels and restaurants have a central purchasing department. Owners of kiosks, small cafeterias and restaurants, which account for the largest number of outlets, purchase fresh produce from the local market. Beverages are bought through distributors, a sector that is well organized. About 80 per cent of non-perishables are also purchased through wholesalers and the dominant supermarkets. The hotel groups and fast food chains have more organized purchasing channels, thus being more competitive.

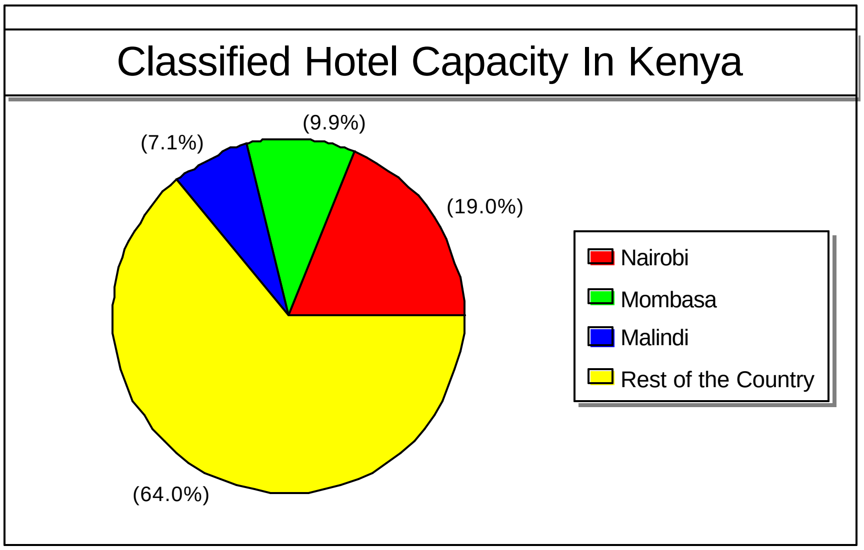
There is little direct importation from the U.S. by hotels/restaurants. Companies in the food service sector buy mainly from importers, distributors, agents and /or the dominant supermarkets.

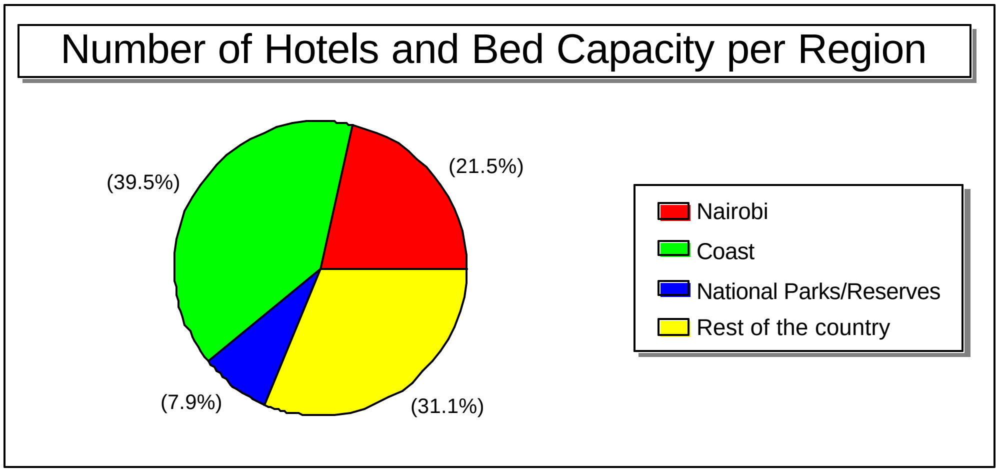
Distribution Channel

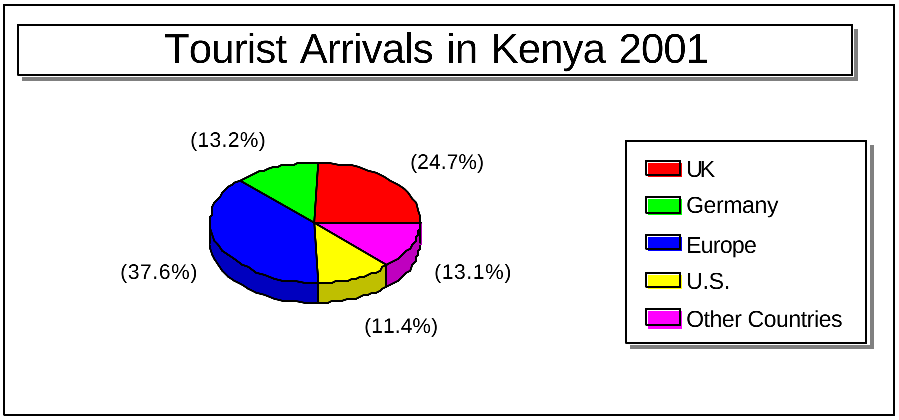


C. Sub-sector Profiles
1. Hotels

Hotels are a very important sector in the Kenyan tourism industry. Kenya is a popular tourist destination, tourism being the third largest foreign exchange earner in the country. There is a wide variety of hotels throughout the country ranging from those with high international standards to simple inexpensive holiday hotels. In addition to this, there are tourist lodges in nearly all the major national parks (26) and reserves (29) in the country. The tourism infrastructure is well developed and in continuous expansion. In 2001, there were 2228 classified hotels with 22,503 beds. Classification of hotels refers to the 1 to 5 star range. America was the third largest contributor of bed nights in Kenyan hotels. In 2000, the number of bed-nights by American clients went up significantly by 35 per cent from 209,900 in 1999 to 283,000. Ninety seven per cent of the hotels are in the 1 to 3 range while the remaining 3 percent are 4 to 5 star hotels. Most of the 4 to 5 star hotels are located in Nairobi and Mombasa.







2. Restaurants

With changing eating habits, fast food chains, local restaurants and resorts are expanding in the major cities. Fast food chains and restaurants catering to the young and more affluent generation, are using more of the local than imported products.

In 2001, there were more than 1,520 licensed food outlets comprising of:

Restaurants – African, Asian (Indian,), European (Italian, French), Mexican, and Oriental (Chinese, Korean, Thai, Japanese),

Fast food chains – Steers Restaurants, Burgerdome, Debonairs Pizza, Innscor Kenya Ltd. (Nandos, Pizza Inn, Chicken Inn, Creamy Inn, Bakers Pies, Ice N Igloos; all from South Africa) and Wimpy Restaurants and Kiosks/open air markets.

Actual classification is going on now, and therefore, readily available data on categorization and numbers is not available.

3. Institutional

The number in the institutional food service sector is uncertain but they do exist. GOK does not categorize these as restaurants and/or fast food chains and therefore, are not subject to the government regulations on the food service sector.

Section III. Competition

U.S face intense competition in HRI trade because of price sensitivity. Kenyan importers buying decisions are price-driven, thus, more responsive to low cost suppliers from South Africa and the EU countries.

Domestic suppliers are the main competition for U.S. suppliers particularly on fresh produce. Others are South Africa, EU and the United Arab Emirates, the primary advantage being lower shipping costs and price of the product.

In 2001, the bulk of imported agricultural products totaled $ 46 million, of which $ 19 million were imports from the U.S, 31% from the EU and 30% from the Middle East.

Food service companies solely rely on local suppliers for imports as well as local goods. U.S. exporters therefore, need to concentrate efforts on working with Kenyan importers and/or distributors to this sector.

Section IV. Best Products Prospects

A. Products in the market which have good sales potential

Generally a wide range of the dry groceries. Specifically,
Breakfast cereals
Snack foods (popcorn, sweets, confectioneries, etc...)
Canned foods
Nuts and dried fruits (almonds, peanuts, hazelnuts, walnuts).
Salad dressings
Soups and sauces
Rice (brown long grain US rice and the parboiled)
Bread Spreads (jams, jellies marmalade, etc.)

B. Products not present in significant quantities but which have good sales are as follows:

All product categories mentioned in (A) above. In addition to this, California wines, energy drinks, processed fruit and vegetable juices are attractive to the Kenyan market.

South Africa, France and Italy are the main competition for U.S. wines.

C. Products not present because they face significant barriers.

Imported processed foodstuffs must meet specified standards as stipulated by the Kenya Bureau of Standards which is the government's certifying body. In absence of the Kenyan Standards, the Codex Alimentarius standards apply.

The GOK restricts imports of agricultural commodities that could distort local production and/or local market by imposing high tariffs. For instance, to protect the local dairy industry, duty on imported powdered milk is 60 per cent, for meats and poultry products, 35 per cent.

Importation is also restricted for foodstuffs with ingredients considered unfit for human consumption. For example, products with non-nutritive sweeteners (aspartame, potassium cyclamate, sodium saccharine, etc.)

There is no current requirement to label foodstuffs which may contain genetically modified ingredients. A draft policy on biotechnology and related aspects is in place but does not address food labelling aspect.

Section V. Post Contact and Further Information

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