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Kenya's Retail Sector adapting to Competition

Report Categories:

Retail Foods

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Report Highlights:

Entry of international players in Kenya's retail market space, the increasing purchasing power of a growing middle class, a robust macroeconomic growth, and affordable retail space attributed to a proliferation of shopping malls in the last five years and, among other factors has led to continued expansion of the retail sector.

Kenya's imports of consumer-oriented food products grew at an annual average of 9 percent during calendar years (CY), 2011 - 2016. The United States supplied 4 percent of the total market share valued at \$288 million in 2016. Best prospects for U.S. food products include snack foods, almonds, sauces and condiments, jams, fruit/nut purees and paste. Supermarkets and hypermarkets offer the best distribution channel for U.S. consumer-ready products.

General Information:

	2014	2015	2016	2017 ^E	2018 ^F	2019 ^F
ECONOMIC TRENDS						
Inflation (%) ¹	6.9	6.6	6.3	7.0	6.5	6.0
GDP growth rate (%) ¹	5.4	5.7	5.9	5.1	5.3	5.8
GDP per capita(\$ at current prices) ¹	1,418	1,436	1,554	1,600	1,650	1,700
AGRICULTURAL, FISH AND SEAFOOD PRODUCTS IMPORTS (\$ Millions)²						
Total Agricultural, Fish, and Seafood Products imports from the World	2,002	1,910	1,831	1,900	2,000	2,200
Total U.S. Agricultural, Fish, and Seafood Products Exports to Kenya	82.4	70.5	71.0	72	75	80
Consumer-Oriented Agricultural Products (\$ Millions)²						
Total Consumer-Oriented Food Products Imports from the World	255	281	288	290	300	310
Total Consumer-Oriented Food Products Imports from the United States	13	11	13	15	16	17
Major Competitors (US\$ Millions)²						
Italy	15	25	42	45	38	42
South Africa	35	30	34	33	34	35
Uganda	31	39	28	34	35	36
France	22	23	25	26	27	28
Egypt	17	23	20	23	25	27
Belgium	10	15	13	16	18	20
Netherlands	16	13	13.5	14	15	16
Total Fish and Seafood Products Imports from the World (US\$ Million)²	22	20	21	25	27	29
Total Fish and Seafood Products Imports from the United States(\$1,000) ²	11	4	64	64.5	65	66
Major competitors (\$ Millions)²						
China	7	10	16	17	20	22
Tanzania	1.0	1.4	1.0	1.1	1.2	1.3
Japan	1	2.2	1.5	2	2.3	2.7
Vietnam	0.8	0.3	0.5	0.6	0.7	0.8
Thailand	0.5	0.7	0.4	0.5	0.6	0.7
Uganda	0.5	0.3	0.4	0.5	0.6	0.7

Data Sources: ¹Economic Survey 2017 Report; ²Global Trade Atlas (GTA); ^E2017 FAS Estimates and ^FFAS Forecast

The Kenyan retail food sector has expanded significantly during the last ten years as a result of population growth, urbanization, a growing middle class, and a financially attractive business environment. The sector will continue to grow at a compound annual growth rate (CAGR) of 4 percent at constant 2016 prices over the 2017 to 2021 forecast period, according to Euro monitor International 2016 estimates.

Summary of the Kenyan food retail sector:

- Value of sales in the grocery retail sector reached \$7.4 billion from 103, 410 retailers in 2016 according to Euromonitor International. The leading five retail chains in terms of number of outlets have a combined total of 159 stores spread across the country in the major cities and rural centers.
- Until the entry of South Africa's Massmart Holdings Ltd. Game Store (mid-2015), Botswana's

Choppies (August, 2016), and the French retail giant, Carrefour (May, 2016) supermarkets, locally-owned retail chains, Nakumatt Holdings Ltd., Tuskys Ltd., Uchumi Ltd., Naivas Ltd., Ukwala Ltd., and Chandarana Food Plus Supermarket Ltd., had managed to hold off the international retailers from entering the Kenyan market. A relatively liberal market environment, with few laws regulating the industry favored the entry of the foreign-owned outlets in the last two years.

- Penetration of formal retail establishments estimated at 30 percent is mainly concentrated in the urban and suburbs. Informal establishments continue to play a dominant role in stabilizing the sector with over 70 percent of Kenyans doing their shopping at kiosks/dukas, and roadside stalls.
- The local retail chains still maintain dominance evidenced by countrywide and regional coverage in the retail sector despite intense competition from the new entrants.
- The two oldest retail chains in Kenya, Uchumi Ltd. and Nakumatt, previously retail giants in Kenya and the East African region are battling huge debts, and struggling to stay in business. Uchumi has closed its outlets in Uganda and Tanzania, while Nakumatt has closed 19 stores (14 stores in Kenya; 3 in Uganda and 2 in Tanzania).
- Consequently, the other retailers are expanding to fill the void, particularly spaces that Nakumatt previously occupied which were strategically located.
- Consumers base their purchase decisions largely on affordability, brand loyalty, and convenience.
- An emerging trend in the distribution channels is online retail platforms such as Jumia (an online food delivery business), OLX, and Kilimall, supported by mobile payments, increased internet penetration, access, and usage. Kenya’s internet penetration stands at 82.6 percent according to the Communications Authority of Kenya (CAK). The retailers are also increasing space for general merchandise such as footwear, apparel, and sports goods to tap into the growing consumer market, and to grow sales revenues.

Advantages	Challenges
<ul style="list-style-type: none"> • A growing middle class with an increasing purchasing power and a significant expatriate community in Kenya provide a niche market for imported food products. • Increased urbanization growing at 4 percent annually, and infrastructure development which has eased movement of goods, and promoted retail expansion to rural and suburb markets. • Entry of leading international retailers, Carrefour, Massmart’s Game store (Massmart is a subsidiary of Walmart), and Botswana’s Choppies due to a growing demand for quality international brands driven by high consumer awareness and exposure. • A growing food service sector industry will demand quality food products as 	<ul style="list-style-type: none"> • Higher prices for U.S. food products relative to local market and/or imports from Europe, South Africa, Egypt (<i>due to preferential tariff advantage under the COMESA trade agreement</i>), and neighboring countries. • 25 percent tariff charged on imported food products, in addition to 16 percent value added tax makes them costly. • Unpredictable inflation and volatile exchange rate. • Many U.S. exporters lack sufficient information regarding the Kenyan market. • Limited number of local importers.

<p>Kenya’s tourism sector continues to grow.</p> <ul style="list-style-type: none"> • Kenyans perceive U.S. products as high in quality, packaging, and variety. Some U.S. brands are well known in the market such as Hersheys, Kraft Foods, Betty Crocker, Blue Diamond, and Pringles. • Continuous expansion of the leading retailers into neighboring countries (Uganda, Tanzania, and Rwanda). 	
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Section II. Road Map for Market Entry

Entry Strategy

Kenyan importers source U.S. products from consolidators in the United States, United Arab Emirates (Dubai), Europe, and South Africa. Many of these importers see U.S. food products at trade shows in Dubai, Europe and the United States. That contact appears to be the most effective approach with regards to getting U.S. food products into the Kenyan and east Africa markets.

U.S. consolidators should work with local importers to meet retailers’ requirements (orders smaller than normal, small pack sizes, mixed products in one shipment, share a shipment with other U.S. suppliers) and Kenya’s food import requirements. In addition, U.S. consolidators can attend the Gulf Food Show in Dubai where they can be acquainted with Kenyan importers.

During CY 2016, Kenyan importers of consumer-oriented food products sourced 12 percent of their products South Africa, followed by the Uganda (10 percent), France (9percent), Egypt (6 percent), and the Netherlands and Belgium (5 percent).

Local importers prefer U.S. food products for their quality, packaging, and wide range.

Market Structure

Existence of the various distribution channels, the formal and informal sectors has ensured stability in the retail sector. Each distribution channel targets a different consumer market segment. Generally, the shopping malls target the high-end earners; the conventional supermarkets cater to the mid-level income earners; and the informal retail network (“kiosks/dukas”), the low-end consumers. Consumers will transition to the next level when their incomes improve.

An average Kenyan spends 45 percent of their salary on food and beverages, and a wide range of agricultural inputs (KNBS, June 2016).

Most of the time, importers sell the imported food products directly to supermarkets, convenience stores, gas marts, hotels, and restaurants. Sometimes they use their appointed agents/distributors to supply the retail outlets.

Super Stores and Supermarkets

Retail Name, Year	Ownership Type	No. of	Locations	Purchasing
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Established, and Outlet Type		Outlets		Agent Type
Tuskys Ltd - 1990 Hypermarkets Supermarkets Convenience Stores	Local	59	<i>Kenya (54); and Uganda (5)</i> Nairobi (23) - with 8 located within the CBD; Mombasa (2); Kilifi; (3) Kisumu (1); Nakuru (5); Eldoret (2); Kisii (1); Kericho (1); Athi River (2); and Ongata Rongai (4), Kiambu (6); Meru (1), Narok (1); Kitale (1), Kakamega (1)	Local suppliers and importers
Naivas Ltd - 1990 Hypermarkets Supermarkets Convenience Store	Local	43	All stores are in Kenya Nairobi (20); Naivasha (2); Narok (1); Eldoret (2); Embu (1);Bungoma (1) Kisumu (1); Kisii (1); Nakuru; (2); Kapsabet (1); Thika (1); Mombasa (2); Ukunda (1); Nyeri (1); Kericho (1); Kitui (1); and Machakos (2); Bamburi (1)	Local suppliers and importers
Nakumatt Holdings Ltd --1987 Hypermarkets Supermarkets Convenience stores	Local	28	Nairobi (16)-with 3 stores located within the Central Business District (CBD); Mombasa (5); Eldoret (1); Kisumu (1); Nakuru (1); Meru (1); Other stores outside Kenya: Kigali (3) Rwanda Tanzania (2) Uganda (2)	Local suppliers and importers
Uchumi Ltd -- 1975 Hypermarkets Supermarkets <i>Has exited the Ugandan and Tanzanian markets.</i>	Local	20	Nairobi (14); Meru (1); Karatina (1); Eldoret (1); Kisumu (1);Mombasa (1); Kericho (1)	Local suppliers and importers
Chandarana Food Plus Supermarkets Ltd. - 1964	Local	14	Nairobi (11) Mombasa (1) Nanyuki (1) Eldoret (1)	Local suppliers and importers
Carrefour – May 2016	Foreign-owned (French	3 More outlets to	Nairobi (3) – (The Hub, Karen; Two Rivers Mall; and TRM	Local suppliers and

Hypermarkets (3)	multinational)	be opened in the near future.	Mall)	importers
Game – mid-2015 Hypermarket	Foreign-owned (South Africa-based Walmart subsidiary Massmart)	1	Nairobi (Garden City mall)	Local suppliers and importers
Choppies – 2016 Supermarkets <i>Plans to expand into the regional market; Uganda, Rwanda, Tanzania and Burundi in 2018</i>	Foreign-owned (Botswana)	11...plans to open five more before the end of the year	Nairobi(2); Nakuru (1); Kisumu (5);and Kericho (1); Kisii (1); Bungoma (1)	Local suppliers and importers

Data Source/Notes: Direct Communication with the retail chains' management

A. Convenience Stores, Gas Marts, Kiosks

Retailer Name & Market Type	Ownership Type	No. of Outlets	Locations	Purchasing Agent Type
Other independent stores and mini-supermarkets Cleanshelf Eastmatt QuickMart Tumaini	Local	Less than 11	All outlets are in Kenya	Local suppliers and importers
Convenience Stores/Gas Marts	Local & foreign (Shell, Oil Libya, Total)	20 stores for Oil Libya.	All outlets are in Kenya	Local suppliers

Data Source/Notes: Direct Communication with the retail chains' management

C. Traditional Markets - Small Independent Grocery Stores and Wet Markets

Traditional retailing is dispersed across the country with the highest concentration in kiosks/dukas, open-air markets, and street hawking. Reportedly, it remains the largest segment of the market, with 70 percent market share. This segment is dominated by households that make less than \$2 per day. The shops commonly sell locally-manufactured food, beverages, fresh fruits and vegetables, pulses, and grains in small packet sizes.

Growth of informal retailing is driven by high unemployment levels and expanding urbanization levels in major cities.

Section III. Competition

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Section III. Competition

Product Category	2016** Market Size	2016 Value of Imports	5-Yr. Avg. Annual Import Growth (2011-2016)	Import Tariff Rate (percent)	Key Constraints Over Market Development	Market Attractiveness for USA
Snack foods	73, 994 MT	\$84 million	13%	25%	High landed costs	Good growth potential. U.S. brands perceived as high quality, premium brands e.g. Frito Lay, Pringles brands
Almonds	142MT	\$1 million	12%	25%	High landed costs	Good growth potential. The United States supplied 83% of almonds sold in Kenya, in 2016 calendar year.
Sauces, Mixed Condiments and Seasonings	1,507 MT	\$3.6 million	17%	25%	Competition from low cost suppliers such as South Africa and the UK	Good growth potential.
Ketchup and other tomato sauces	979 MT	\$1.1 million	14%	25%	Competition from Egypt and the Netherlands	Good growth potential.
Jams, Fruit Jellies, Fruit/Nut Puree & Paste	271MT	\$421,761	11%	25%	Competition from Belgium, Egypt, India and the United Kingdom.	Good growth potential. The United States supplies 3% of imported jams, fruit jellies, fruit/nut puree and pastes in 2016 calendar year.
Vinegar and Substitutes for Vinegar Obtained from Acetic Acid	159,176 Litres	\$327,934	14%	25%	Competition from Australia and Italy	41% of the imported vinegar and substitutes came from the U.S. in 2016.
Mustard Flour and Meal, and Prepared Mustard	66 MT	\$128,045	9%	25%	Competition from Egypt	Strong growth potential. The United States supplied 21% of mustard and mustard products in 2016 calendar year.
Pasta	14,166 MT	\$6 million	7%	25%	Competition from Egypt, Turkey, and Oman	Good growth potential
Blueberries	7 MT	\$30,311	9%	25%	Competition from the Netherlands,	Good growth potential. U.S.

					Peru, Spain and South Africa	supplied 2% of the total market value in 2016
Dairy Products excluding cheese	22, 138 MT	\$28.5 million	6%	25%	Competition from Uganda, United Kingdom, and New Zealand. The sector is also enjoys government protection	Good growth potential
Pet Foods (Dog & Cat Food)	1, 755 MT	\$2.2 million	7%	25%	Competition from South Africa, United Kingdom and Germany	Good growth potential

Data Source/Notes: GTA; ** Reflects import volumes only

Category B: Products Not Present in Significant Quantities but That Have Good Sales Potential

- Cheeses
- Pasta and pasta sauces
- Pet foods
- Blueberries
- U.S. wines
- Specialty baking flours (for example gluten-free flour, pizza flour...)

Category C: Products Not Present Because They Face Significant Barriers

- Milk powder; need for government approval and an import tariff of 60 percent limits imports
- Meat, Poultry, and related products, and Egg Products
- Lentils must be free from contamination with darnel seed
- Peas must be split to reduce the risk of planting and spread of pests and diseases
- Beans must originate from an area free of *Corynebacterium flaccumfascien*

Section V. Post Contact and Further Information

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