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Kenya

Food Processing Ingredients Sector

Kenya Overview

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Report Highlights:
Good prospects exist for U.S. food ingredients in Kenya's food processing sector as the economy recovers from the political turmoil.

Includes PSD Changes: No
Includes Trade Matrix: No
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I. Market Overview

Kenya's economy has been held up as the model for East Africa due to its vibrant agricultural, manufacturing, financial services and tourism sectors. However, the disputed presidential elections held late December 2007 embroiled the country in political violence destroying infrastructure, disrupting access to raw materials, and paralyzing the country. It is hoped the economy will rebound following a peace accord reached by the government and the opposition party.

Still, this may be too little, too late. According to the Kenya Association of Manufacturers (KAM) estimates, the manufacturing sector lost Kshs. 10 billion (US $147 million) in business activity and productivity in the month of January and estimates a total of 21 billion (US $309 million) in the first half of 2008, while the economy may lose Ksh260 billion (about US$3.9 billion) in the first half of the year. Against a backdrop of vibrancy last year (GDP growth rate of 6.9 per cent), economic recovery will depend on the weight between the forces dragging down Kenya's economy and the continued strength and resilience of the key sectors of the economy.

II. Food Processing Sector in Kenya

In 2006, Kenya's Gross Domestic Product (GDP) was over US $ 22 billion, making it the most developed economy in East Africa with an estimated population of 36.1 million people and per capita income of US $ 477. Due to its geographical location and industrial development (small but sophisticated), Kenya is the trade hub for the East and Central African region. The manufacturing sector which contributes about 10 per cent of annual GDP grew 8.3 per cent in 2007 compared to 6.9 per cent in 2006. Kenya has a relatively well-developed agro-processing industry with distinct sectors, namely dairy and meat products, canned fruits and vegetables, grain milling, bakery products, sugar and confectionery, fruit juices, nuts, edible oils and fats, beverages and tobacco. The sector is capital intensive and relies heavily on imported inputs although U.S. products are under-represented. Food and beverages make up over half of Kenya's exports mainly due to increased demand in the regional market and a continued expansion of modern retail outlets (hypermarkets, mini-markets and gas marts), providing consumers with better access to a wide range of packaged goods. Traditional suppliers from Europe are the main source of imports supplying over 32 percent. The industry faces increasing competition from imported substitutes both in price and quality. The sector is constrained by critical business factors which include (but not limited to), rising fuel prices, inadequate and expensive power, unreliable water supply, deteriorated infrastructure, high interest rates for short and medium term borrowing, excessive government regulation and red tape and corruption. Hence, all these factors contribute to the high cost of doing business in Kenya.

Kenya's food and beverage processing industry comprises more than 1000 businesses. Agro processing is progressively the largest manufacturing sub sector accounting for 8.3 per cent of total manufacturing output in 2007. Businesses range from small family-owned enterprises to large corporations listed on the Nairobi Stock Exchange (NSE) and subsidiaries of foreign/multinational companies. Major multinationals have established operations in Kenya as independent companies or as joint ventures with Kenyan shareholding to supply the domestic and export markets. These include Nestle, Del Monte, Unilever, Cadbury, Coca Cola, and Wrigley. These subsidiaries produce the same high standard products their parent companies are known for around the world. Most businesses serve local markets while a few medium to large businesses dominate the market on a nationwide basis.

Kenya's food and beverage industry is composed of the following key production sectors: dairy and meat products, bakery goods, grain milling, edible fats and oils, beverages, fruits and vegetables processing, fish processing, wines and spirits.

Number of registered agro processing firms/establishments

Manufacturing Subsector	**Number of registered firms/establishments**
Meat and meat products processing	10
Dairy products	65
Canning: fruits and vegetables	20
Fish processing	16
Oils and vegetables	34
Grain mill products	162
Bakery products	148
Sugar factories and refineries	47
Cocoa, chocolate and sugar confectioneries	22
Other food products (not elsewhere classified)	381
Spirits, beer and tobacco	54
Soft drinks and carbonated waters industries	38
Total	**997**

Source: Statistical Abstract 2007

Major Food and Beverages Industries Output – 2002-2006

Sector Categories	**Value of Output in US $ Million**				
	2002	2003	2004	2005	2006
Meat and Dairy products	167	178	174	189	205
Canned vegetables, Fish, Oils and Fats	392	412	446	463	556
Grain Mill products	381	482	607	717	885
Bakery products	192	218	150	178	194
Sugar and confectionery	135	139	170	210	209
Miscellaneous Foods	152	182	204	245	300
Beverages and Tobacco	227	282	309	411	525

*Output is the value of sales or work done, plus resales, change in stocks of semi-finished and finished goods.
Source: Economic Survey 2007, prepared by Kenya National Bureau of Statistics

Advantages and Challenges for US exporters

Advantages, Strengths and Opportunities	Challenges, Shortcomings and Threats
Overall growth in the economy for the last five years and specific growth in the agricultural and manufacturing sectors. Kenya has a predominantly agriculturally based economy.	Long distance to the Kenyan market keeps U.S. shipping costs high, resulting in high product pricing. There are no direct flights or shipping routes to and from the U.S. The Kenyan market is price-sensitive, directly affecting the sector's buyers and their suppliers. However, concentrates are easy to transport and import.
Kenya is the manufacturing and distribution driver for the East and Central African region in terms of the distribution system, business support systems such as banking and modern media, and has the best cold chain in the region. Imported and local products pass through Kenya for onward distribution to Ethiopia, Uganda, North Tanzania, South Sudan, Somalia, Eastern Congo, Rwanda and Burundi.	Kenya has no tradition of working with U.S. suppliers in the food industry.
Inadequate supply of critical raw materials e.g. wheat, rice, corn, refined sugar, crude edible oils and specialized food ingredients (additives, preservatives and flavorings), used for the manufacture of (juices, bakery products, edible oils, confectioneries, dairy products, flour etc.). Most of the producers are operating under installed capacity.	Protectionist attitude by most of the food manufacturers together with the government.
Growing demand in both the local and regional market. With Kenya a member of regional trading blocs (EAC and COMESA), its food processing companies are increasing their export volumes to East African region. As a result, such producers consciously choose quality food ingredients.	Strong competition from traditional suppliers from Europe. Relative proximity of Europe and South Africa to the East Africa market increases competitive posture vis–a-vis the United States.
Existence of a huge relief (humanitarian assistance) market in the East African region that is untapped. Most of the humanitarian aid projects in the Horn of Africa are managed from Kenya.	Competitive, less expensive products and in smaller lots as required by the Kenyan market are now in the market from the Far East (Malaysia, China, Singapore, India, etc.).
Government policy shift from import substitution to export promotion. The private sector's "Buy Kenya, Build Kenya" market campaign has stimulated growth in the manufacturing industry with positive impact on food demand.	High tariff rates and bureaucracy involved in clearing imported foodstuffs discourage importers interested in U.S. food products. Regulatory control is expensive and complicated, thus requiring a close business relationship with a local agent.
Penetration of Kenyan dominant retail chain and some outlets in neighboring countries is helping local producers sell in foreign markets (Uganda, Tanzania, DRC Congo, Southern Sudan and Rwanda).	

Most processors have quality and safety standards that comply with international requirements. Some of them supply the US fleet and Royal Naval when they are in the Indian Ocean.	
U.S. food products are already accepted in the market due to high quality offered and their wide range.	
Competing imports relatively cheap due to inefficiencies in local production.	Main reason for high local costs are due to wrong and poor provisions by Govt.
Limited technology suited to production of goods for specified export markets. Lack of linkages between research and manufacturing exacerbates this problem.	

II. Road Map for Market Entry

A. Entry Strategy

New-to-market US exporters need to fully understand the food processors' demand needs and how best to meet their purchasing requirements and specifications. US exporters planning to enter the market should work with and build business relationships with established key food manufacturers. Joint ventures are a common feature in the Kenyan business scene and, more recently, there is an interest in franchising.

Success in the Kenyan market typically requires that U.S. exporters establish a permanent presence within the country, either through direct ownership, through an agent or local representative, or partnering with a local manufacturer. This would ensure a reliable and sufficient supply of U.S. food ingredients. A local representative would also provide the U.S. supplier with vital market information, personal networks, and technical assistance.

The following considerations should be made when planning to enter the market:

- The price competitiveness of US products compared to other major suppliers. Kenya imports food ingredients, additives, and chemicals from all the over the world including the UK, South Africa, Malaysia, Indonesia, New Zealand, Singapore, Ireland, India and the US.

- The food processors purchasing policy, i.e. whether it buys directly from overseas suppliers or via local importers/agents. It is important to note that some companies prefer to import directly due to quality sensitiveness of the food products manufactured.

- The financial strength of the targeted food processors, geographical spread of their market target, level of demand for imported food ingredients and products, investment(s) into new products, and level of interest in using ingredients from the US.

B. Market Structure

The table below outlines production indices in the food-processing sector. Overall, the manufacturing sector showed an improved performance output from 2002 to 2006. In 2006, the food manufacturing sub-sector expanded by 1.2 per cent. The tobacco and beverages sub-sector registered a growth of 17.1 per cent over the period under review. Output in the meat and dairy sector continued on an upward trend registering a growth of 4.9 per cent in 2006 mainly as a result of an increase in production of beef and dairy products.

Quantum Index of Manufacturing Production 2003 – 2006

1976=100

	2002	**2003**	**2004**	**2005**	**2006**
Meat and Dairy products	85.4	89.8	104.8	118.7	124.5
Canned: vegetables, fruits, fish, oils and fats	397.0	405.3	466.7	469.2	559.8
Grain mill products	174.4	177.7	193.3	231.2	245.7
Bakery products	290.8	284.3	185.1	202.6	212.8
Sugar and confectionery	238.6	218.9	250.9	237.7	232.2
Miscellaneous Foods	240.2	250.8	269.1	271.1	257.0
Food Manufacturing	**210.9**	**211.1**	**233.5**	**235.6**	**238.4**
Beverages	164.9	176.0	200.6	232.6	265.8
Tobacco	123.5	126.7	142.6	195.2	273.5

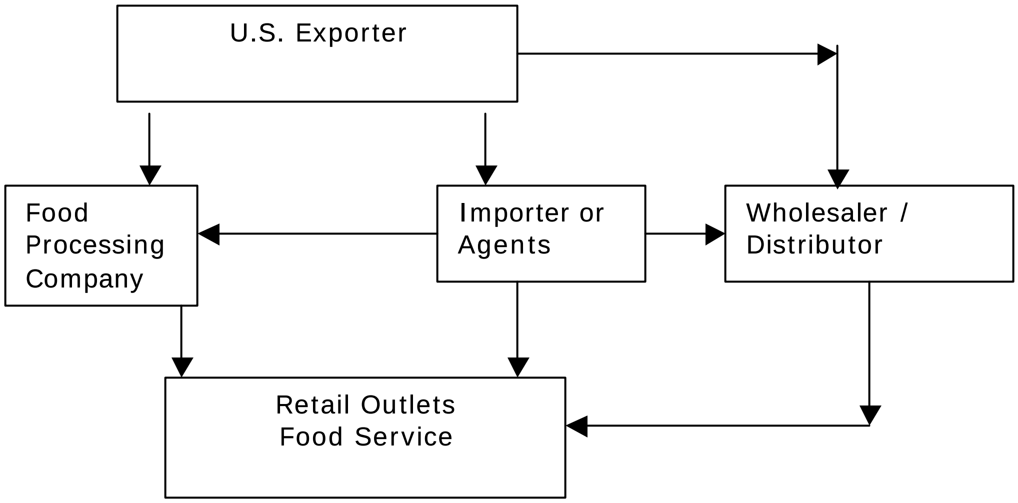
Source: Economic Survey 2007

Data from Central Bureau of Statistics Kenya indicates that production increased in the following sub-sectors in 2006 compared to the same period in 2005:

Meat and dairy products sector (4.9 percent)
Beef (8.8 percent)
Processed chicken (by 9.6 percent) and sheep products (15.2 percent)
Processed milk (4.1 percent)
Canned vegetables, fish, oils and other fats sub-sector (19.3 percent)
Grain milling: maize meal, wheat flour and rice (6.3 percent)
Bakery products (5.0 percent)
Sugar and confectionery sub-sector (decline of 2.3 percent)
Beverage and tobacco sub-sector (17 percent)
Miscellaneous food sub-sector (declined by 5.2 percent)

C. Distribution Channels

The chart below gives an overview of the usual distribution channel for imported food ingredients from US to food processors.



Large food processing companies prefer to buy food ingredients directly from overseas suppliers instead of local importers/agents because they can:

- Control the quality of product they obtain.
- Directly benefit from cost saving by buying in bulk.
- Obtain a better service after a business relationship is established.

In some cases, companies prefer to purchase from local agents when they require small quantities of food ingredients and importation is not part of their core business.

D. Company Profiles

Despite the opening of the economy, trade information and data is very difficult to come by. Market shares of leading private companies are hardly made public. The table below provides information on some key food processing companies in Kenya who were willing to provide this information and have greatly contributed to the composition of this brief. We thank them all.

Company (Product Types)	Sales (US $ Mil) 2007	End-Use Channels	Production Location	Procurement Channels
Farmers' Choice (Fresh and processed meats)	45	Hotels, Retail Outlets, Fast Food outlets	1, Nairobi	Local and limited direct importation.
Bio Foods (Dairy products, jams and sauces).	3.2	Hotels, Retail Outlets, Airlines, Institutions, Regional exports	1, Nairobi	Local and limited direct importation.
Proctor & Allan	N/A	Retail Outlets,	1, Nairobi	Local and limited

(Infant foods and breakfast cereals)		Hotels, Restaurants and regional markets.		direct importation
Nestle (infant foods, beverages, culinary, chocolates and cocoa products, confectioneries)	N/A	Hotels and restaurants, Institutions - hospitals & schools, vending machines,	1, Nairobi	Local and direct importation of quality sensitive raw materials used.
Jambo Biscuits (Bakery products snack foods)	N/A	Hotels, Retail Outlets,	1, Nairobi	Local and limited direct importation.
Kenya Orchards (Jams, tomato sauces and products marmalades, fruit juices)	N/A	Hotels, Retail Outlets,	1, Juja -Thika	Local and limited direct importation.
Cirio Delmonte (Fruit Juices)	N/A	Retail outlets and hotels.	1, Thika	Local and direct importation.
BIDCO (Edible oils and fats)	N/A	Retail Outlets, Hotels, Restaurants, Institutions and regional markets.	1, Nairobi (oil refinery) 1, Nakuru (oil extraction)	Local and direct importation.

E. Sector Trends

From a land of monopolies, Kenya has moved towards becoming a land of competitive companies to face globalization. Until mid-1990's, Kenya was known as the land of monopolies and oligopolies. Price controls were major factor in discouraging new entrants and existing firms to dominate the market. After liberalization (1994/5), Kenya food industry began to face fierce competition from new entrants and freely imported products. Thus, the scenario has changed but key information on market shares by most companies, still remains a closely guarded secret.

Like in other sectors of the economy, the government of Kenya is promoting export oriented manufacturing as the key to Kenya's industrial policy and has specifically included food manufacturing in its export promotion programs. Manufacturing under bond and in export processing zones, exporters benefit from duty exemption on imported capital equipment, machinery, raw materials and other imported inputs for use in manufacturing for export.

III. Competition

Kenya's food manufacturing industry faces increased competition from imported substitutes both in price and in quality. Aggressive marketing (e.g. emerging slogans like "Buy Kenya, Build Kenya"), better quality products, and customer support methods are some of the methods used by the industry to combat the whiplash of liberalization.

Major competition comes from local suppliers of fresh fruits, vegetables, meats, sugar and milk. Among other benefits, food processors gain from reduced stock holding. However, local suppliers are unable to supply specialized food ingredients required for specialized products used in meat processing and packaging, manufacturing for infant foods, dairy products, confectionery products, and culinary.

Domestic production does not meet the industry's critical demand for low value bulk commodities like wheat, corn, rice, sugar and edible oils.

There is also competition from other suppliers in the world market as shown in the Table below:

Product	**Common Sources**	**Reasons For Strength of key supply countries**
Refined Sugar	Malawi, Sudan, South Africa, Brazil	Low-cost suppliers
Full Cream milk Powder	New Zealand, South Africa	Majority of the imports come from UK or South Africa due to relative proximity and stable currencies.
Malt Extract	Singapore	
Cocoa Powder	Malaysia	
Skimmed milk powder	Ireland	
Nido Bulk	UK, South Africa	
Dicalcium phosphate	Germany	Exposure to the market and established supplier trade relationship.
Cremora Bulk	South Africa	
Hydrogenated fat	Malaysia	
Dairy cultures	Denmark, The Netherlands	
Vitamins and minerals	South Africa	
Juice Concentrates	South Africa, UK	
Crude Oil	Malaysia, Singapore, Indonesia	
Stabilizers and Emulsifiers	European Union countries	
Wheat	Argentina, Australia, Pakistan	
Corn	South Africa	
Rice	SE Asian countries	

Multinational food companies present in the market (Nestle, Cadbury, Unilever) command dominant positions in both locally produced and imported food ingredients.

IV. Best Products Prospects

This report has been developed from a broad study of Kenya's food manufacturing sector and not from detailed market studies of each segment. As a result, the reader should not construe it as the result of a full and detailed market study into opportunities for U.S. food ingredients.

Category A: Products Present in the market which have good sales potential	**Category B**: Products Not present in significant quantities but which have good sales potential	**Category C**: Products not present in significant quantities because they face significant barriers.
Stabilizers Dairy Cultures Casings for meat and meat products Spice mixtures Juice concentrates Emulsifiers Food flavorings and coloring Vitamins and minerals (Premixes) Full cream milk powder Cocoa powder Skimmed milk powder Dicalcium phosphate Cremora bulk Malt extract Food grade packaging material Wheat White Corn Rice Refined Sugar Edible oils Pulses and Lentils	Protein concentrates (whey, soy, beans and pulses, grain concentrates). Vitamin and mineral (premixes) Functional ingredients (Omega 3, Lecithin, nutritional fiber like inulin etc.) All the other products in Category A.	Meat products Poultry Products Milk powder (skimmed and full cream).

V. Post Contact and Further Information

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Additional Sector Reports for Kenya:
The Exporter Guide
The Retail Food Sector
KE8002.doc