Kenyan distribution business is under rapid evolution

‘World supermarkets’ change the East African Economic Zone

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‘We call the current young population, the “Switch generation”. They think they can solve anything quickly just like pushing buttons of a PC or a mobile phone. They don’t wait’ says my Kenyan friend in her 60s. Kenyan urban lifestyle has been changing drastically since around 2006 with the explosive spread of mobile phones in the country.

The young people efficiently compress their schedules from the morning to the evening and search for any information through their smart phones. They sweat at a gym from early morning (many are on a diet), eat lunch ordered through online delivery services at their office desks, do shopping by e-commerce (which was spread among the people at one time last year), dine out at organic restaurants, and go home after getting breakfast at convenience stores that are open for 24 hours.
Public utility charges can be paid by a mobile phone through simple usage of the M-pesa, mobile payment system that originated in Kenya. A lifestyle similar to New York or London is getting popular even in Nairobi.

The growth of ICT industry has not only created the various new businesses like this, but also increased productivity of corporate activities and brought in more foreign investment to Kenya. The investment attracted people to the city, new businesses were generated where people gathered, and urbanization was further accelerated.

In Kenya, there are multiple cities that are not limited to the capital Nairobi but are located in other local areas such as Mombasa, Machakos, Kisumu, and Nakuru. Bypass roads and other national highway roads have been constructed tremendously for the past five years, and distances between the cities and the suburbs have been shortened and the transportation has become easier. All of a sudden, after passing through several roads next to crop fields and small towns, one can see supermarket chain stores or shopping malls just like in Nairobi.

Among five major supermarket chain stores, there are different types from GMS (General Merchandise Stores) to mini-supermarkets in cities. At the same time, development of specialty stores is also ongoing like the development that Japan experienced. The typical cases are specialty stores for electrical appliances such as TVs, PCs, mobile phones, and large household appliances, or the drugstores that have
supplements and health products. Shopping malls with supermarkets, specialty stores, movie theaters, fast-food shops, etc. are also increasing and there are 64 malls in the whole of Kenya at this moment. Among them, 29 are in Nairobi and 35 are in local cities.

The Wal-Mart is also on the move for taking over local supermarkets

Compared with other African countries, the supermarket sales ratio among the overall retail market is high in Kenya. In case of Nigeria where the economic scale is bigger than Kenya, traditional small-scale shops are dominant and the supermarket sale shares only 2% in the total retail sale. In comparison, 30% of the sale comes from supermarkets in Kenya. This is the second biggest ratio after South Africa in Sub-Saharan Africa (surveyed by the Nielsen). This is partly because Indian merchants have started retail businesses in Kenya for a long time since 1980s. Even people in urban areas of the countryside use supermarkets together with traditional small-scale shops.
Expansion of supermarket chain stores is beyond national borders. Supported by infrastructure development and urbanization of neighboring countries, chain stores of Kenyan supermarkets are rolled out to the whole of East Africa. The biggest companies are ‘Nakumatt’ and ‘Uchumi’, listed company on the Nairobi stock exchange, have their chain stores in all of Uganda, Rwanda and Tanzania. As Kenya is being positioned as a hub, the distribution network in the East African countries that can be called the ‘Kenyan economic zone’ is getting formed.
class shares a half of the population, modernization of distribution will surely move forward continuously. Business meetings for acquisition are overheated in order to get big fruits in the future. The world biggest retailer US Wal-Mart Stores has negotiated with ‘Naivas’, which has the fourth largest number of supermarkets in Kenya, for a takeover for years. Recently, ‘Ukwala’, which rolls out small supermarkets and is positioned as the fifth in the retail business, was just bought out by a supermarket in Botswana.

In a new shopping mall with the size of 50,000 m² which was launched in the outskirts of Nairobi at the end of May, South African ‘Massmart’ affiliated with the Wal-Mart opened a supermarket. The French ‘Carrefour’, second biggest retailer in the world, has also announced plans to open a store in Nairobi for the first time through a Middle East franchisee.

Under these circumstances, Kenyans say with a little tone of self-mockery that Kenya is the ‘world supermarket’, not the world factory. To be honest, though I am wondering that the real condition is yet suitable to be capped by the word ‘world’, it is true that consumer businesses are flowing in Kenya from all over the world by expecting continuously growing purchasing power in the cities. Distribution businesses that support consumer businesses are also paid attention which attracts attention from the world.
Evolution of the distribution system nurtures ‘made-in-Kenya’ products

Business conditions and composition of products of supermarkets in Kenya are already not so different from those in developed countries. Generally, supermarkets in Africa have a high percentage of imported products but domestically produced products are also increasing in the case of Kenya. For instance, look at paper diapers in the photo introduced in a previous page. Along with imported Pampers’ diapers and Turkish products, we see Kenyan diapers produced by a Kenyan chemical manufacturer ‘Interconsumer Products’.

Market matureness and expansion opens up business opportunities for local manufacturers. Just last week, the first Kenyan-assembled PC, TAIFA, which means ‘National’ in Swahili, was put on sale.

Although the logo is somewhat familiar, the full-scale PC contains 4GB RAM, 500GB hard disk, and Core i3, which brings us the impression that they have a will to develop national manufacturers levered by an attractive image of the ‘world supermarket’. When we walk around the Industrial Area, the biggest industrial zone in Kenya, we see all types of manufacturers of consumption goods gathered; from food processing to cosmetics and plastic products. Along with foreign-brand factories like Nestle and Unilever, national manufacturers have a strong presence in the zone.
Development of supermarket has affected distribution of agricultural products. Vegetables, meats, and milks displayed in supermarkets are nationally produced. Kenyan large food manufacturers such as the ‘Farmer’s Choice’ and the ‘Brookside’ collect raw products from local small farmers, process them, and wholesale them to supermarkets.

The ‘Fresh an Juici’ company that wholesales vegetables and fruits to ‘Nakumatt’ and ‘Tuskys’ procures 80% of their vegetables and fruits from Kenyan small farmers. We recently see the case where buyers of supermarkets come to visit a small farmer who has only one acre in a village. This means increase of choice of stable buyers for the farmers. Existence of supermarkets has advanced ‘self-sufficiency of consumption’ in Kenya where it had a tendency to rely on imported goods from consumables to agricultural products.

**Both PB and internet supermarkets**

As competition between supermarkets is harsh, new trials are emerging one after another. Since 2013, the ‘Nakumatt’ has started to sale Private Brand (PB) products. From sugars, a variety of flours, mineral water and cosmetics to detergents and toilet...
papers, they procure bulk amounts from domestic manufacturers, repack them, and sell them at low prices.

The sales of the first fiscal year reached 2 billion Kenyan Shillings (about 2.5 billion Japanese Yen) and they succeeded in providing domestic products at low prices, which tend to be high in the costs. Once e-commerce gets more popular, the retailers have started to operate internet supermarkets. At the food section precooked in the store and at the in-house bakery, there are always lines of people who want to save time of cooking and who want to buy hot and freshly made food.

Among five countries of Kenya, Tanzania, Uganda, Rwanda, and Burundi that are members of the ‘East African Community (EAC)’, the regional trade liberalization such as customs exemption is underway. The total population of these five countries is 150 million. The market size similar to that of Japan (120 million populations) will be established. However, movement of things and people was mainly informal in the past, and it was difficult for foreign companies to distribute goods beyond national borders under the condition of efficiently managing the movement. Presence of Kenyan supermarkets that are modern enterprises and are deployed in the region with the same business customs is changing the situation.
However, even in the same East Africa, the market maturity is completely different among the member countries. By comparing product standards, varieties, packaging levels, and people’s consumption trends, it seems that Tanzania is lagging behind Kenya by more than 5 years, and Uganda and Rwanda are even lesser matured.

Moreover, in the same East Africa, the national characteristics and behavioral patterns are significantly different. Depths of the relationships between the countries are also varied. The reason why a large number of Kenyan supermarkets are expanded to Uganda is because of convenience of transport between the two countries and their deep economic ties. The transportation routes to the inland to Uganda are well established, but goods are rarely transported from Kenya to Tanzania by crossing over Mt. Kilimanjaro. Kenyans and Ugandans think mutually as they are similar and like brothers, but people in Kenya and Tanzania have had competitive rivalry for a long time just like people between Tokyo and Osaka in Japan.

Ethiopia is often categorized as a country located in the East African region, but people seldom go back and forth between Kenya and Ethiopia despite the fact that the two countries adjoin each other. When I, the writer of this article from Japan, visit Ethiopia, Ethiopians tend to ask questions about the situation in Kenya while Kenyans pose questions about the situation in Ethiopia when I visit Kenya.
As a gate for localization of Japanese companies

As the background of blocking unified marketization by gaps between the countries, there are elements of high inland transportation costs and differences of productivity and the degree of integration among local manufacturers. The farther the same products are brought from Kenya to Uganda and to Rwanda toward inlands, the higher the product prices become and the fewer the variety of products become available. According to the retail shop survey conducted by the Africa Business Partners, the 40-diaper package of Pampers costs 1,131 Japanese Yen in Kenya while 2,231 Japanese Yen in Rwanda, which is double the price.

The price of Samsung’s 46-inch liquid crystal television is 105,000 Japanese Yen in Kenya and 154,000 Japanese Yen in Rwanda. The number of available selections of Sony TVs in Kenya is 14, 8 in Uganda, and 4 in Rwanda. Even for the milks that are not transported from Nairobi but procured by each country from local producers, 500ml of milk is sold for 78 Japanese Yen in Kenya, 111 Japanese Yen in Uganda, and 118 Japanese Yen in Rwanda. In Uganda and Rwanda, manufacturers have not been developed as much as in Kenya: differences of the sales prices are reflected from differences of productivity (the data is as of December, 2014).
sales in small packages in Africa, big packages like plastic containers on the bottom shelf are also popular  
(Photo : ABP)

As for Japanese products, the products such as instant noodles by the ‘Nisshin’, flavor enhancers by the ‘Ajinomoto’, anti-inflammatory and painkilling drugs by the ‘Rohto Pharmaceutical’, and hair coloring products by the ‘Hoyu’ are often found at supermarkets in the East Africa.

As for the business of consumption goods where familiarity and brand recognition affect willingness to buy and where it is required for the products to match people’s sense of values and behavioral patterns, local enterprises and distribution systems have more advantage in general. Because Kenyan supermarkets allow locally-not-known and unnamed products to be delivered to the shops, because we can enhance the product’s recognition through in-store marketing, and because Kenyan supermarkets have both aspects of local and modern entities, Kenyan supermarkets can fill in the gap for localization for foreign enterprises, allow the foreign firms to obtain the product recognition, and will become an access point to traditional small stores.

Not battles to take the enemy’s camp but battles to take the display shelf and battles to take people’s mindshare have already started by both foreign and local enterprises being jumbled together. We would like to see how many Japanese products can join the East African distribution system where the 150 million peoples’ East African market is under unified marketization by linking up the countries of different consumption patterns and different market maturity.

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