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## FOOD PROCESSING SECTOR IN KENYA

### Market Research [MRU]

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Regions: **ANESA; Africa; East Africa; AFDB**

Country: **Kenya**

Divisions [Province]: **Nairobi Area**

Industry: **Food Processing & Packaging**

Sector: **Food Processing/Packaging Equipment**

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Good prospects exist for U.S. food ingredients in Kenya's food processing sector. However, business relationships with U.S. are underdeveloped. This report gives a general overview of Kenya's food processing sector - the market structure, key distribution channels, competition and best product prospects.

### I. Food Processing Sector In Kenya

Kenya is the most developed economy in East Africa with the gross domestic product (GDP) approach US\$ 11 billion. Due to its geographical location and industrial development (small but sophisticated), Kenya is the trade hub for East and Central African region. Kenya has a relatively well-developed agro-process industry ranging from processing staple food and fruits, to beverage and tobacco production for both domestic and foreign markets. However, this sector is capital intensive and relies on imported inputs. Food and beverages make up over half of Kenya's exports mainly to the neighboring countries. Traditional suppliers from European Union are the main source of Kenyan imports supplying over 32 percent. The industry faces increasing competition from imported substitutes both in price and quality. The sector is constrained by shortages and failure, unreliable water supply, deteriorated infrastructure, high interest rates for short and medium term borrowing, excessive government regulation and red tape, to mention a few. Hence, the increased cost of doing business in Kenya.

Kenya's food and beverage processing industry comprises more than 1,232 businesses. Agro processing is the largest manufacturing sub sector accounting for 13 per cent of total manufacturing output (2002). These businesses range from small family-owned businesses to large businesses listed on the Nairobi Stock Exchange and subsidiaries of foreign or multinational businesses. Major multinationals have established operations in Kenya as foreign companies or as joint ventures with Kenyan shareholding to supply the domestic and neighboring markets. These include Nestle, Unilever, Cadbury, Coca Cola, and Wrigley. Most of these companies produce the same high standard of their products that are well known around the world. Most small businesses serve very localized 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, wines and spirits.

### Major Food and Beverages Industries Output – Selected Sectors

Sector Categories	Number of Establishments (2002)	Value of Output* Million US \$, 1998 - 2002				
		1998	1999	2000	2001	2002
Meat and dairy products	133	426	287	178	153	
Canned vegetables, fish, oils and fat	30	479	556	272	137	
Grain mill products	281	860	650	663	708	
Bakery products	178	608	204	181	223	
Sugar and confectionery	12	246	375	234	203	
Miscellaneous Foods	521	4363	2797	5266	5332	
Beverage and Tobacco	77	322	495	392	433	

\*Output is the value of sales or work done, plus resales, change in stocks of semi-finished and finished

Source: Economic Survey 2003

### Advantages and Challenges for US exporters

Advantages, Strengths and Opportunities	Challenges, Shortcomings and Threats
On-going restructuring of the Kenyan economy is enhancing free trade. Its economy is forecast to grow by over 2.0% in 2004.	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. Kenyan market is price sensitive directly affecting the sector's buyers and their suppliers.
Inadequate supply of critical raw materials (e.g. cereals, sugar, edible oils) used as ingredients for the manufacture of other products (juices, bakery products, refined oils etc.). Most of the producers are operating under installed capacity.	Kenya has no tradition of working with U.S. suppliers in the food industry.
As a member of regional trading blocs (EAC and COMESA), the companies of Kenya's food industry are increasing their export volumes to East African region. As a result, such producers consciously choose quality foodstuffs and additives.	

Existence of a huge relief (humanitarian assistance) market in the East African region that is untapped.	Protectionist attitude by most of the food manufacturers.
New government encouraging value-adding. The private sector's "Buy Kenya, Build Kenya" market campaign has stimulated growth in the manufacturing industry with positive impact on food demand.	Strong competition from traditional suppliers from the European Union. Relative proximity of Europe and South Africa to the East market increases competitive posture vis -a vis U.S.
Penetration of Kenyan dominant retail chain and some outlets in neighboring countries is helping local producers sell in foreign markets.	High tariff rates and bureaucracy involved in clearing imported foodstuffs discourage importers interested in U.S. food products. Regulatory control is expensive and complicated.
U.S. Food products are already accepted in the market due to high quality offered and the wide range.	
Competing imports relatively cheap due to inefficiencies in local production.	
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 to meet their purchasing requirements and specifications. US exporters wishing to enter the market should with and build business relationship with established key food manufacturers. Joint ventures are a common feature in the Kenyan business scene and of late, there is an interest in franchising.

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 over the world including UK, South Africa, Malaysia, Indonesia, New Zealand, Singapore, Ireland, India and US.

- The food processor's purchasing policy, i.e., whether it buys directly from overseas suppliers or via 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 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. All the sub-sectors recorded modest growth in 2002 compared to 2001.

### Quantum Index of Manufacturing Production, 1998 –2002

1976=100

Sub-sector	1998	1999	2000	2001	2002
Meat and Dairy products	76.4	84.3	85.9	86.7	87.1
Canned: vegetables, fruits, fish, oils and fats	325	373	392	427	431
Grain mill products	203	201	158	147	147
Bakery products	352	345	296	301	301
Sugar and confectionery	227	237	206	197	197
Miscellaneous Foods	240	228	246	267	267
Food Manufacturing	200	205	199	207	207
Beverages	205				
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