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Kenya is Ready for a Modern Retail Dawn

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Kenya is increasingly popping up on the radar screens of international grocery businesses.

Walmart/Massmart entered the country by opening one branch of its Game variety store banner. Carrefour will be next in October with two stores operated by franchise partner Majid Al Futtaim, one as anchor tenant of the newly built Two Rivers Mall. Another international retailer looking to join in is Botswana-based Choppies, one of the very few non-South African retailers expanding within the Sub-Sahara region.

THE SIZE OF THE PRIZE

Interested parties have likely based their decisions on economic considerations — notably the potential for growth conspicuously absent from South Africa. With an annual real GDP growth rate of more than 7 percent between 2015 and 2020, Kenya's economy is set to expand three times faster than that of South Africa, which is experiencing an economic slowdown marked by electricity shortages, high unemployment and household debt burden.

Retail food sales in Kenya are expected to see a compound annual growth rate of more than 10 percent from 2015 to 2020 versus South Africa's rate of less than 7 percent for the same period. From 2010-2020, Kenyan consumer spending will more than triple, while South Africa will see spending double — but with annual real growth rates only half of Kenya's.

URBAN MARKETS

The economic hotspots are chiefly the urban areas of Nairobi and Mombasa, Kenya's two largest cities. Planet Retail's emerging markets City Data show that those cities account for just 20 percent of the national population, but contribute over 40 percent of consumer spending and retail sales.

Planet Retail estimates that the metropolitan retail sales of Nairobi and Mombasa will more than triple from 2010-2020, while consumer spending in these areas will almost quadruple during that time.

The modern retail food sector, which is mainly concentrated in these cosmopolitan hotspots, remains small and dominated by a handful of players. An estimated $2.05 billion is generated in this segment, representing a modest 11.4 percent of the nation's food market. In South Africa there's one modern store for every 9,000 customers; in Kenya the ratio is 118,000 people per store.

Roughly 40 stores in its home market are sufficient for Nakumatt to attain food market leadership; in comparison, South African market leader Shoprite operates about 1,700 stores. Obviously, there's clear growth headroom in the Kenyan modern grocery segment for both local and foreign operators.

Planet Retail estimates that 88.6 percent of total retail food sales is generated in the traditional segment. While modern retail food will record faster growth than its traditional counterpart until 2020 due to a low starting base, the latter will remain a growth segment in the coming decades, absorbing a large chunk of rising incomes. Some retailers have attempted to address this, such as Nakumatt with its mobile store concept.

STABILITY VERSUS SECURITY

Alongside economic prosperity, Kenya also offers political stability. An issue of concern, however, are the recent terrorist attacks in the context of Kenya's peacekeeping engagement in Somalia's civil war.

African food retailers are more willing to establish their business in Kenya, being more used to difficult political circumstances than Western operators. The latter are more likely to avoid direct market entry in the near future and leave it to franchise partners, as has been the case with Carrefour.

In general, seeking new regions for growth is less a matter of choice than an inherent necessity, especially for Western manufacturers, as big-box formats (particularly in Western Europe) are increasingly under structural pressure.