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Processing Food for the Domestic Market

ENTRY BARRIERS FOR FOOD PROCESSORS TO SUPERMARKETS IN KENYA

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PROCESSING FOOD FOR THE DOMESTIC MARKET: ENTRY BARRIERS FOR FOOD PROCESSORS TO SUPERMARKETS IN KENYA

Abstract

This paper addresses the domestically owned food-processing industry in Kenya and explores the sale of processed food products to the domestic ‘modern’ retail sector. Food processing represents a step up in the value chain compared to fresh food production and may thus, at least potentially, lead to economic development. In focusing on food-processing businesses and on domestic rather than global market sales, this paper distinguishes itself from studies on Sub-Saharan African suppliers to global value chains. The potential importance of domestic ‘modern’ retail formats to Kenyan food suppliers is underlined by the fact that after South Africa, Kenya is Africa’s second largest market for ‘formal’ retail, mostly because of the growing Kenyan middle class (EIU, 2013; Business Daily, 2015). What is not clear, however, is the extent to which retailers in Kenya currently source processed food products locally and thus whether food processing – as opposed to fresh food exports – retains importance for suppliers as well as for the Kenyan economy. This paper aims to contribute knowledge to this subject on which very little research exists. Based on fieldwork, the paper shows that a variety of entry barriers exist for Kenyan food processors that attempt to supply the emerging ‘modern’ retail sector domestically. The paper also shows how the requirements that processors must meet, especially for larger domestic supermarkets, tend to resemble those commonly described in the export sector, calling into question the extent to which domestic retail is a viable alternative in the longer run.

Keywords: Food processing, retail, supermarkets, global value chains, supplier entry barriers, Kenya

INTRODUCTION

Food production plays an important role in many Sub-Saharan African economies. In Kenya, the food industry has to a large extent changed its focus from the production of uncompetitive processed export goods to the export of fresh food and vegetables since the 1980s (see Ouma and Whitfield, 2012). A number of studies have highlighted the dynamics of the so-called global value chains (GVCs), in which food products are produced and distributed. How participation in GVCs may affect suppliers in developing countries has been widely explored (e.g., Ouma, 2015; Dolan and Humphrey, 2000; Gibbon and Ponte, 2005). An essential proposition of GVC studies is that the entry barriers that food suppliers meet when attempting to access global value chains and markets are almost countless and increasing in number. While this paper also addresses entry barriers to chains and markets, it distinguishes itself from most other studies on entry barriers for Sub-Saharan African suppliers to food chains in two overall and highly interconnected ways: First, other studies have mainly focused on the production and distribution of fresh and unprocessed food and therefore largely on farmers and small-holders, reflecting the development and continued importance of this sub-sector (Michelsen 2016, Ochieng et al. 2016). The present paper attempts to add to the discussion new dimensions that have received much less attention in Sub-Saharan Africa by focusing on different but still domestic actors in the GVC, namely *businesses* in the form of food processors. The paper thus begins with the timely proposition that domestic food processors could potentially increase their importance in the Kenyan economy provided that they are capable of tapping into the growing domestic market, in which a so-called ‘modern’ retail sector has emerged and is still expanding. Food processing represents a value-adding step up in the value chain compared to fresh food sales and thus, at least potentially, may lead to increased economic development. Second, while the present paper aims to examine entry barriers, it does not focus on the *global* transactions and chains that are largely the focus of GVC studies. Instead, this paper uses the GVC approach as an analytical tool to support the understanding of the entry barriers that Kenyan food suppliers meet when endeavouring to sell their products in the *domestic* market. More specifically, the paper explores access to the ‘modern’ retail sector that has spread rather quickly in developing countries, including in Kenya (Humphrey, 2007; Reardon and Hopkins, 2006). To domestic suppliers, modern retail may at least immediately appear as a welcome alternative to increasingly challenging export markets (Catherine Dolan and Humphrey, 2000; Dolan and Humphrey, 2004; Evers et al., 2014; Gibbon et al., 2010; Nandonde 2016). The potential importance of domestic ‘modern’ retail formats for Kenyan food suppliers is underlined by the fact

that after South Africa, Kenya is Africa's second biggest market for 'formal' retail, mostly because of the growing Kenyan middle class (EIU, 2013; Business Daily, 2015). Although there are no authoritative data on this dynamic, some anecdotal estimations indicate that the middle class in Kenya comprise between 30% and 45% of the population, depending on the definition adopted (see <http://www.kenyaforum.net/2015/11/17/the-economic-muscle-of-kenyas-middle-overestimated>).

What is less clear, however, is the extent to which retailers in Kenya currently source processed food products locally and thus whether food processing may become important for the Kenyan economy. This paper aims to contribute knowledge to this subject on which very little research exists. Based on fieldwork conducted in Kenya from 2013-2017, this paper shows how a variety of entry barriers exist for Kenyan food processors that attempt to supply the emerging 'modern' retail sector domestically. The remainder of the paper is structured as follows: First, we provide a theoretical section on food GVCs and retail, highlighting relevant suppliers' entry barriers stressed in the literature. Second, a short description of Kenya's retail sector is provided. Third, we present an empirical section that comprises (i) a presentation of the fieldwork methodology and (ii) an empirical analysis of entry barriers for Kenyan food processors to domestic retail. Finally, the results are discussed, and the paper is concluded.

FOOD RETAIL AND GLOBAL VALUE CHAINS

Theoretically, the paper originates from the literature on retail and global value chains and focuses on chain dynamics and supplier entry barriers in general and on the (food) retail sector specifically. The concept of chains and networks has been subject to academic discussion for years (see e.g., Dicken et al, 2001). Castells (1996), for example, stresses how globalization is intertwined with a 'network society' in which corporations operate in multiple networks embedded in different regulatory environments. In the so-called new economic geographies, a 'relational turn' appeared in the mid-1990s, meaning that economic geographers tend to place their analytical focus on the complex nexus of relations among actors and structures that effect dynamic changes in the spatial organization of economic activities (Yeung, 2004; see also Boggs and Rantisi 2003). Much contemporary research on the links between production and trade in the process of globalization has its roots in the literature on the international division of labour (Dicken, 1998) and world-systems analysis (see Hopkins and Wallerstein, 1986). Today, these early discussions form the basis for a

number of theories dealing with the concepts of “networks” and “chains”. These concepts are broadly used to describe connections between places and processes in the global economy (Peck, 2005), Bair, 2005)). The GVC approach is among the most influential of such approaches. Gereffi and Korzeniewicz (1994) formed the basis for the GVC approach by focusing on how chains consist of several nodes in different geographical locations. This formulation has also arguably contributed the most to our understanding of a wide range of structures, dynamics and relations between buyers and suppliers, particularly in developing countries. These features include but are not confined to chain governance structures, the possible gains and upgrade trajectories suppliers may or may not experience as part of chain participation, and the supplier entry barriers to chains and markets that are of relevance to this present paper (Gereffi et al., 2005; Gibbon and Ponte, 2005; names of authors withdrawn, 2005; Tokatli, 2007; name of author withdrawn, 2007; 2016). The local-global interactions explored in the empirical section below are not those between Kenyan food processors and global buyers but are those between Kenyan food processors and retailers within Kenya. It is thus an important point that in spite of its name, the GVC approach is used here to explore domestic market sales for suppliers rather than exports. The ‘global’ in GVCs thus does not refer only or necessarily to the geographical span of a given chain but ‘simply’ to the very phenomenon of globalized production and retail and the direct and indirect influences thereof in Kenya.

‘Modern’ retail has grown steadily in Kenya and has at least to some extent taken retail share from the other outlets such as mom and pop stores, green grocers and street hawkers ((Neven and Reardon, 2005),). The reasons that consumers choose to purchase food products such as vegetables in supermarkets have been found to include better presentation, convenience and concerns about the level of hygiene in traditional markets (Okello et al., 2012) The number of retail outlets has thus risen to above 300, and these outlets are mainly located in larger urban areas like Nairobi, Mombasa and Kisumu, while expansion to smaller cities is increasingly taking place (see Table 1) (Business Daily, 2015; EuroMonitor 2016b). In 2015, the formal retail penetration was estimated at 20-25%, while the average value of a shopper’s basket increased to 67% in five years, making Kenya Africa’s fastest growing retail market. Some 30% of consumers in contemporary Kenya are estimated to purchase groceries in formal retail outlets, implying that the vast majority of Kenyan consumers shop in traditional outlets. For comparison, this value in South Africa was double that of Kenya, while it was 4% in Ghana in 2015 (Business Daily, 2015). Another recent survey by the

mobile phone-based pollster GeoPoll shows that as many as 56% of surveyed consumers use supermarkets compared to 35% who shop at kiosks. While it is not clear whether this survey counts occasional or single visits to supermarkets rather than routine use, the results are still interesting in the sense that the survey involved 500 consumers representing every Kenyan county, showing that the importance of supermarkets is currently spread beyond the largest cities (Business Daily 2016).

The contemporary Kenyan retail sector thus consists of a combination of ‘traditional’ outlets, such as wet-markets and street hawkers, and the ‘modern’ formats, including supermarkets, hypermarkets and convenience stores, which are the focus here (see Table 1) (see Reardon 2006). The latter began emerging in the country in the late 1980s when two families established stores that rose from smaller mini markets to what are now three of the 4 largest Kenyan supermarket chains, defined here as a group of three or more stores handling consumer goods including food, namely Nakumatt, Tuskys, Naivas and Uchumi. Uchumi is Kenya’s only publicly traded retail chain, reflecting a continued clear trend of family-ownership of retail in Kenya (Bloomberg, 2016). Tuskys alone had 37 branches in 2012 (Daily Nation, May 11th 2012). In 2015, Nakumatt came in first with a value share of 8%, while Naivas and Uchumi Supermarkets were ranked third and fourth with 4% and 3% value shares, respectively (EUROMONITOR, 2016a). Nakumatt now finds itself in a state of crisis that has led to the closure of branches recently (“Turmoil engulfs Kenya’s supermarket success Nakumatt,” n.d.). The immediate success of the largest supermarkets in general were due to the introduction of relatively affordable private labels, expansion into residential areas, and offering loyalty schemes and "one stop shop" concepts (EIU, 2013; Euromonitor 2016b). The four largest chains operated a total of 140 stores in 2015 (Kenyan retailer Chandarana gearing up for faster growth, 2015). The Kenyan retail scene also includes a number of smaller domestic retail chains, defined here as those with 3 or more outlets (see Table 1). This group partly consist of businesses that have come into existence more recently and partly of long-established stores such as Chandarana, which has existed for more than 50 years and has switched from mainly targeting the Asian community to expanding its customer base. In 2015, this chain had 10 stores in Nairobi and Mombasa and planned expansion with a focus on food rather than non-food products (Kenyan retailer Chandarana gearing up for faster growth, 2015).

| Table 1: Kenya's Domestic Retailers by Type | | | | |
|---|----------------|------------------------|-------------|---|
| Retail Name | Ownership Type | 2011 Food sales (US\$) | Outlets (N) | Locations |
| Large Diversified Supermarket Chains | | | | |
| Nakumatt Holdings Ltd | Local | 270 million | 37 | Kenya (30); Uganda (4); Rwanda (2); Tanzania 1) |
| Tuskys Ltd | Local | 169 million | 36 | Kenya (32); Uganda (4) |
| Uchumi, Ltd | Local | 104 million | 26 | Kenya (20); Uganda (5); Tanzania (1) |
| Naivas Ltd | Local | 106 million | 21 | Kenya (21) |
| Smaller Retail Chains | | | | |
| Chandarana Supermarkets, Ltd | Local | 22 million | 8 | Kenya |
| Wagon Shopping Ltd | Local | n.a. | online | Kenya |
| Quickmart | Local | n.a. | 7 | Kenya |
| Eastmatt Supermarkets | Local | n.a. | 6 | Kenya |
| Society Stores | Local | n.a. | 6 | Kenya |
| Tumaini Supermarket | Local | n.a. | 3 | Kenya |
| Cleanshelf Supermarkets Ltd | Local | n.a. | 3 | Kenya |
| Individual Small Retailers | | | | |
| No list available. Estimated above 300 units | n.a. | n.a. | 1-2 | Kenya |
| Sources: US Department of Agriculture (2012); websites of smaller local chains; Business Daily, 2015; EuroMonitor 2016b | | | | |

In addition to the larger and smaller ‘modern’ retailers, numerous smaller retailers exist. Another characteristic of the Kenyan retail sector is a very high degree of local, as opposed to foreign, ownership, with local owners holding dominant value shares of the large domestically owned supermarket chains. Within the past few years, foreign retailers and private equity investors have also entered the scene, though resistance to foreign retail entrants is relatively high and complicates mergers and acquisitions. Foreign retailers, including the French Carrefour, German Metro Cash & Carry, South African Massmart and Botswanan Choppies, have opened or are planning to open stores in the country. These retailers have been attracted by the growing number of domestic consumers as well as the possibility of expanding into the East African region (Reuters, 19 Feb 2015; Ouma et al, 2013).

ENTRY BARRIERS FOR KENYAN FOOD PROCESSORS TO THE DOMESTIC RETAIL MARKET

We now proceed to the analysis of Kenyan food processors. This section falls in two overall parts: (i) the fieldwork methodology and sampling of case firms is outlined, and (ii) the findings on entry barriers to the domestic retail sector met by these firms are presented.

RESEARCHING KENYAN FOOD PROCESSORS

This paper is the result of a larger study on food processing in Kenya, Tanzania, and Zambia and is derived from the parts of the data on Kenya. In Kenya, the data were collected in two overall ways: (i) a survey of 48 food-processing firms in 2013-14, and (ii) case studies on 8 of these food-processing firms. Due to the lack of a usable sampling frame of firms in the food-processing industry, firms were initially selected based on a mapping exercise carried out to identify the firms in the agro-processing sub-sector and to track their locations. This exercise yielded a total of 141 existing firms. The survey questionnaire was administered to 48 identified firms that met the criteria of: a) having Kenyan ownership; b) being at least 5 years old; and c) having a labour force of at least 10 employees. The 48 firms included the grain milling, dairy processing, snacks, sauces and jams, and edible oils subsectors (see Table 2). The survey questionnaire had six main sections,

including one on markets and key customers, from which the data used in the present paper are mainly derived.

Table 2: Overview of Interviewed Firms in the Food-Processing Industry in Kenya

| Product Group | Total Valid Population | Total Interviewed | Per cent Interviewed |
|---------------|------------------------|-------------------|----------------------|
| Snacks | 47 | 13 | 28% |
| Grain Milling | 44 | 13 | 30% |
| Dairy | 32 | 13 | 41% |
| Sauces & Jams | 12 | 6 | 50% |
| Edible Oils | 6 | 3 | 50% |
| Total | 141 | 48 | |

Source: Field Survey 2014

A subsequent analysis of the survey data led to the selection of 8 case firms. These firms were chosen to represent all product groups shown in Table 2 except for edible oils due to a combination of a small number of firms in the population and a lack of willingness to be interviewed. Checklist-based interviews were conducted with these 8 case firms in 2015, and follow-up interviews were conducted to the extent possible in 2016-17. The interviews were carried out by the principal researchers of the overall project team accompanied by a project assistant tasked with recording and/or note taking.

SUPPLIER ENTRY BARRIERS TO DOMESTIC RETAIL

'Supermarkets' were overwhelmingly mentioned as the main and/or preferred outlet for Kenyan businesses included in this present study. In the survey, 38 firms out of 48 (79%) respondents mentioned 'supermarkets' as an important customer. On average, supermarkets were identified as accounting for 39% of these 38 firms' sales. While these numbers point to a relatively large share of supermarket sales for a large number of food processors, the figures should be read with caution for different reasons, including that in the survey, all modern retail formats could only be indicated as 'supermarkets,' and thus, the 39% share of sales to 'supermarkets' included sales to larger and smaller supermarkets as well as convenience stores in residential areas, petrol stations, and other smaller outlet; that is, this category included essentially any 'modern' - in the sense of non-

wetmarket - retail format. During the interviews with case firms, all types of modern retail formats were commonly referred to as 'supermarkets' rather than 'convenience stores,' for example. While retail formats could be further clarified during some interviews, this was not always the case. The analysis below therefore does not distinguish between different types of modern retail formats but shows trends in food processors' sales to the sector in general. Moreover, the survey asked not only for actual but also 'preferred' sales, meaning that this finding is of questionable quality in terms of telling us how many firms actually sell anything to supermarkets or the like. Still, it is an interesting point that a large share of food processors in Kenya attempt to – or hope to– employ modern retailers as an outlet for their products. However, the following empirical analysis based on interviews shows a quite different picture.

The large number of small and large Kenyan food producers has led to high competition between these entities. An example from the dairy industry:

'All the big companies you know are big because they do fresh milk. This is because fresh milk requires a huge investment. Now, that is why there are 4 or 5 companies that do fresh milk. And then, the other people who do (...) yoghurt like us are in thousands, the reason being there are no entry barriers (for starting to produce yogurt). (...) You walk in to buy packing materials, walk into a printer shop to print your label, and in the evening, you have your yoghurt (...). But you see, as it is always said, easy come easy go. A lot of people come into this industry because it is easy, but around 80% do not survive beyond 6 months' (Interview, 2015).

It is an interesting point that during interviews with case firms, the retailers that were identified as sales channels were all domestic – foreign owned retailers in Kenya were not mentioned once. The focus on domestically owned retail may at least partly be explained by the fact that these entities emerged only recently in Kenya. This finding does however call for more research and attention from policy makers regarding the extent to which global retailers will locally source processed, and not merely fresh, food in the near future. Our findings show how numerous entry barriers dictate which of the existing food producers are, and which are not, able to sell to domestic retailers,

especially supermarkets, and ultimately which are able to stay in business. The barriers noted by case firms during the interviews mainly related to finance, pricing and payment terms, while the interrelated issues of standardization, regulation, business environment and infrastructure were also important, as will be shown in the following.

The high cost of capital was identified as the main constraining factor for company growth by 27% of the Kenyan business owners included in the survey, and this point was the most commonly mentioned constraint. This finding is highly connected to the barriers to selling food products to especially larger supermarkets, for which capacity and volume are often important sourcing criteria. Capital availability is also important in other ways that have been noted in studies on *global* value chains that have widely debated the financial requirements from global retailers to developing country suppliers (e.g., Gibbon and Ponte, 2005; Neilson and Pritchard, 2009; names of authors withdrawn, 2005; Swinnen and Maertens, 2014). Such requirements include that suppliers are required to finance a variety of tasks on their own to enter and remain in a particular chain. In turn, suppliers' abilities to comply to such requirements are closely connected to the domestic business environment, including to their (lack of) access to a variety of resources locally, such as land, buildings, raw materials, licenses, and (again) capital (name withdrawn, 2007). Thus, there is a close link between access to markets and the dynamics of the local business environment, and this link is regulated by a number of components, including property rights, administrative procedures and the legal environment for businesses. Access to finance and the financial requirements of retailers for suppliers obviously also affect the access of suppliers to *domestic* retailers, but less knowledge can be derived from the literature on this matter.

A main negative factor that was repeatedly stressed during fieldwork by the suppliers that do sell to domestic supermarkets was delayed payments. This finding was particularly the case for the largest supermarkets that suppliers tended to see as important. For example, one food processor explains how supermarkets are on the one hand a main target but on the other hand pose a challenge to his business:

‘If God helps...we are thinking we will be in all the supermarkets beginning with Nairobi first then venture into other towns (...). However, the challenge with the supermarkets is that they delay their payments’ (Interview, 2015).

According to several respondents, the large Kenyan supermarkets sometimes pay 60 – 80 days after receiving the products. It became clear during fieldwork that the long length of the payment period was not anticipated by the food processors and was thus regarded as disappointing and as a violation of terms in addition to being financially problematic, as expressed here by a snack processor:

‘Supermarket [name withdrawn] has brought us down ... we supply them, [but] they do not pay’ (Interview, 2016, Firm C).

The interruptions in payments evidently have negative effects and become entry barriers for food processors, which consequentially lack the capital to produce more and receive/fulfil new orders and contracts. One firm advanced a potential reason that points to the financial situations of fast-growing retailers themselves for the constant payment delays, underlining the current difficulties of Nakumatt and perhaps other local retailers:

‘... the supermarkets delay because of the expansion program. They are unable to get that from the local lenders, so what they are doing is they use our money to fund their projects. [One] opens about five new branches every year, and one [of these] costs about three hundred million [shillings]. So, they use our money’ (Interview, 2015, Firm D).

Despite a trend of over-reliance on – and aims to sell to - larger supermarkets, a couple of processors have shifted their target market in response to the non-payment problem. Instead of selling to the largest supermarkets, these processors are aiming for smaller supermarkets and

convenience stores. The respondents stressed that payments would need to be paid somewhat more promptly by smaller retailers, though these payments would still be rendered on rather long timelines (within 30-45 days) for companies that often lack the possibility of getting finance for their products elsewhere:

‘What has probably changed is the over-reliance on the main supermarket chains (...) The concentration now is on the second and third tier because they are good, since they are easy going, easy to deal with, less bureaucracy, and payments are prompt – at least 30 days or at worst 45 days, contrary to the big ones which pay even after 60-80 days after your supply’ (Interview, Firm E, 2016).

Even though the payment terms and practices of smaller retailers were often considered relatively good by the Kenyan food processors that were interviewed, the barriers related to finance did apply to smaller as well as larger retailers, though not to the same degree. Perhaps most importantly, supermarket suppliers of all sizes have to finance orders on their own. This is clearly a major barrier to entering as well as remaining in these sourcing relationships. This finding on domestic supplier-buyer relations in Kenya has clear similarities with findings on payment and finance in studies of *global* value chains (e.g., name of author withdrawn, 2005), calling into question the extent to which the emergence of ‘modern’ retail formats has created a situation in which domestic market sales represent a lucrative and new opportunity for local processing firms.

The shift to smaller retailers also relates to power dynamics and the fact that respondents were aware of the possible downsides of over-reliance on large supermarkets. Respondents sometimes expressed that they felt that power was entirely in the hands of the retailers when working with large retailers, while relations were somewhat more equal with smaller retailers. One processor told us:

‘If we can end the over-reliance on the top-tier supermarkets and build on these other ones, then any given day, you will be better off. The good thing with the smaller ones ... is that when they refuse to pay or their cheque bounces, then I can influence other companies not to supply by simply citing that their cheque bounced or they defaulted. ... However, you see for the big supermarkets ... no one will even notice that [my firm] has not supplied their yoghurt.’ (Interview, Firm E, 2016).

During interviews, a large challenge that was also identified by food processors was that the prices for food products delivered to the domestic supermarkets are stable at a low level because the supermarket has numerous suppliers to choose between. At the same time, the prices paid for local supplies to be used by the food processor fluctuate heavily, and the profits change accordingly when competition is harsh. One peanut processor explains:

‘(...) I cannot adjust my supermarket prices. They would not agree. Why? Because my competitors are still supplying (...). So, if I increase mine, they will say ‘no. don’t sell, wait until the prices have gone down and you will bring them.’ What happens (if I don’t; text in bracket added by author)? My customers will forget me and get used to another brand and I will be out of the market. Even by the time I am coming back, they will have forgotten’ (Interview, 2015).

In addition to and highly interconnected with financial requirements, GVC lead firms (retailers in Kenya in our case) expect certain qualifications and capabilities from their suppliers. In other studies, standards have been singled out as increasingly important requirements and are thus essential entry barriers for developing country suppliers to GVCs and global markets (Gibbon and Ponte, 2005; Henson and Humphrey, 2010; Jaffee and Henson, 2004; Ponte et al., 2011). In the food industry, standards are increasingly related to food safety, especially in the highly regulated western markets and with the globalization of retail as a more general tendency (Lowe and Wrigley, 2010; Reardon et al., 2009; Reardon & Hopkins, 2006; Wrigley & Lowe, 2007). While standards may involve the possibility of industrial upgrades for those suppliers that are able to comply, such standards are certainly entry barriers to GVCs for those that are not. It is an interesting overall finding in this study that the adoption of standards by the interviewed Kenyan food-processing

companies is largely about compliance with the Kenyan national standards, whereas processed food production has differed from fresh food, which has accounted for a major export share since the 1980s, as mentioned above (see Gibbon et al., 2010; Gibbon and Ponte, 2005). All businesses included in this study had obtained the required KEBS mark from the Kenyan Bureau of Standards. During interviews, the respondents sometimes seemed to view the KEBS mark as a logo rather than as a standard and made few references to content or requirements for compliance. These businesses viewed the mandatory certification as an expensive necessity to get a required logo. Of the surveyed firms, 28.3% also comply with the volunteer quality mark, Diamond Mark, operated by the same public organization. The international standard most commonly used, ISO 9002, also primarily focuses on quality, while only 6 (13%) of included companies have obtained the Hazard Analysis Critical Control Point (HACCP) certification required for global exports. This certification is increasingly also used for sales to domestic and foreign ‘modern’ retailers entering the Kenyan food retail scene. In some cases, retailers impose standards that processors feel are unreasonable. One large supermarket wanted to require a cashew nut processor to guarantee the number of pieces in each package.

"He insisted that a packet of 100 grams of cashew nuts should have 40 pieces. ... That's hard because the scale determines the pieces [that] will fit into the bag ...' (Interview, Firm D, 2016).

Moreover, the standards appear to have a relatively large focus on nutrition and are sometimes established with the support of international NGOs that focus on food security and health. One maize processor, for example, explained how he introduces food fortification to his flour products for the local market:

‘(...) the government is now urging millers to fortify their products by adding iron and other things. So, we are moving that direction so that our flour would be more of that standard’.

Nutrition seems to be more immediately relevant than international food safety regulations, and overall, the food processors in this study appear to focus on the Kenyan and in some cases regional market over global exports. For some respondents, this tendency was part of a longer-term strategy focused not only on the middle class but also on the adoption of so-called base of the pyramid strategies. Ideas for new products thus included cheap AND healthy snacks in small packages that would appeal not only to middle class consumers that may shop in supermarkets but also to poorer segments of the population.

Finally, access to different types of supply, including raw materials, is of clear importance to food processors. The Kenyan food processors in focus here sometimes identified high input costs as problematic and as undermining their ability to compete. Likewise, a lack of competent suppliers and a lack of technologies were seen as barriers. It is important to keep in mind that there is a very clear link between the limitations to accessing both supply and infrastructure. This is essential in the food industry, where supply freshness is often necessary and where limitations may be related to a lack of cold chains and storage as well as transport volumes and speed. It is thus striking that only approximately 28% of businesses in this study stressed that they were highly satisfied with the quality of inputs received from raw material suppliers. Infrastructure is particularly important for suppliers' access to GVCs when proximity to markets and lead times are required. Infrastructure is thus essential for fresh food, including the dairy products examined here, as is the availability of appropriate storage and distribution channels (Dolan and Humphrey, 2000; Gereffi, 1994; Kussaga et al., 2014). Long transportation times and distances thus sometimes affects suppliers' competitiveness negatively since these factors affect the lead times of products, while proximity to markets may have a positive effect. Still, these factors need to be seen in relation to other impacts such as deficiencies in the transport networks, the quality of transport and logistics services, customs valuation problems, inefficiencies at border crossing points, uncertainty created by transit through neighbouring countries and the costs of informal payments (see e.g., World Bank, 2011; name of authors withdrawn). The three latter points do not affect Kenyan suppliers that aim to sell to retailers domestically. Nonetheless, almost 17% of the Kenyan business owners surveyed identified infrastructure as the most constraining factor for their businesses, though the respondents also sometimes stressed that improved infrastructure had made it easier to reach markets outside of Nairobi, especially for processed food that does not require cold chains.

DISCUSSION AND CONCLUSIONS

The spread of modern retail in Kenya potentially opens new and value-added possibilities for domestic food processors. This paper explored the sales of such food processors and found that while these entities often aim, and prefer, to sell their products to supermarkets rather than traditional markets in Kenya, a number of entry barriers exist. These barriers, to a large extent, relate to the requirements of supermarkets and primarily include pricing and payment terms, while the interconnected issues of standardization, regulation and infrastructure also play a role. Overall, this study finds that (i) Kenyan food processors generally want to sell their products to larger domestic supermarkets, which food processors view as new and promising outlets for their products, but only a few have succeeded in doing so; and (ii) these food processors view the payment terms, especially with larger domestic supermarkets, as deteriorating. The requirements met by food processors in modern areas of the domestic retail sector show at least some similarities with those often highlighted in studies on suppliers attempting to sell to export markets, though the current food safety requirements are clearly less stringent.

An ‘over-reliance’ on the largest supermarket chains by food processors has led to fierce competition between them. As a result, some food processors struggle for mere survival, while others are refocusing on smaller supermarkets and convenience stores. Smaller stores were identified during interviews as being easier to address, especially in terms bureaucracy and payment. Nonetheless, food suppliers selling products to supermarkets of all sizes commonly identified delayed payments and the requirements for financing orders on their own account as major obstacles to supplying supermarkets and to the survival of their businesses. Our results therefore do not suggest that domestic retail is necessarily an easy or viable alternative for Kenyan food processors in the longer run. There is little indication from this study that retailers may source processed products domestically rather than internationally in the near future, and this question requires further research. Capturing the potential value of food processing as part of Kenya’s economic development clearly requires policy makers to review regulations, including those on local content policies and their implementation in the modern retail sector - not only in the domestic retail sector but also in the FDI retail segment currently spreading in the country.

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