



HOT BEVERAGES IN KENYA AND EAST AFRICA

Opportunities for Fairtrade Certified Tea, Coffee and Powdered Hot Drinks Brands

A custom report compiled by Euromonitor International for
Trade for Development Centre of the Belgian Development Agency
Fairtrade Africa

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BTC TRADE FOR DEVELOPMENT

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INTRODUCTION

PROJECT BACKGROUND AND OBJECTIVES

Project background, objectives and scope

Category coverage

- Hot Beverages:
 - Tea
 - Coffee
 - Powdered Hot Drinks
- Channels:
 - B2C (retail)
 - B2B (foodservice and institutions)

Country coverage



Project background

- The Trade for Development Centre (TDC) of the Belgian Development Agency and Fairtrade Africa partnered with Euromonitor International to better understand the hot beverages market, focussing on tea, coffee and powdered hot drinks sold through both B2B (foodservice and institutions) and B2C (retail) channels, and the potential commercial opportunity for Fairtrade certified tea, coffee and cocoa brands in Kenya and the wider region.

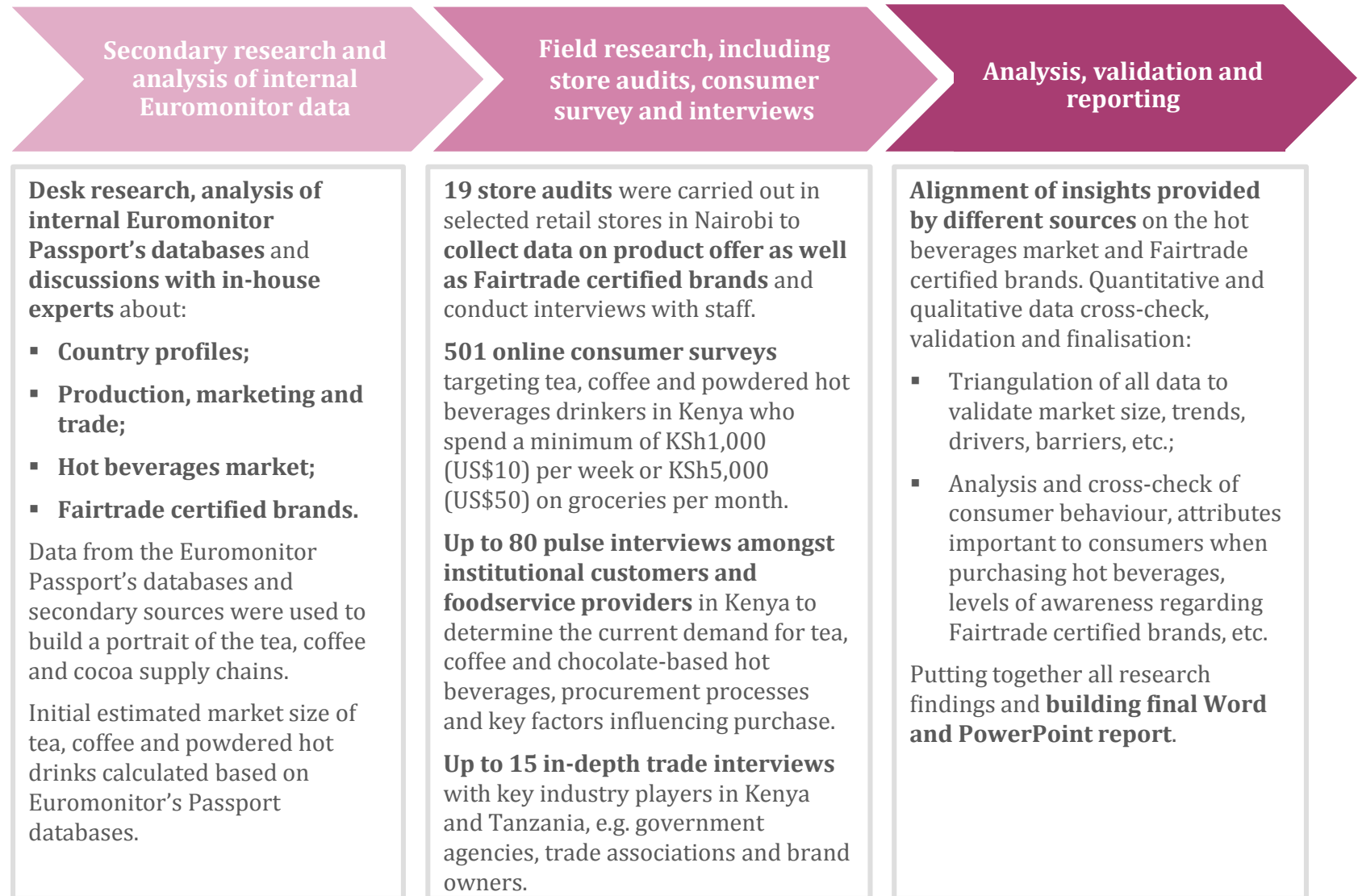
Research objectives

- Build market size and brand shares for tea, coffee and cocoa in Kenya for consumers, foodservice and businesses or institutions.
- Identify and understand the demands and trends in the hot beverage market in Kenya, Uganda, Burundi, Tanzania and Rwanda.
- Understand the local and regional trade supply chains for tea, coffee and cocoa in East Africa.
- Provide insights on consumer lifestyles, attitudes, preferences and purchasing behaviour for tea, coffee and powdered hot drinks in Kenya.
- Identify business preferences, trends and purchasing behaviour for tea, coffee and cocoa in Kenya, including corporate offices, public institutions, healthcare providers, faith-based institutions, restaurants, cafes, hotels, catering companies, etc.



PROJECT RESEARCH METHODOLOGY

Euromonitor approach





EXECUTIVE SUMMARY

EAST AFRICA OVERVIEW

East Africa is a mix of affluence and poverty even in major cities



161.3 mn

East Africa population in 2015

KSh90,060

GDP per capita in 2015

17

Median age of population

East Africa is a populous region with a burgeoning youth culture influencing market dynamics as disposable incomes improve and family size continues to contract. Tanzania has the largest population at 55 million, followed by Kenya with 47 million and Uganda with 40 million. Both Burundi and Rwanda have under 12 million population but Burundi, in particular has a very low GDP per capita, one sixth of Kenya's, the country with the largest GDP per capita in the region. The populations are very young, for example, with 42% of Kenyans under 15 years of age. Immediate future potential is directly linked to the desires and consumer behavior of teenagers and young adults particularly in the major cities of Kenya, Tanzania and Uganda.

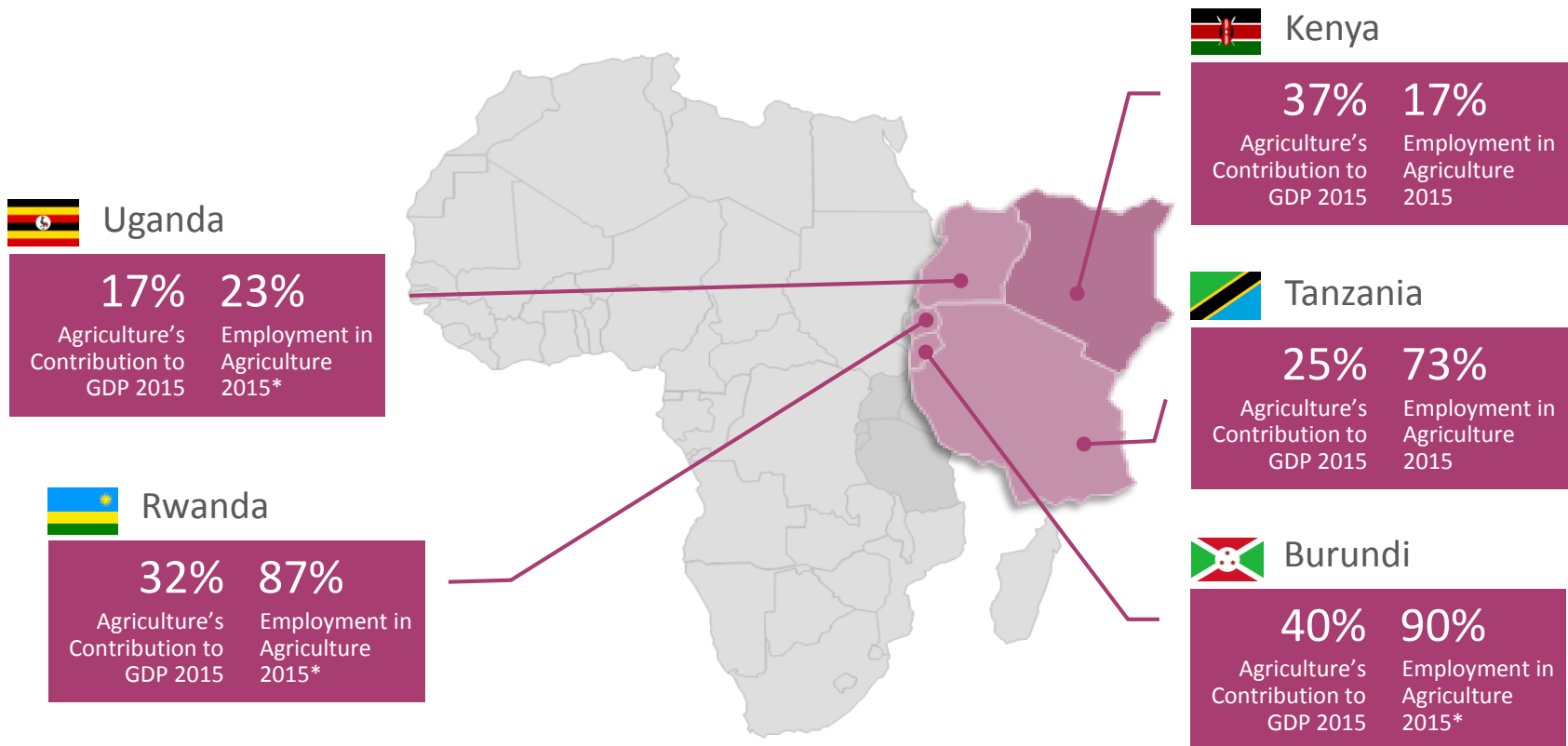
Source: Euromonitor Passport Database

EAST AFRICA OVERVIEW

Agriculture is an important engine of economic growth in East Africa

Agriculture remains the backbone of East African economies, but development varies between countries

Kenya has a sophisticated, export-oriented agricultural sector for a number of crops, including tea and coffee. Farm output is also a major earner of foreign exchange in Uganda, with coffee, tea and cotton being especially important. Meanwhile, higher levels of subsistence agriculture are observable in Tanzania, Burundi and Rwanda, which result in low crop yields and limit interest from foreign investors. The local impact of climate change and falling commodity prices constitute potential downside risks for the regional agricultural sector.



Source: Euromonitor International from national statistics

Note: * In Burundi, roughly 90% of the population dependent on subsistence agriculture.
Euromonitor International for the Trade for Development Centre

FAIRTRADE CERTIFIED PRODUCTION

Fairtrade production well established but not always converted to sales

Fairtrade is most prevalent on the production side, but there is room to increase certified production volumes

- Fairtrade has been very successful in ensuring high levels of certification for tea produced in Kenya. Production of tea, whether expressly for certification or through naturally low uses of fertilizers and pesticides, allows much of the tea produced in Kenya and the region to be certified as Fairtrade while providing good livelihood's for farmers.
- A similar pattern is evident for coffee in Kenya where a high level of Fairtrade certified coffee is available. Coffee produced in Uganda and Tanzania, the main sources in the region, comprises a very low level of Fairtrade certification and sales.
- For both coffee and tea, the amount sold throughout the region which carries the Fairtrade certification is about 1%.
- Processes within the production, blending, packaging and branding of tea and coffee currently interfere with the branding and promotion of the commodities as Fairtrade certified.

Fairtrade Certified Production 2015 (tonnes)

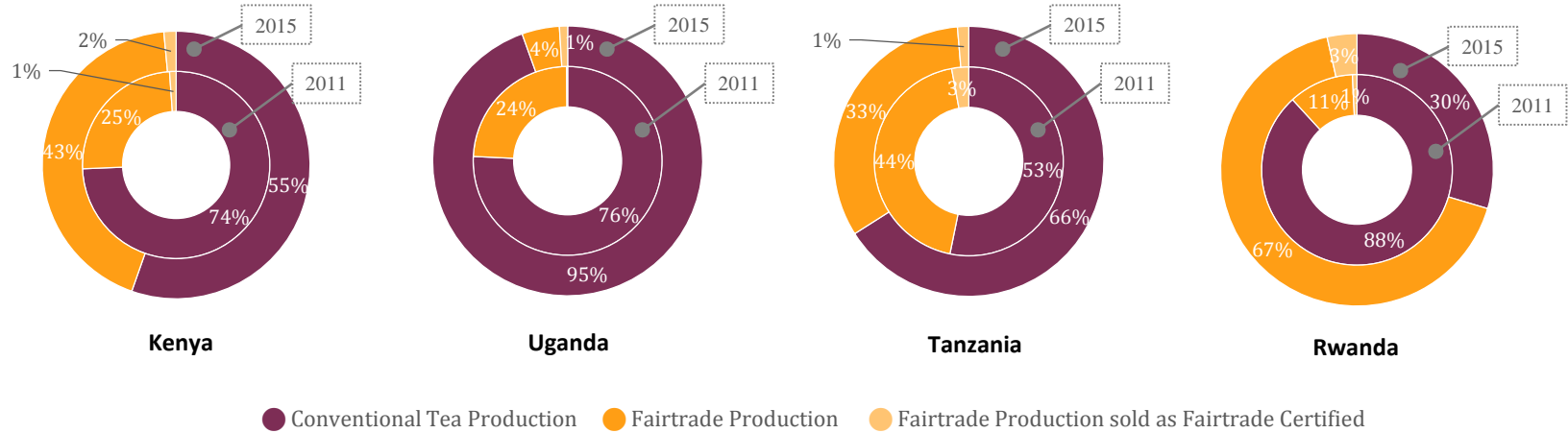
| | Tea | | | Coffee | | |
|--------------|-------------------|-----------------------------|------------------------|-----------|-----------------------------|------------------------|
| | Producers | Fairtrade Production Volume | Fairtrade Sales Volume | Producers | Fairtrade Production Volume | Fairtrade Sales Volume |
| Kenya | 30 ^(*) | 178,128 | 5,847 | 20 | 29,210 | 116 |
| Uganda | 4 | 16,006 | 534 | 20 | 4,888 | 2,439 |
| Burundi | - | - | - | 1 | - | - |
| Tanzania | 5 | 11,525 | 455 | 7 | 4,447 | 1,487 |
| Rwanda | 2 | 15,560 | 779 | 15 | 3,018 | 736 |
| Total | 41 | 221,218 | 7,614 | 63 | 41,563 | 4,777 |

Note: ^(*) Producers are smallholders with the exception of 2 tea plantations

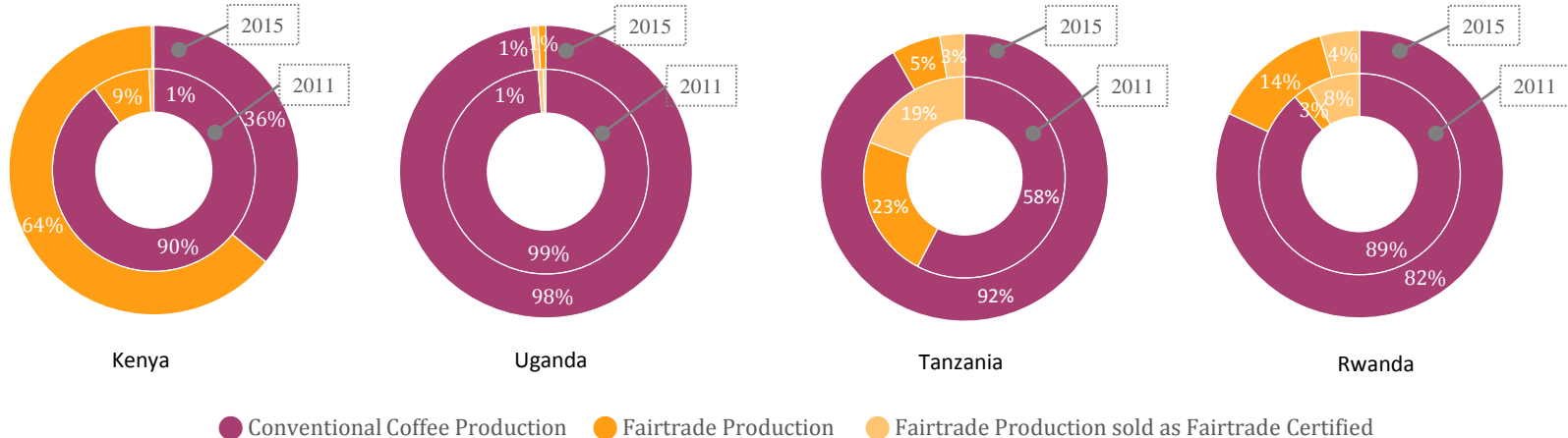
FAIRTRADE CERTIFIED PRODUCTION

High proportions of Fairtrade production in Kenya

Conventional Tea Production, Fairtrade Production and Fairtrade Production sold as Fairtrade Certified 2011, 2015



Conventional Coffee Production, Fairtrade Production and Fairtrade Production sold as Fairtrade Certified 2011, 2015



KEY TEA, COFFEE AND COCOA SECTORS' CHALLENGES

Key challenges persist, inhibiting countries from achieving full potential

1**Unsustainable farming limits smallholders' access to export markets**

Although the cost of production for small-scale farmers is lower than for estates due to their reliance on family labour, agricultural activities of smallholders are often less environmentally and socially sustainable. This can create some difficulties in including these farmers in the export market as big-name international companies such as Unilever Group and Nestlé require consistent and stable output meeting requisite sustainability standards.

2**A number of technical and financial vulnerabilities**

Erratic weather due to climate change, poor information dissemination and lack of training on recommended agronomical practices, crop diseases, limited access to credit, high cost of inputs particularly fertilisers, and low farm gate prices are amongst the challenges faced by smallholders.

3**A general perception of mismanagement and corruption along the supply chain persists**

Besides a widespread sense of poor governance, cooperatives and management agencies, such as the Kenya Tea Development Agency Holdings Ltd (KTDA), are also criticised for their reluctance or incapacity to ensure smallholders' participation in their decision-making processes. This scenario, combined with limited information on market dynamics, has an adverse impact on the redistribution of the value added through the supply chain to the smallholder.

CONCLUSIONS & RECOMMENDATIONS**Certification has been achieved but downstream activities need attention****Fairtrade Production**

- Among smallholders and at estate level Fairtrade has been very successful in achieving a high level of certification of tea and coffee production in Kenya.
- However, the level of certified coffee and tea production in other East African countries is substantially lower.

Demand management

- A key feature of certified production is the large volume of sales into the non-Fairtrade market, especially for tea sold through Kenya. The certification premium is, therefore, lost.
- This may arise either through indiscriminate blending, packaging and sales into the non-Fairtrade export market or may be because of a lack of demand in both the domestic and export market.

Key relationships

- 551,911 tonnes of tea are produced in the region, 90% of which is exported.
- The KTDA is the main trader of tea in the region.
- It has a close relationship with the Fairtrade organisation and plays a pivotal role in the marketing of certified tea both domestically and in the export market.

Recommendation

Refocus efforts and exploit Kenyan achievements as an example in the promotion of Fairtrade certification in other East African countries.

Recommendation

Flexibility of Fairtrade certified supply allows for any growth in demand to be accommodated with a review of the blending and packaging process ensuring certified production is not lost indiscriminately

Recommendation

Core marketing concepts should be explored directly with the KTDA to agree base principles and marketing strategies for Fairtrade certified produce.

CONCLUSIONS & RECOMMENDATIONS

Consumer understanding of Fairtrade requires education and stimulation

Clarity of concept

- The current market expression of Fairtrade points to a niche and non-premium positioning in East Africa.
- In other markets, Fairtrade's express purpose is to achieve a premium for redistribution among producers.
- An opportunity to exploit premium positioning within the domestic market still offers potential.

Consumer conversion

- Taste, quality and value are the criteria by which domestic consumers select their tea, coffee and other hot drinks purchases.
- The carrying of Fairtrade certification is not, currently, a key motivator for consumer purchase not is it widely explored in the domestic market.
- Conversion of the consumer to ethical purchasing is required to stimulate sales of certified products.

Targeted education

- Consumers need to be aware of the values of Fairtrade and its positive effects on local industry.
- Awareness of Fairtrade values is very low in both consumer and foodservice surveys in Kenya although attitudes towards these values are highly supportive.
- Education of young consumers through schools can be achieved through targeted and co-operative campaigns around key values.

Recommendation

Fairtrade marketing concepts should be discussed with producers, brand holders and all intermediary, creative and government agencies.

Recommendation

Develop sensitisation campaigns as well as actively pursuing both domestic and international taste and quality awards for Fairtrade certified produce.

Recommendation

Develop educational campaigns for schools and the wider community to foster a greater understanding of Fairtrade values and community involvement.

CONCLUSIONS & RECOMMENDATIONS**Market is deprived of clear, consistent and prominent Fairtrade branding****Brand inclusion**

- Few domestic brands currently opt for Fairtrade certification on their products.
- Their perception of the added value of this certification may not reflect the clear values and premium positioning promoted by the Fairtrade organisation.
- Kericho Gold, in Kenya, is one example of a successful launch of a new variant of tea that carries the Fairtrade logo with a premium.

Co-operative environment

- Highly competitive companies in Kenya, Uganda and Tanzania currently market multiple domestic and international brands of tea, coffees and other hot drinks.
- These multi-brand companies offer potential for co-operative relationships and may have the ability to adapt their marketing strategies to include Fairtrade values and collateral.

Supporting differentiation

- Manufacturers currently seek to differentiate their products through price differentials as well as packaging formats and sizes.
- Speciality teas and coffees are now readily available in middle to upper retail and some foodservice outlets.
- The inherent value of Fairtrade certification underpins differentiation in other countries but is rarely seen in this region.

Recommendation

Ensure that packers and manufacturers are motivated and fully understand the value of including Fairtrade certification in their branding and packaging.

Recommendation

Develop close relationships with competitive brands and find direct and indirect ways in which co-operative marketing can be achieved.

Recommendation

Fairtrade should develop close relationships with competitive brands releasing new products and ensure certification inclusion on new packaging.

CONCLUSIONS & RECOMMENDATIONS**Active marketing tailored to local trends will support Fairtrade positioning****Private label**

- Expansion of private label production is emerging with tea and coffee ideal product lines for conversion to fast moving own label brands, offering an opportunity for Fairtrade to partner with private label
- Supply is likely to be from local sources, many of whom may already be Fairtrade certified.
- Pricing and premium positioning, if required by the Fairtrade organisation, should be considered in light of strategic marketing plans.

Recommendation

Discussions should be undertaken with suppliers and packers of private label on how best to position Fairtrade and its approach to the value chain alongside those of the private label brand

Targeting young consumers

- Currently more than 50% of the regional population is 17 years or younger.
- This key consumer group will have more disposable income to hand as it ages and enters the workforce.
- Capturing their interest in hot drink products now will lay down a foundation for a life time of consumption.
- Branding, with Fairtrade certification, is an opportunity.

Recommendation

Build strong relationships with hot drinks marketing companies and agencies to encourage understanding and support for Fairtrade certification.

Expanding access

- In Kenya, the largest regional tea producer, direct sales outside Mombasa Tea Auction are possible since 2016. In addition, the removal of 1% ad-valorem tax on tea will increase competitiveness.
- This allows greater access to alternative sources of tea for small scale specialist packers and manufacturers who will have greater flexibility of distribution and packaging

Recommendation

Identify opportunities among specialist tea packers and manufacturers to develop Fairtrade certified brands.

CONCLUSIONS & RECOMMENDATIONS

Foodservice and tourism offer the greatest opportunity for advancement

Tourism Opportunities

- Tourism continues to expand in East Africa with Kenya leading the way with almost 5 million visitors a year and employing more than one in ten Kenyans.
- A strong presence and association of Kenya with Fairtrade products, especially hot drinks, is important to an international understanding of the values of Kenyan production.

Recommendation

Target leading hotels, resorts, attractions and transportation companies and ensure that Fairtrade products are stocked and promoted in all locations.

Foodservice revolution

- The coffee shop revolution is emerging in the region with expansion of chained and fast food outlets and the development of beverage services in forecourts and retail outlets.
- As sophistication increases, opportunities for fresh coffee will expand with the introduction of new tastes and flavours in high quality ground coffee and beans in both foodservice and retail.

Recommendation

Directly address the extremely low awareness of Fairtrade values within the foodservice sector through promotion, tastings and closer contact with producers.

Social responsibility

- Corporate social responsibility programmes, especially among international companies operating in East Africa, offers an educational tool as well as a way of promoting Fairtrade among consumers.
- A strategy of engaging with larger corporates and encouraging use of Fairtrade products will support better recognition of Fairtrade and association with positive values.

Recommendation

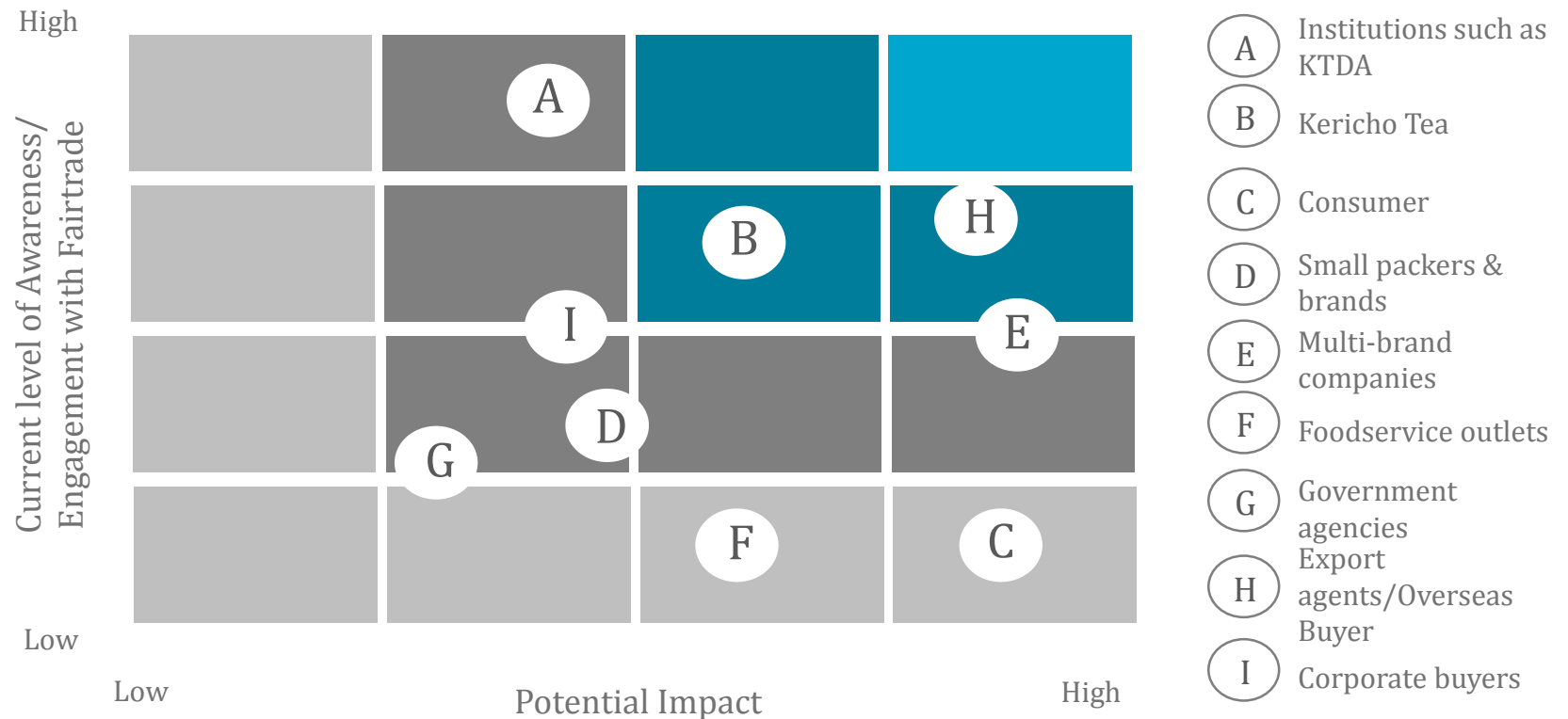
A strategic objective of linking buying Fairtrade and buying locally produced products should underlie overall marketing goals and concepts in East Africa

FAIRTRADE STAKEHOLDERS

Targeting Fairtrade marketing at consumers

Multiple stakeholders influence the impact of Fairtrade in different ways in the East African market either by supporting growth of the understanding of Fairtrade principles amongst consumers and stimulating purchase, or by controlling access to and limiting promotion of Fairtrade certified and branded products.

Levels of engagement versus impact





TEA, COFFEE AND COCOA SECTORS IN EAST AFRICA

TEA SECTOR IN KENYA, UGANDA, BURUNDI, TANZANIA AND RWANDA

Kenya plays a pivotal role in East African tea as a top global producer



551,911

Regional tea production
(tonnes) 2015

10.4%

Share of the region in
global tea supplies 2015

30.7%

Share of the region in global
tea exports 2015

In 2015, Kenya contributed over 80% of total regional tea supplies exported overseas and about 20% of global exports. As one of the top five global tea producers, not surprisingly, the tea sector is listed as one of the pillars for realising Kenya's Vision 2030. Nonetheless, Kenya's tea sector continues to face a myriad of challenges, including climate change, price manipulation and post-auction, private sale of withdrawn teas, amongst others.



TEA SECTOR: PRODUCTION TRENDS**Tea crop volumes in the region show an increasing trend****Poor weather hit Kenya's tea production in 2015**

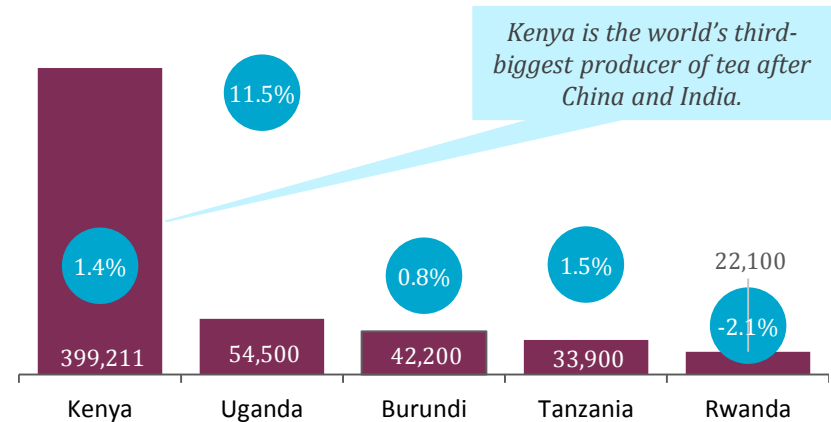
- Tea production in Kenya slightly increased over the 2011-2015 period, through a steady rise in cultivated land and the adoption of high yielding clonal types of tea. However, 2015 saw weather-related shortfalls with output down by over 10%.

Positive intervention in Uganda's tea sector is elevating output

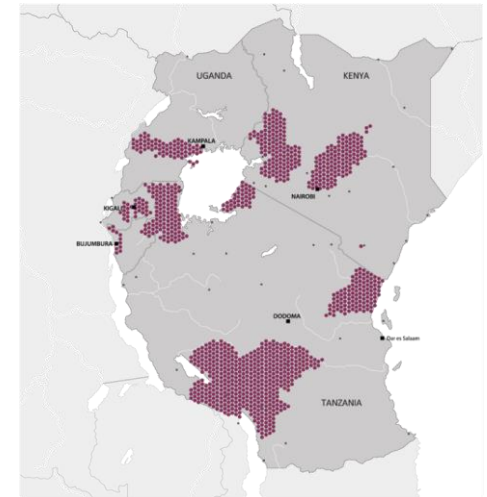
- The other East African countries produced less than half of Kenya's output in tea in 2015, less than 55,000 tonnes each. Uganda has witnessed a significant increase in tea output since 2011, supported by encouraging more farmers to embrace the crop and expand the cultivated land under tea to new areas.

Encouragement of tea growing is also reaping benefits in Rwanda

- Rwanda's government signed an agreement with Unilever Group in mid-2016 for the establishment of two large-scale tea sites and the construction of a tea processing factory in Nyaruguru District. Authorities drafted a new tea leaf handling model along the value chain aimed at introducing a quality benchmark. A reverse of decline observed over 2011-2015 due to a prolonged drought is now expected.

Tea Production 2015 (tonnes); CAGR 2011-15**Tea Growing Areas in East Africa**

Kenya ranks third, after China and India, amongst the world's tea growing countries, with increased production in 2015 representing 8% of global tea production.



TEA SECTOR: PRODUCTION AND PROCESSING**The value chain exhibits extreme fragmentation at the grower level****Around half a million smallholder farmers in Kenya produce two thirds of the country's total tea output**

- The plantation sector is dominated by multinationals, but smallholder farmers contribute the largest percentage of tea production output. In 2015, 65% of the total tea crop in Kenya is produced by an estimated 450,000 to 570,000 smallholder farmers.
- This arrangement is similar in other countries in the region with the exception of Uganda, as tea estates continue to dominate output.

The KTDA commands around 80% of tea processing in Kenya

- The Kenyan Tea Development Agency (KTDA) controls much of the tea processing and trading on behalf of smallholder farmers but faces criticism that benefits do not accrue sufficiently to farmers. It currently manages 66 tea cooperative manufacturing plants across the country. KTDA's commission is established at 2% over selling price.

Tea estates operate their own processing factories

- Large-scale tea plantations, which are organised under the Kenya Tea Growers Association (KTGA), operate 39 estate-owned processing factories in the country. Examples of large-scale tea plantations with operations in Kenya include Unilever Tea, James Finlays, The Sotik Tea Companies and Williamson Tea, among others

Tea Production and Processing Structure and Related Actors in Kenya

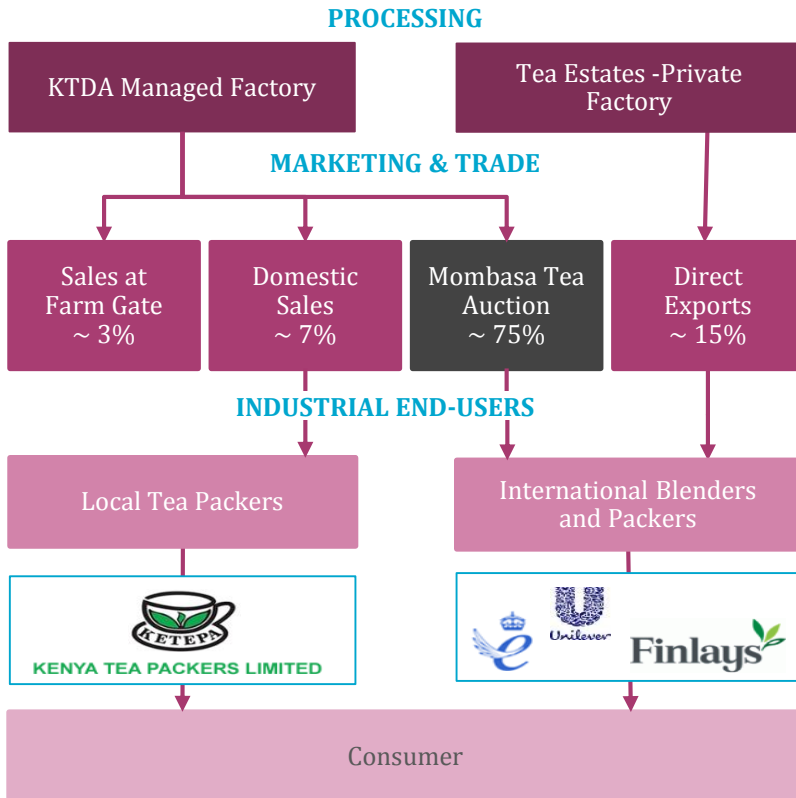
Smallholder farmers in Kenya are generally well remunerated for their tea, but are often kept out of the decision-making process for commission fees, business investments and dividend sharing even though all costs are deducted from payments to them.

TEA SECTOR: MARKETING AND TRADE

Kenya is the major tea trading hub in East Africa



Tea Supply Chain in Kenya



Statutory deductions on tea farmers' payments:

| | |
|-------------|--|
| 1% | Mombasa Tea Auction sales commission |
| 0.75% | Authorised tea brokers |
| KSh9.8 / kg | Transport, warehousing and port handling |
| KSh224 | Lot charge on export tea |

The Mombasa Tea Auction plays a leading role in auctioning tea across East Africa

- The Mombasa Tea Auction in Kenya, one of the largest auction bourses in the world, manages the trading of tea from nine countries in Africa, including Uganda, Burundi, Tanzania and Rwanda. Weekly auctions are the main price discovery point for the tea trade, influenced by supply and demand along with quality factors such as aroma, appearance and provenance.

Concentration of industry interests is characteristic of the tea supply chain in Kenya

- Mombasa Tea Auction has faced many challenges in recent years, including greater competition from the Dubai Tea Trading Centre as well as credibility issues derived from poor trading practices. Sales are controlled by a few buyers, which account for more than half of the tea traded through the auction.

A reversal of these fortunes is possible. In June 2016, the Kenyan government yielded to pressure allowing smallholder farmers to export tea directly and avoid brokers, which is expected to boost sales outside the Mombasa Tea Auction. A potential reduction of sales commission / brokerage fees is also being evaluated.

Source: Euromonitor International from Africa Tea Brokers Ltd, KTDA and 2014 Tea Industry Status Report. Euromonitor International for the Trade for Development Centre



TEA SECTOR: EXPORTS

Tea exports from East African countries have kept fairly stable



Kenya was the world's top exporter of tea by weight in 2015

- Kenya exported 447,650 tonnes of processed tea on average annually over 2011-2015, or around 20% of global tea exports, equivalent to an average export value of KSh118.9 billion (US\$1.2 billion) per year. Kenya's tea earnings represented 20% of total Kenyan exports, 16% of global tea export earnings and 1.8% of Kenya's GDP.

Kenya relies excessively on a few export partners, which enhances its vulnerability to external shocks

- Key export destinations are Pakistan, Egypt and the UK, accounting for more than half of national tea export volume as of 2015. Emerging markets of the United Arab Emirates, Iran and Saudi Arabia also provide attractive opportunities.

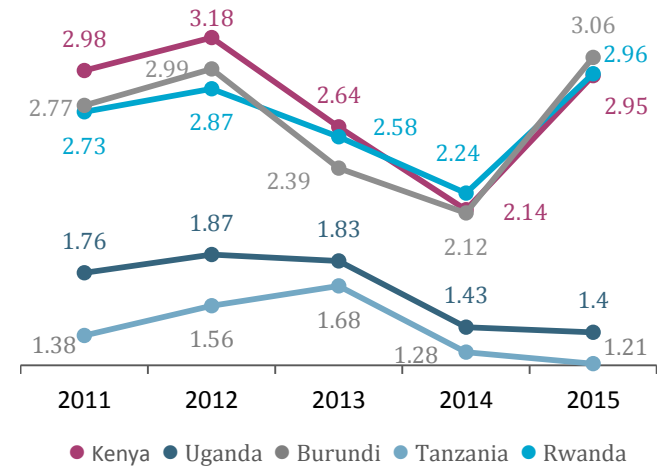
Direct sales have been gaining ground in Tanzania

- Uganda and Tanzania ranked 8th and 11th as the world's largest tea exporters in 2015, respectively. Around 97% of Uganda's tea export volume was shipped to Kenya to be sold at the Mombasa Tea Auction in 2015. Conversely, Tanzania's bilateral trade with Kenya was comparatively lower during 2015, accounting for only 49% of the country's total export volume. The remainder was exported through negotiated contracts based on direct sales to the United Kingdom, Russia and Pakistan, which guaranteed stable prices and thus predictable revenue generation.

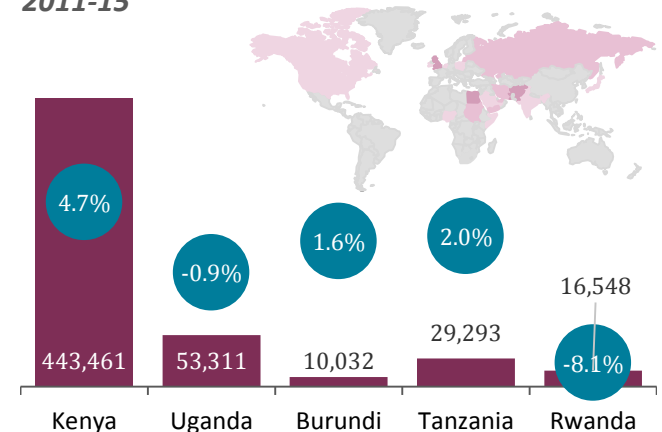
Kenya's government has already lifted the 1% ad-valorem tax charged on tea under the 2016/2017 budget to enhance competitiveness and boost tea export earnings.

Source: Euromonitor International from Africa Tea Brokers Ltd and UN Comtrade Database

Mombasa Auction Average Price (US\$ per kg)



Processed Tea Exports 2015 (tonnes); CAGR 2011-15



TEA SECTOR: END USERS**Adding value to domestic supply is difficult without intervention****Value addition levels through processing are low**

- Recent government efforts to entice multinational companies to relocate their factories to the country of origin of tea is hampered by the relatively small consumer base and disposable income levels within the region as well as inadequate infrastructure, low logistics efficiency, corruption and safety issues.
- Investment by local companies in Kenya aim to increase the amount of value added processing, employment and to improve working conditions. These include Kenya Tea Packers' tea processing and blending facilities as well as Dormans Coffee Group's coffee roasting factory and Nairobi Java House Roastery.
- Initiatives such as VAT exemption and a ten-year tax holiday are offered in Kenya as well Export Processing Zones.

Blending and packaging of processed tea offers secondary opportunities for value addition

- Blending and packaging can represent 80% of the final retail price to the consumer. Currently nine private companies operate as tea packers in Kenya, five in Tanzania and include Kenya Tea Packers, a company owned by the KTDA which controls about 60% of locally consumed tea through retailing.

**Examples of Kenyan-based tea packers:**

- Kenya Tea Packers (Kericho)
- Chippendales Kenya Ltd (Nairobi)
- Gold Crown Beverages Kenya Ltd (Mombasa, Nairobi)
- Sasini Tea & Coffee Ltd (Nairobi)

The competitive edge of domestic supply is restricted by currency fluctuations and packaging importation costs as well as 16% VAT on packing costs to retail prices.

COFFEE SECTOR IN KENYA, UGANDA, BURUNDI, TANZANIA AND RWANDA

East Africa generates about 4% of the world's coffee production



418,588

Regional coffee production
(tonnes) 2015

4%

Share of the region in
global coffee supplies 2015

4%

Share of the region in global
coffee exports 2015

In 2015, Uganda was the largest producer and exporter of coffee surpassing exports from the other four countries combined with double the volume in sales. Uganda and Tanzania have both achieved large increases in their crop with support of government initiatives and focus strongly on Robusta production. The more highly valued Arabica is grown in small quantities in Kenya but also in Uganda and Tanzania.

Source: Euromonitor International from FAOSTAT, International Tea Committee and UN Comtrade Database

Euromonitor International for the Trade for Development Centre



COFFEE SECTOR: PRODUCTION TRENDS**Uganda is one of world's largest Robusta coffee producers**

Uganda is the leading producer in the region whereas output in Kenya is relatively minor. The former is also one of the largest Robusta producers globally, with 78% of its coffee production devoted to Robusta.

Kenya's coffee production has flattened since 2011

- Kenya only contributes 0.1% of the world's coffee production albeit of highly appreciated Arabica coffee. Coffee output in Kenya flattened over the 2011-2015 period, due to low prices and the loss of production from large plantations in the suburbs of Nairobi.

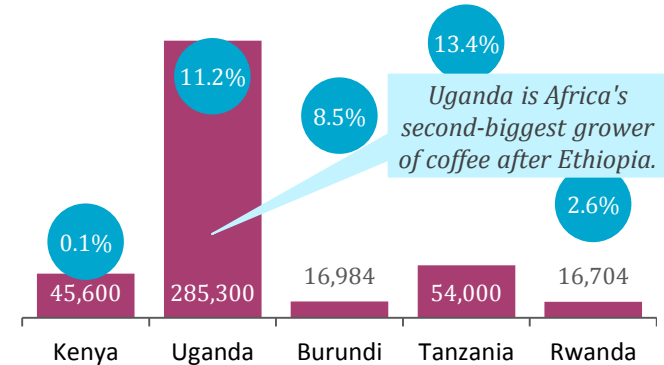
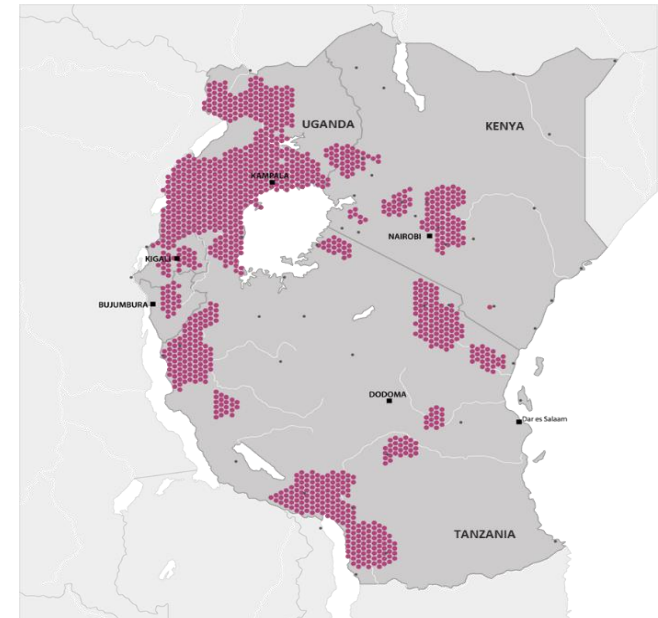
Uganda and Tanzania have recorded sustained growth

- Both Tanzania and Uganda grow both Robusta and Arabica coffee. In volume terms, Uganda's output of Robusta coffee is more than double that of Arabica coffee, in Tanzania around a third of output comprises Robusta. In 2015, Uganda and Tanzania recorded a combined output of 339,300 tonnes in 2015, which represented a 26.4% increase over the previous year.

Ambitious government-sponsored programmes contribute to the expansion of the coffee sector in Uganda and Tanzania

- The substantial progress made by both countries has been prompted by the implementation of ambitious government-sponsored programmes. For example, the Uganda Coffee Development Authority recently launched a production enhancement plan, which includes the promotion of improved varieties, streamlining of farm inputs supply, and the revamping of agricultural extension services.

Source: Euromonitor International from ICO and the 2016 Report of the National Task Force on Coffee Sub-Sector Reforms

Coffee Production 2015 (tonnes); CAGR 2011-15**Coffee Growing Area in East Africa**

COFFEE SECTOR: PRODUCTION AND PROCESSING

As with tea, the coffee sector is defined by a dual production system 

In 2015, around 65% of coffee output in Kenya was produced by smallholder farmers

- About 600,000 smallholder farmers in Kenya produce around two thirds of the country's coffee output from some 77% of the land area under coffee. The remainder is generated by 3,217 medium and large coffee growers (Estates). In countries like Burundi and Rwanda, smallholder coffee farms might consist of only 100 trees.

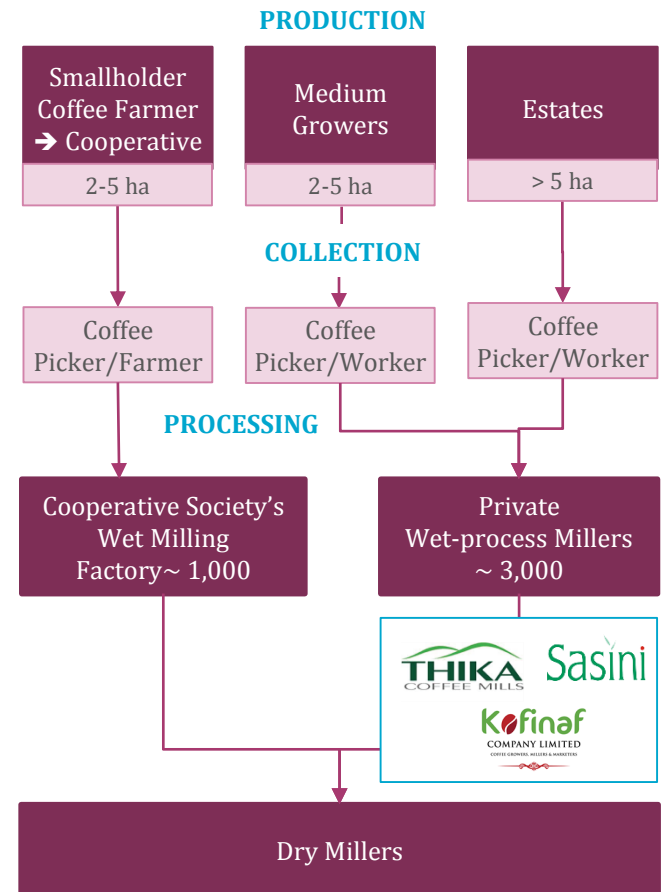
Smallholder farmers in Kenya face limited choice in processing

- Smallholder farmers are required by Kenya's 2011 Coffee Act to join one of the existing 525 cooperative societies, which together operate around 1,000 pulping stations where smallholder farmers deliver their coffee cherries for primary processing.
- The scenario is slightly different in Uganda, as smallholders are able to sell their coffee cherry to private sector traders meaning that they are paid in cash upon delivery. The longer time period between delivery of crops and payment in Kenya acts as a disincentive for local smallholder farmers.

Milling in Kenya is limited with only nine commercial millers

- In 2015, there were 18 registered millers in Kenya licensed by the Coffee Directorate, with a combined milling capacity of over 350,000 tonnes on the basis of an eight hour shift.

Coffee Production and Processing Structure and Related Actors in Kenya



Source: Euromonitor International from the 2016 Report of the National Task Force on Coffee Sub-Sector Reforms

COFFEE SECTOR: MARKETING AND TRADE

Strong regulatory control is maintained through the region



Kenya acts as the regional trading hub in coffee

- Kenya is the regional trading hub for coffee with a 4.6% rise in volumes export between 2011-15 primarily from increased production in Uganda and Tanzania. Products exported to small number of traditional destination markets consist primary of green coffee rather than processed output.

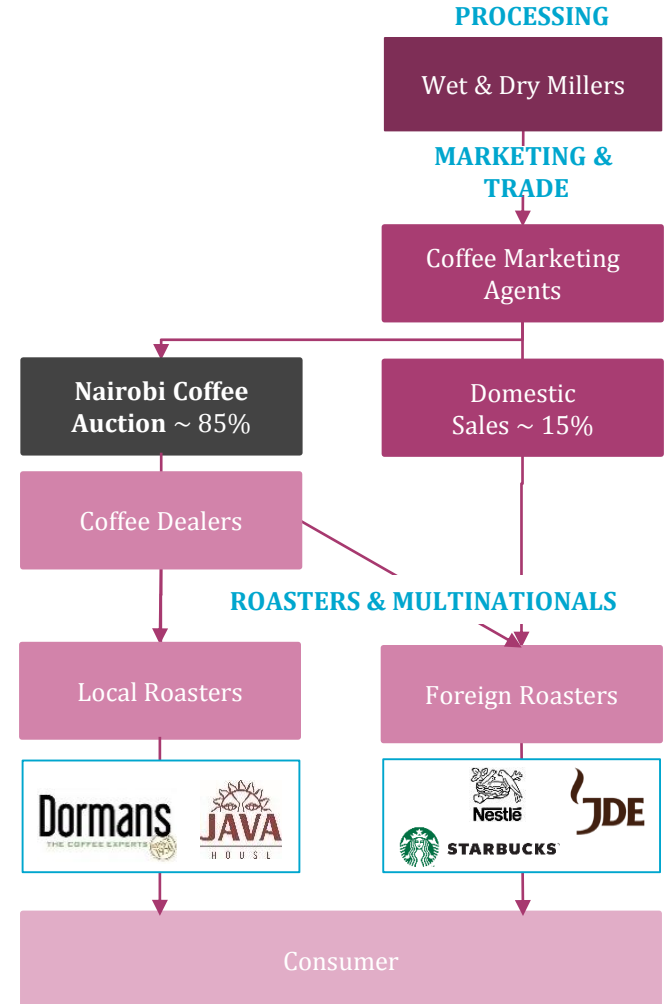
Kenya's coffee is still primarily traded at the Nairobi Coffee Exchange

- Although Uganda's smallholder farmers are increasingly exploring direct sales, around 85% of Kenya's coffee is still traded through wholesale auctions at the Nairobi Coffee Exchange.
- Both estates and smallholder cooperatives contract one of five licensed marketing agents each year to represent them at the wholesale coffee auctions. The coffee is then purchased by one or more of about 25 active coffee dealers.
- Licensed coffee dealers then regrade and repack beans to suit their export clients.

Statutory deductions on coffee farmers' payments:

| | |
|------------------|--|
| 1% | Coffee Board of Kenya |
| 2% | Coffee Research Foundation |
| KSh10 / bag | Nairobi Coffee Exchange sales commission |
| 0.8% | Road board levy |
| 0.2% | Council/County levy |
| KSh4,675 / tonne | Milling basic charges |
| KSh5,000 / tonne | Other milling charges |

Coffee Supply Chain in Kenya



COFFEE SECTOR: EXPORTS

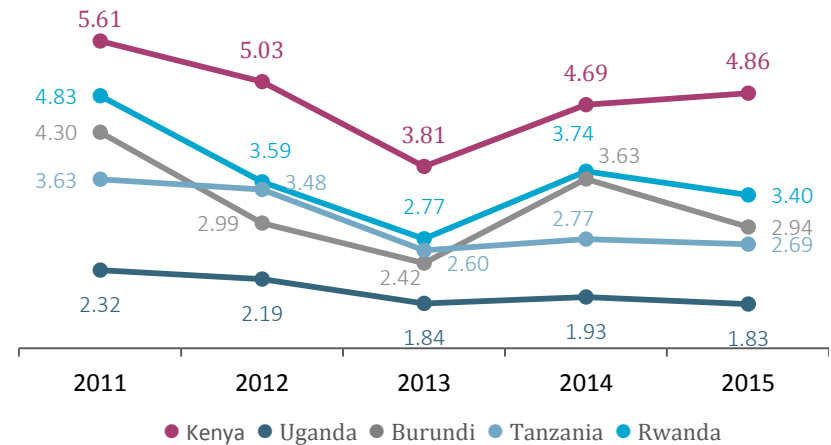
A remarkable increase was noted in coffee exports over 2011-15



Kenya was the 16th largest coffee exporter globally in 2015

▪ Coffee exports represent a 6% of the country's agricultural exports. Uganda's exports, however, grew by 9.1% between 2011-15 with 97% exported by more than 30 companies through direct sales rather than through Kenyan auctions. The high level of Robusta produced in Uganda directly affects value sales as Robusta achieves about half the value of Arabica per kilo.

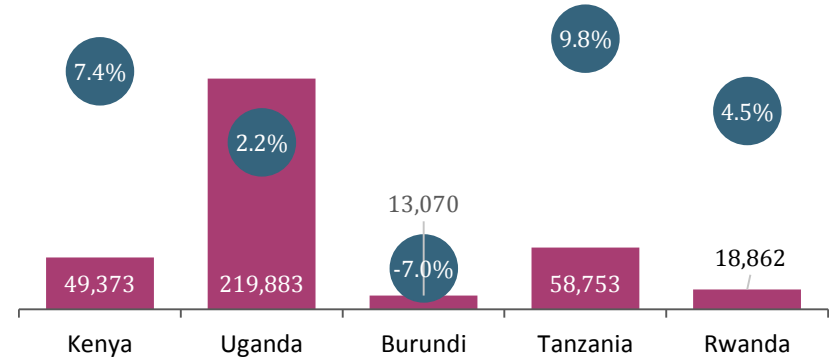
Benchmark Export Coffee Price (US\$ per kg)



Kenyan Arabica is classed as among the world's finest coffee

▪ Kenyan arabica is a high quality mild coffee suitable for blending for speciality markets and is now exported to 70 different destinations. Two-thirds traditionally goes to Europe with Germany, Belgium and Sweden key markets. The US is also a large destination market.

Coffee Exports 2015 (tonnes); CAGR 2011-15



COFFEE SECTOR: END USERS

Investment and active marketing is creating international brands



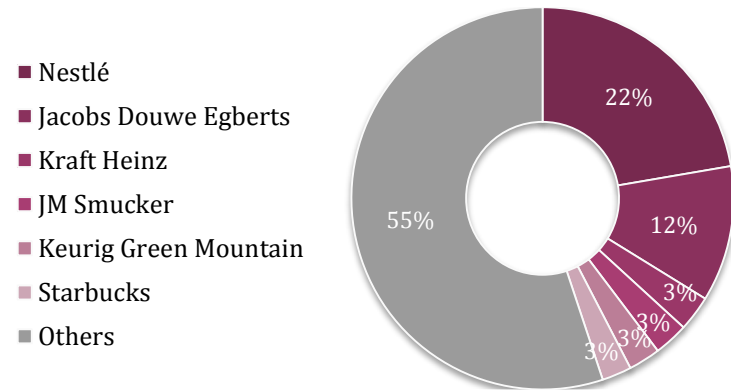
Roasters and multinational companies are major industrial end-users of coffee

- The commercial strategy of several local roasters is based on the “Coffee Kenya”, “Kenya AA” and “Dormans” brandmarks.
- The Coffee Directorate appointed KEBS to develop industrial standards and a code of practice on origin differentiation for “Coffee Kenya” covering the entire process of production for coffee to selling.
- COOP Danmark in 2016 established an industrial coffee roasting and packaging facility, Africa Coffee Roasters, to create the locally-produced brand, Mount Kenya Cirkel Kaffe which is targeted for sale in the European market.

Local roasters are now exploring the export market

- Dormans Coffee Group is now the leading coffee exporter and roaster in East Africa, producing over 15,000 tonnes of roasted coffee per annum. Dormans Coffee Group was the first to obtain the Fairtrade and UTZ certifications.
- Nairobi Java House Roastery has established itself as a major chain operator of coffee shops and restaurants in-and-around Nairobi and Uganda.

Overview of Major Companies' % Value Shares in Coffee Markets Worldwide 2015



Examples of Kenyan-based roasters



Source: Euromonitor International



COCOA SECTOR IN KENYA, UGANDA, BURUNDI, TANZANIA AND RWANDA

Cocoa is a vastly underdeveloped small industry in East Africa



25,300

Regional cocoa production
(tonnes) 2015

1%

Share of the region in
global cocoa supplies 2015

1%

Share of the region in global
cocoa exports 2015

Cocoa is a small industry practiced mainly in Uganda and Tanzania with small crop production in Kenya. As a small industry it is not well regulated with poor infrastructure and is focused on export of largely unprocessed beans. No processing facilities are present with little possibility of value addition to production.

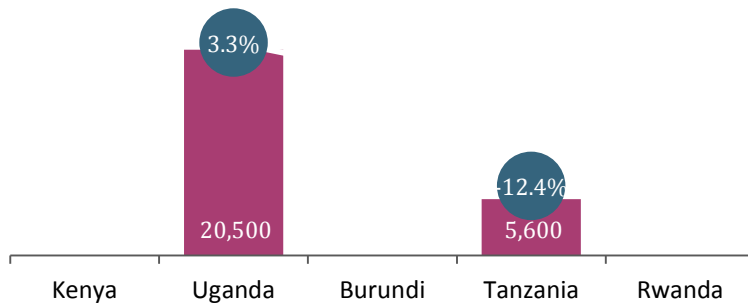
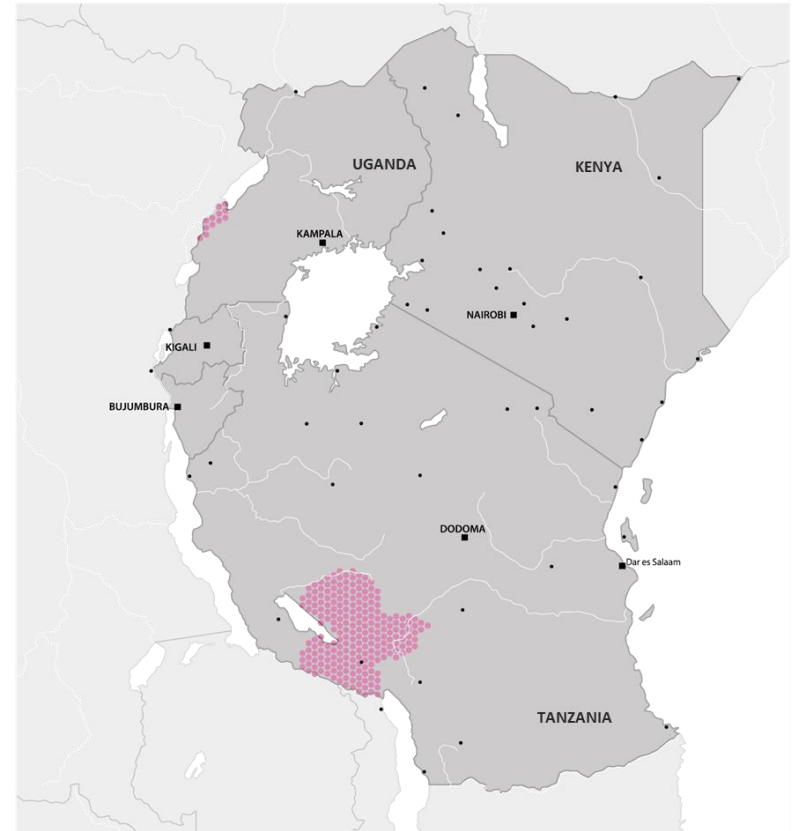


COCOA SECTOR: PRODUCTION TRENDS**Small scale production dedicated to export of unprocessed beans****Limited production limited by weather and harvesting**

- Cocoa is a relatively minor and non-traditional cash crop in East Africa, with most of the region's production coming from Uganda and Tanzania.
- The combined crop of 25,300 tonnes is equal to 1% of the global cocoa bean market.

Government initiatives support planned growth

- Through the Cocoa Development Project (CDP), Uganda's Ministry of Agriculture, Animal Husbandry and Fisheries distributed over a million cocoa seedlings to farmers across the country in 2015 and also pushed for the use of hybrid cocoa varieties which mature earlier and are more resistant to pest and diseases. These initiatives aim to facilitate a target of 50,000 hectares of cocoa to be reached by the end of 2020.

Cocoa production 2011-15 ('000 tonnes) and CAGR 2011-15**Cocoa Growing Area in East Africa**

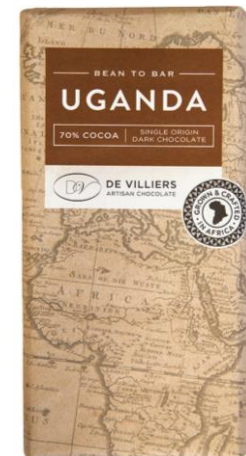
Source: Euromonitor International from FAOSTAT, International Tea Committee and UN Comtrade Database

COCOA SECTOR: PRODUCTION AND PROCESSING**A highly fragmented production process with small landowners only****Cocoa production has potential to be certified organic**

- It is estimated that around 35,000 smallholders are involved in the cultivation of cocoa across Uganda and Tanzania using organic production methods where the application of pesticides is minimal. However, farmers generally remain uncertified due to the lack of formal technical skill, high certification costs and stringent procedures.

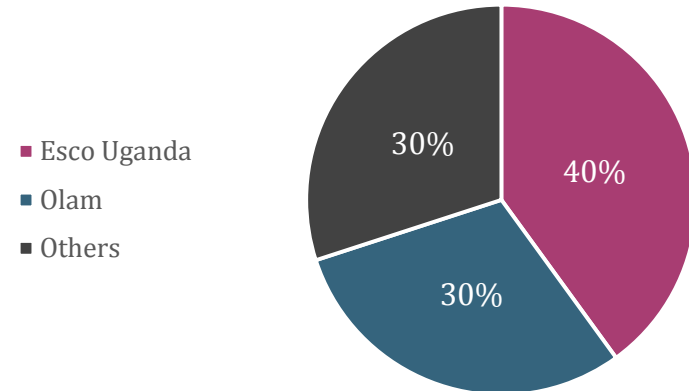
**Processing facilities are absent**

- Cocoa beans are merely harvested, fermented and sun-dried before being shipped overseas to cocoa consuming countries. There is a lack of investment in training for post-harvest handling of cocoa as well as lack of processing factory facilities.
- Very limited value added processing is undertaken within Tanzania or Uganda



COCOA SECTOR: MARKETING AND TRADE**Foreign exchange earnings increase at unit price of cocoa rises****Formal infrastructure and regulation is absent**

- Most of the buyers are local traders, who purchase cocoa beans at the farm gate for export. Due to the absence of established cooperatives and a lack of unionisation, smallholder farmers have little bargaining power and thus are vulnerable to the price set by private buyers.
- After the purchase is finalised, buyers transport the cocoa to store facilities for cleaning and aggregation before shipping.
- Nearly all cocoa produced both in Uganda and Tanzania are exported in raw form for industrial or consumer goods production, chiefly chocolate and related products.

Leading exporters of coffee beans from Uganda

- Esco Uganda is a major exporter of organic cocoa beans. The company has been trading in cocoa and vanilla in Bundibugyo district since 1994. Currently it is one of the major buyers in the district. Both, cocoa and vanilla are exported as certified organic products.
- ICAM Chocolate, Three Farmers and World Botanic Ltd also export from Uganda and the Bundibugyo Cocoa Association have recently been able to link up directly with international buyers in Europe.
- In Tanzania, Biolands and Kilimo Hai dominate shipping of raw cocoa

Source: Euromonitor International

Euromonitor International for the Trade for Development Centre

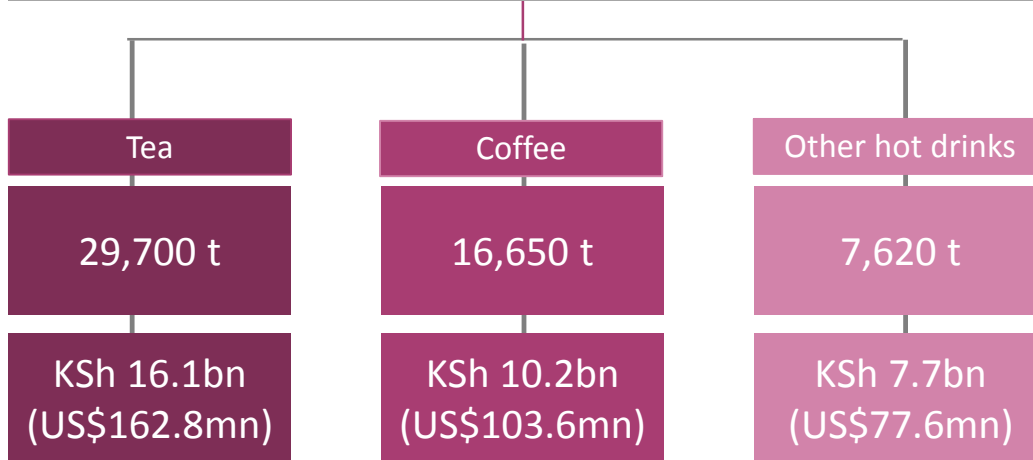


MARKET SIZE AND CHARACTERISTICS

HOT BEVERAGES MARKET IN EAST AFRICA

Strong value growth reflects premiumisation

53,900 tonnes / KSh34 billion (US\$344 million), 2015
East African Hot Beverage Consumption



US\$1.68

Average consumer spending 2015

5.3%

Volume CAGR 2011-15

10.4%

Value CAGR 2015-20

Coffee growth outstrips expansion of tea sales across the region

- Kenya, Uganda and Tanzania are the most populous countries in the region and constitute the largest hot beverages markets in East Africa in volume terms. Kenya has the highest per capita consumption (US\$4.10), a reflection of the higher incomes available in this country.
- Tea is the traditional beverage in the region but CAGR 2011-15 shows strongest value growth for coffee at 13.9% ahead of 8.2% for tea.
- Kenyan tea consumption greatly outstrips its use in other countries in the region. In comparison Ugandans drink significantly less and favour coffee more strongly. Tanzanians, likewise, are much more likely to drink coffee than tea.



Tradition

Tea drinking patterns are well established and appeal to both low and middle income consumers.

New varieties, flavours, premium products and promises of therapeutic value of tea supports growth in this category.



Modernity

Coffee represents the modern hot beverage of choice for young consumers through its association with novelty, affluence, westernised values and its increasing availability through modern retail and forecourt channels.



Population

The large population of children and young adults in the region underpins the growth and popularity of powdered flavoured hot drinks including chocolate, malt or fortified varieties. An affordable option for low and middle income families.



Retailing

The expansion of modern retailing and forecourt modernisation offers a wider variety of product formats, sizes and price points that is increasingly attractive in urban areas. Development outside the major cities is now underway.

TEA CONSUMPTION IN EAST AFRICA

Informal and formal sales channels are important for tea penetration



- Tea bags are also popular but retail at a higher price point than loose tea but appeal to consumers because of their convenience, speed and ease of use.
- Branded fruit, herbal or green teas appeal to more affluent, city based consumers with health and therapeutic benefits strongly marketed. Distribution, however, is still limited to upmarket supermarkets and hypermarkets in larger cities.
- Forecast growth in the region for tea is 4.4% but only a marginal increase in per capita consumption is expected.

- Tea is sold in traditional and modern grocers but also is widely available from kiosks and informal street markets across the region. Affordability is a key criteria in choice of formats and package size in the region. Loose black tea, which is usually sold at a much lower price, is popular in rural areas and among low income consumers.
- Domestic and regional brands often comes in foil bags of 300-500g but can be found in packages of 100g.



COFFEE CONSUMPTION IN EAST AFRICA

Rising popularity of coffee supported by increased accessibility

- Increasing consumption of coffee is supported by growing disposable income and aspirations towards a western lifestyle. Per capita consumption is low across the region but has reached US\$2.60 (KSh255) per annum supported by a rapid expansion of chained specialist coffee shops in affluent areas.
- Informal markets, corner shops and street vendors particularly in Tanzania, are a leading channel of distribution of ready to drink volumes in the traditional form of hot Arab style “Kahawa chungu”. Office environments are also developing as an important channel for distribution.



- Instant coffee is estimated to make up about 90% of total volume with single serve sachets popular due to convenience and affordability.
- Coffee comes in tins and pouches of 50g, 100g and 250g and varies in price by brand.
- Pods and capsules are now coming to the market with machines available in leading stores but uptake is still very low.
- Forecast growth to 2020 is CAGR 6.6% due to increasing disposable income and higher out of home consumption.

OTHER HOT DRINKS CONSUMPTION IN EAST AFRICA

A small but dynamic market targeting families and children



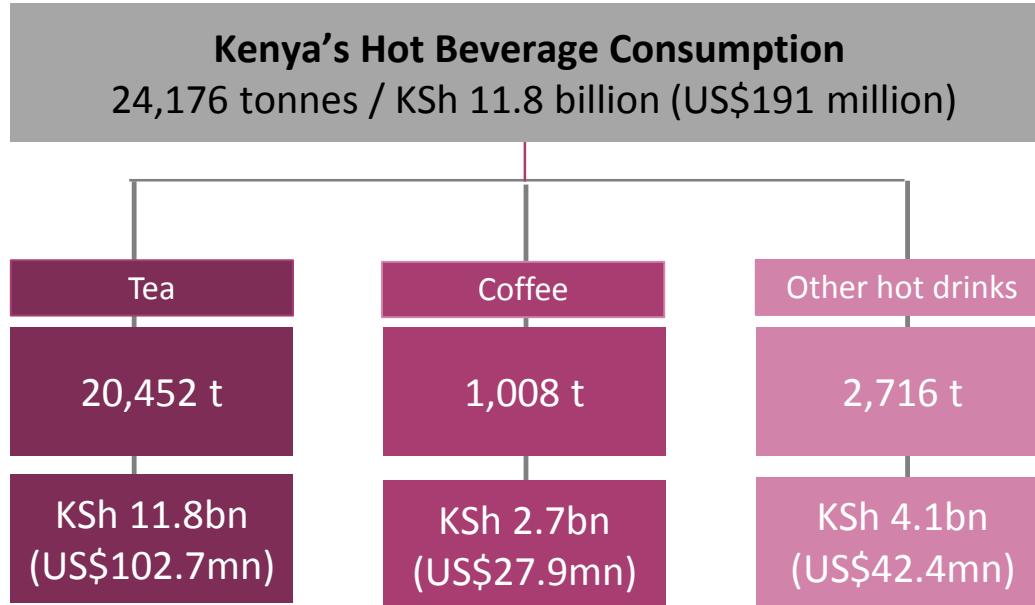
- Chocolate flavoured drinks take a 47% volume share of the regional market followed in popularity by malt based drinks.
- Products are heavily promoted as a healthy and affordable option for families with young children.
- Drinks are consumed both in hot and cold form and come in single serve sachets as well as larger containers, tins and pouches.
- Single serve sachets allow for greater portability and affordability for low to middle income consumers.
- Major European brands such as Nestlé and Cadbury are very active in this market with leading product sales.
- With a very young population the region offers a large consumer market and forecast growth of CAGR 6.3% to 2020 is expected with chocolate based drinks the most dynamic



FOCUSING ON KENYA: MARKET ANALYSIS

HOT BEVERAGES MARKET IN KENYA

Tea sales dominate the market



37.8%
Absolute value growth 2011-15

11.9%
Volume CAGR 2011-15

8.4%
Value CAGR 2015-20

Premiumisation is developing as consumers acquire new drinking habits and expectations

- Trading up from unpackaged to higher value packaged, branded products is occurring as consumers look to new categories such as bagged and speciality teas for convenience, novelty and alternatives to traditional products.
- Rising disposable incomes, wider availability and ranges of ready to drink varieties encourages impulse purchase and the development of new drinking occasions.



HOT BEVERAGES MARKET IN KENYA: KEY TRENDS



A growing, young, affluent population underlines market growth

Income growth + urbanisation

Growth in incomes, poverty reduction and a growing urban consumer class attracts consumers to the benefits of packaged, added-value hot beverage products.

Innovation and new product developments

Kenyan consumers now seek to taste new products, origins, delivery formats as well as an array of exotic flavours and blends that offer nutritional and medicinal benefits. Coffee, powdered hot drinks and flavoured instant mixes constitute favourable ground to develop the existing offering.

The coffee shop revolution

Growth of a coffee shop culture in business districts, shopping malls and higher income neighbourhoods positions coffee clearly as an aspirational item.

Expansion of internal foodservice chains

Eating out has increased in frequency with new restaurants and chained fast food outlets offer sit down and delivery options. Coffee consumption, in particular, has benefitted from higher growth rates in foodservice than tea (6.1% CAGR vs 3.7% CAGR 2011-2015).

Nairobi: A rising star amongst global hotel brands

International hotels targeting the high-end consumer are also jostling for a space in Nairobi, which is expected to increase demand for locally-sourced hot beverages.

MARKET DRIVERS

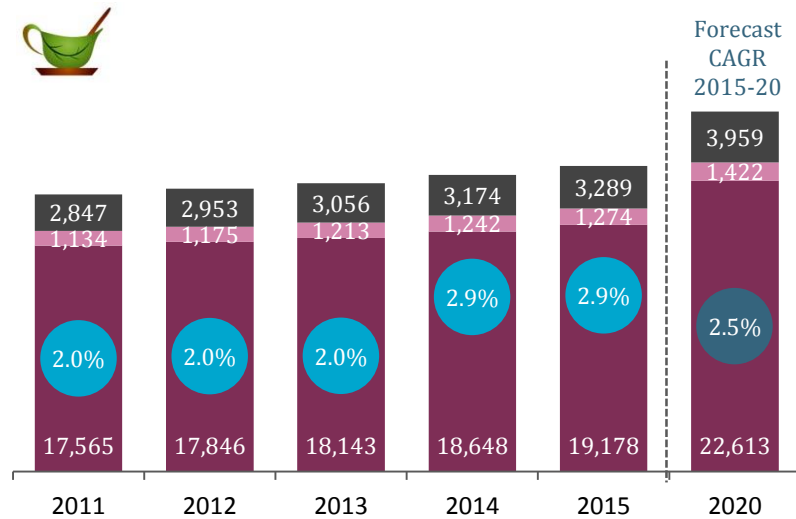


HOT BEVERAGES MARKET IN KENYA: TEA

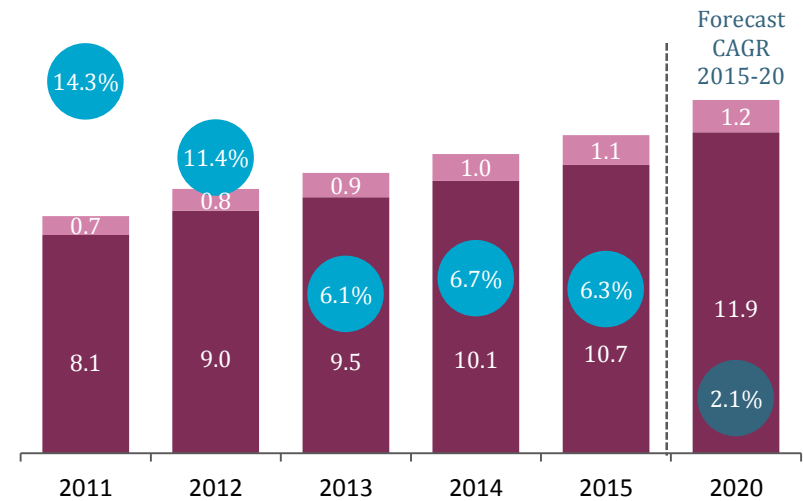
Modern retail is the leading channel for sales of tea with 65% share



Total Volume Sales: 2011-2020 Tonnes



Retail Value Sales: 2011-2020 KSh billion*



Black Tea, Other Tea, Sales through Foodservice, YOY % Growth and CAGR 2015-2020

- Total volume sales of tea increased at 2.5% CAGR between 2011-15 while value sales increased by 7.3% CAGR. Strong demand for higher value, better quality products with new flavours has supported increases in product prices and variety in packaging formats.
- Strong marketing campaigns by the Tea Directorate and leading brands continue to position tea as popular drink throughout the day for all the family. Black tea remains popular as well as herbal teas with therapeutic effects with new product development keenly watched by consumers.

Source: Euromonitor International

*Exchange rate, 2015: KSh98.18 = US\$1.00

Note: Other Tea includes fruit/herbal tea, green tea, instant tea and "other tea"
Euromonitor International for the Trade for Development Centre

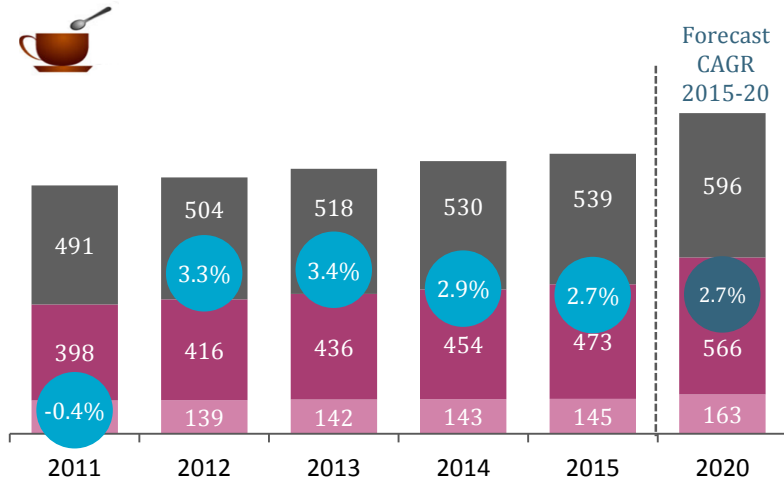


HOT BEVERAGES MARKET IN KENYA: COFFEE

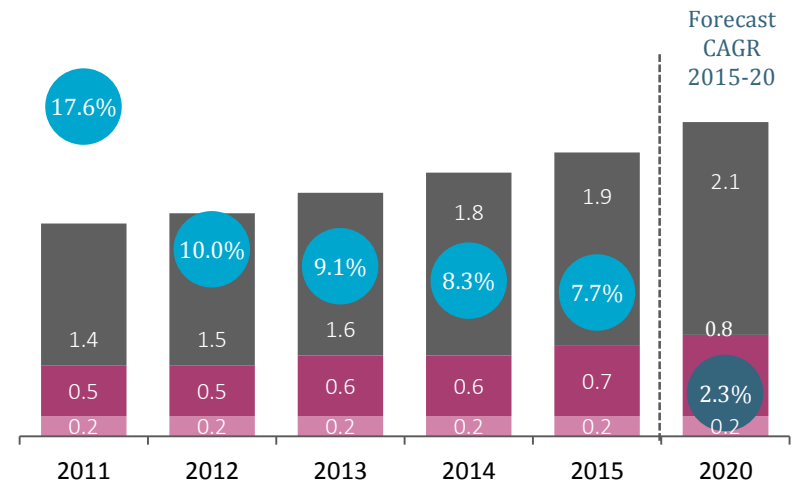
Growing attraction to coffee seen in offices, coffee shops and retail



Total Volume Sales: 2011-2020 Tonnes



Retail Value Sales: 2011-2020 KSh billion*



Fresh Coffee Beans, Fresh Ground Coffee, Instant Coffee, YOY % Growth and CAGR 2015-2020

- Although consumption is low in comparison with tea, coffee is finding a foothold among the growing middle class and young working professionals as exposure in office environments and local stores allows for greater experimentation with the range of products available.
- In central business districts, shopping malls and urban centres, coffee shop chains are expanding. Instant coffee sales take a 52% share of the market in tins, containers and single serve sachets as well as being available in street kiosks and the majority of retail outlets. Sales of fresh ground coffee are also growing as tastes change with greater consumer willingness to spend on these products.

Source: Euromonitor International

*Exchange rate, 2015: KSh98.18 = US\$1.00

Euromonitor International for the Trade for Development Centre

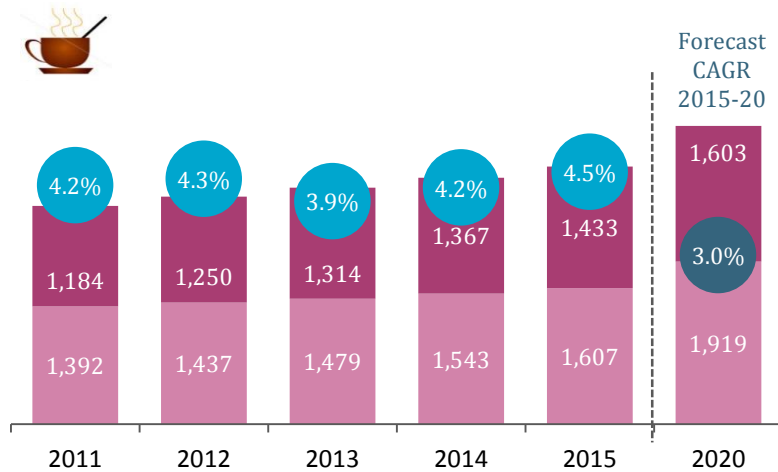


HOT BEVERAGES MARKET IN KENYA: OTHER HOT DRINKS

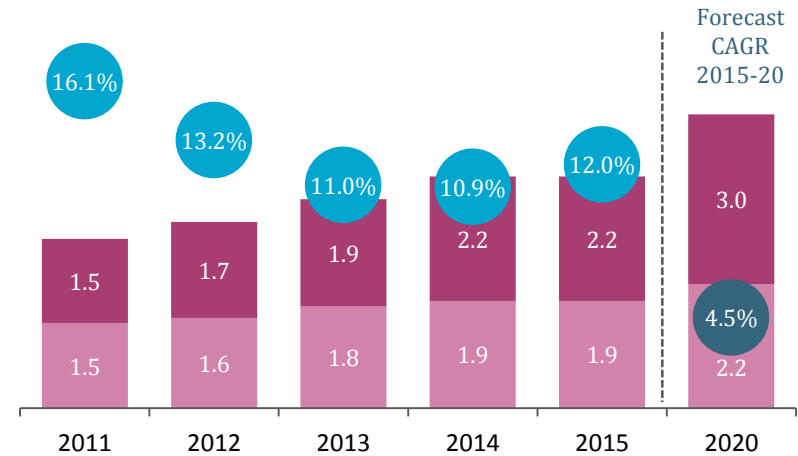
Nutritional value is important to families and central to promotion



Total Volume Sales: 2011-2020 Tonnes



Retail Value Sales: 2011-2020 KSh billion*



Chocolate-based Flavoured Powdered Drinks, Malt-based Powdered Drinks, YOY % Growth and CAGR 2015-2020

- Key drivers of the other hot drinks market are a fast growing young population and increasing high income consumer base attracted by fortified and innovative products and packaging with vibrant marketing activities by leading brands. Retail sales showed an increase of CAGR 12.1% between 2011-15 pushed upwards by malt flavoured as a healthy alternative to chocolate.
- Malt based drinks are promoted as have a beneficial effect on children’s physical and mental development. With over 42% of the population under 15 years consumption is expected to grow alongside increasing disposal income.

Source: Euromonitor International

*Exchange rate, 2015: KSh98.18 = US\$1.00

Euromonitor International for the Trade for Development Centre





Modern Grocery

Supermarkets and hypermarkets comprise 65% of all sales of hot drinks. Branded products in tins, containers, sachets and ready to go form are widely available with many varieties of origin and flavour present.

Private label ranges are now marketed by the leading retailers and are growing in popularity due to price and value for money.



Traditional Grocery

Black loose tea and instant coffee packaged in smaller volumes are more affordable for lower income consumers and retain their position in traditional grocers. Few modern varieties of tea or coffee are available through this channel.

Small grocers, open air markets, kiosks and corner shops account for 31% of sales.



On-The Go

Forecourt sales currently account for 3.3% of hot drink sales in Kenya, growing strongly since 2011 as beverage services are more widely introduced in modernised service stations.

Vending service on forecourts and in offices are also being introduced to offer a wider range of hot drinks including teas for on-the-go consumption.

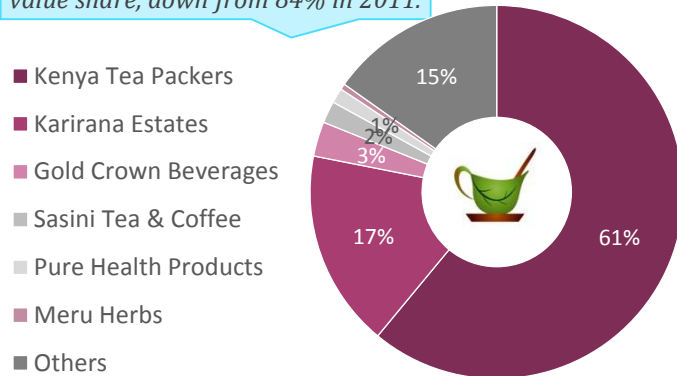
HOT BEVERAGES MARKET IN KENYA: COMPETITIVE LANDSCAPE

National brands show their strength in tea



Tea Market Retail Value Share % by Company 2015

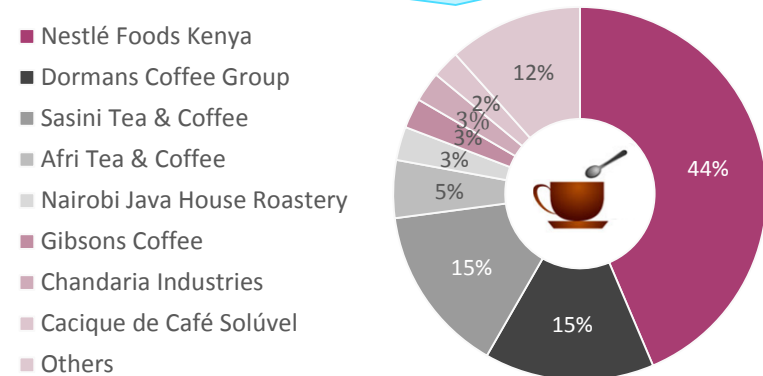
The leading three local players accounted for an impressive 81% value share, down from 84% in 2011.



- The tea market is concentrated with a small number of leading manufacturers. Price is very competitive with all brands leveraging consumer recognition with new products, packaging formats and a range of products at all price points. New players such as Dormans Coffee group have expanding into tea offering competitively priced quality tea bags.
- Strengthening competition continues to encourage local manufacturers to focus on expanding their flavoured and speciality teas, which also include green, white and purple varieties. This strategy was credited to the products' alleged health benefits for consumers.

Coffee Market Retail Value Share % by Company 2015

Nestlé Foods Kenya retains its lead to reach a 44% value share in 2015 compared to 41% in 2011.



- International brand Nescafé dominates in coffee through its range of instant coffees in many formats backed by continuous marketing and promotional campaigns and a nationwide distribution network.
- Other brands such as Sasini offer fresh and instant coffee at more affordable prices while Fairtrade-certified Dormans capitalises on catering services to offices and institutions in addition to retail.



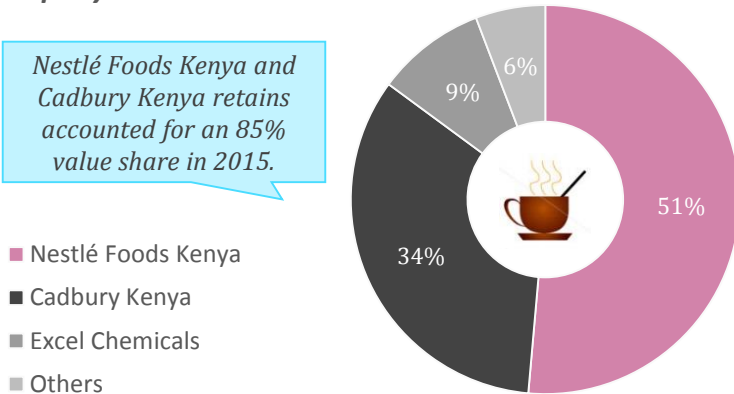
HOT BEVERAGES MARKET IN KENYA: COMPETITIVE LANDSCAPE

Concentration in all markets requires investment for new entrants



Powdered Hot Beverages Market Retail Value Share % by Company 2015

Nestlé Foods Kenya and Cadbury Kenya retains accounted for an 85% value share in 2015.



- Nestlé Foods Kenya
- Cadbury Kenya
- Excel Chemicals
- Others

- Nestlé’s brand Milo is a category winner and is supported by sustained promotional campaigns and sponsorship of youth activities, sports and popular festivals. Cadbury positions itself as a high quality, family drink that can be consumed at any time. Excel Chemical’s Raha brand is also seeing growth while Horlicks, a recent market entrant, is offered at competitive, affordable prices in a range of packaging sizes including single serve sachets.

Strong promotion wins

National brands show their strength but are under pressure from international brands such as Nestlé and Mondelez which are showing stronger growth particularly in coffee and other hot drinks.

Nestlé’s Nesquik and Cadbury Drinking Chocolate are the fastest growing brands with CAGR 2011-15 of 20.6% and 14.8% respectively compared to 7.4% for Farahi ya Kenya.



“Many Kenyans prefer imported products due to a widespread perception of better quality and stricter production standards. This pushes local producers to focus on packaging, flavours, colours and branding to reflect high quality of Kenyan products and entice consumers.”

- Market Researcher at a Processing Company, Kenya



Retailing

Due to the wide range of urbanisation and income levels across Kenya retailers adapt their offering to suit their clientele expanding or limiting the offering based on price and sophistication of their customers.

Tea

All leading brands are sold in modern retailing outlets with Fahari Ya Kenya more likely to be found in lower income areas while Kericho Gold was sold in middle to upper class stores. Black tea dominates in either loose or as higher priced tea bags with newer exotic flavours limited to up market areas.

Coffee

Shelf space dedicated to coffee is significantly less than for teas. However, in more affluent areas a wider range of coffees, including fresh coffee and pods, are stocked than in less well-off areas.

Instant coffee dominates the shelves with market leading brands offered in all stores.

Other hot drinks

Pricing differentials between chocolate and malt based drinks affects their accessibility with malt based products more likely to be found in lower income areas.

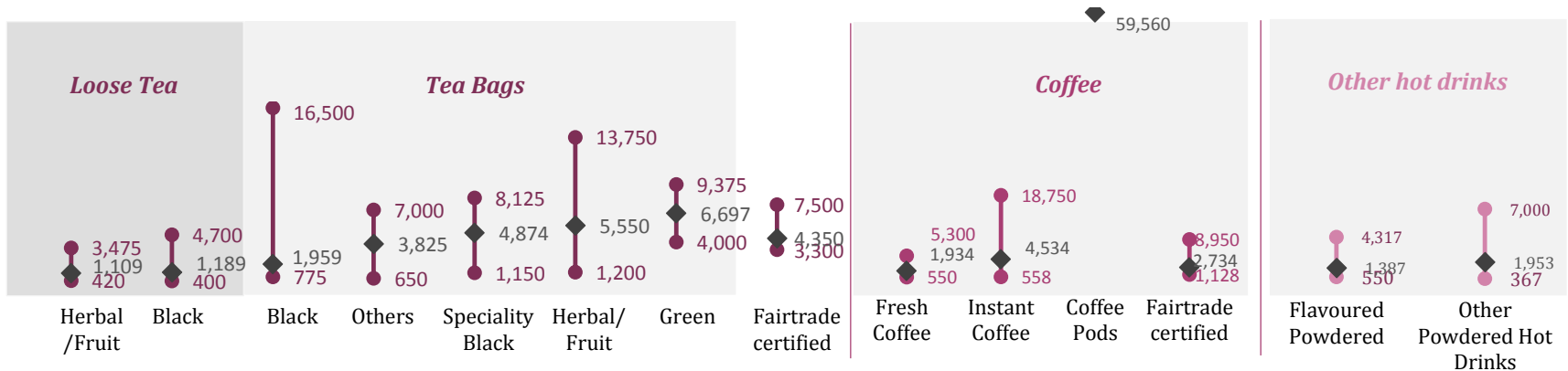
The range of products available is also more limited than for coffee or tea.

HOT BEVERAGES MARKET IN KENYA: PRICING

Offering a range of price points is essential to suit income groups



Retail Prices (Max, Average and Min measured at KSh/kg) by Category



Prices vary strongly by retailing channel and physical location

- Retail channels are tiered and target specific income groups dependent on their location. Traditional retailers are more likely to target lower income groups although supermarket chains such as Tusksys also cater for this group with cheaper products and formats widely available on their shelves.
- Loose tea, for example, is offered in flexible packaging in popular 100-250gm packs. Packaged tea has a much higher level of variance in price ranging from 650 Ksh/Kg to the super premium Dr Stuart's Extraordinarily Good teas at 16,500 Ksh/Kg
- In coffee, product and packaging types impact directly on price. Single serve instant coffee sachets from MacCoffee were among the most expensive products available, other than newer formats of pods. Metal tins are used for premium brands and flexible packaging for cheaper coffee with Dormans offering one of the most affordable products in the market. The 100gm package size is the most affordable offering although it may achieve a high price per kilo in this format.
- Forecourts offer convenience as a premium price with impulse purchases in coffee usually achieving high margin.

Source: Euromonitor International from In-store Audits November 2016

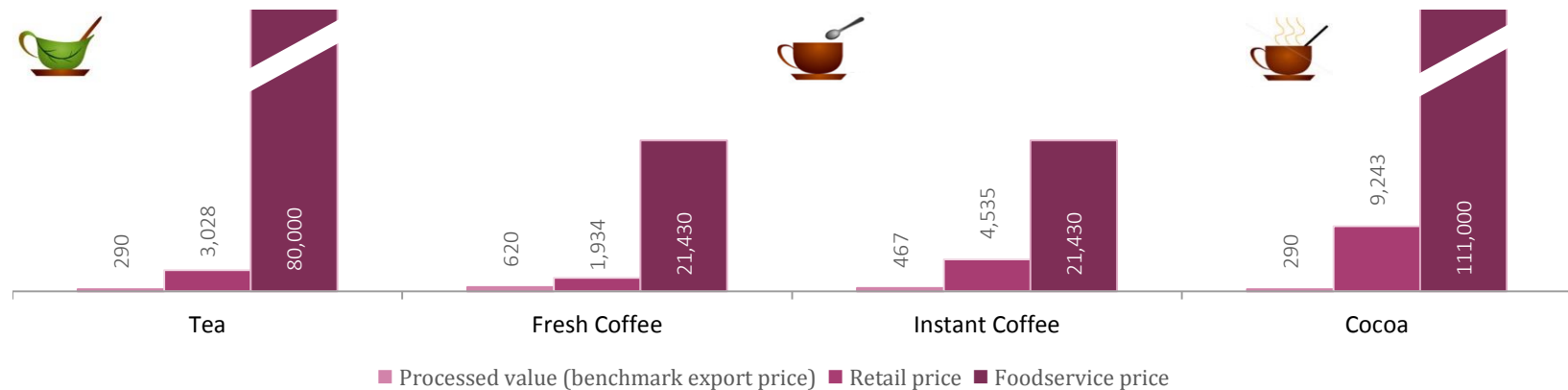
*Exchange rate, 2015: KSh98.18 = US\$1.00

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HOT BEVERAGES MARKET IN KENYA: VALUE CREATION**25-fold increase in value of tea from production to a cup**

Value creation along Kenya's tea, coffee and cocoa value chain (KSh per kg) 2015

**Most value is added at the end of the supply chain through the foodservice channel**

- Retailers achieve value addition of approximately 10 times the price of the raw commodity but the largest value addition occurs through foodservice mark-ups.
- A cup of masala or green/herbal tea in a coffee shop can sell for KSh160 (US\$1.63) which is 2,600% higher than the average retail value.
- A cup of fresh coffee usually costs around KSh160 (US\$1.53) in a specialist coffee shop but mark-ups can reach 600-1,000% of the equivalent coffee at home.
- Hot chocolate prices in food service are more than 1,000% higher than when making it at home. For example, a cup of hot chocolate can be made at home for the equivalent of KSh18 (US\$0.19) per serving while it can cost KSh200 (US\$2.3) in a coffee shop.

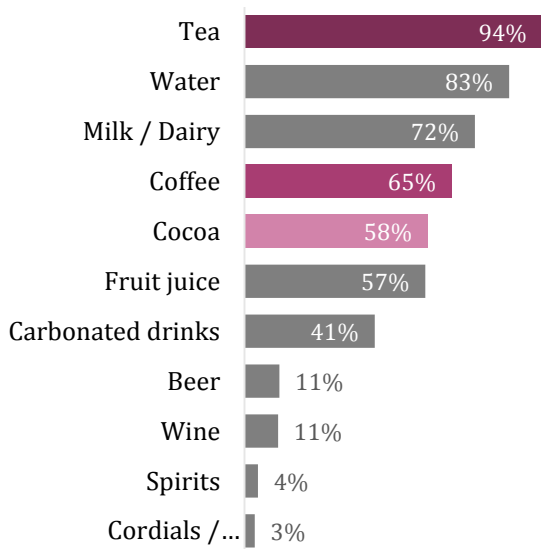
Source: Euromonitor International from Africa Tea Brokers Ltd, UN Comtrade Database, ICCO, store audits, selected foodservice.

Note: The price of a cup of instant coffee in food service is assumed to be the same as fresh coffee. Cocoa content assumed at 15%.



CONSUMERS

Consumer survey (daily consumption)



Tea is the most popular drink for all ages

Black tea is favoured by all ages but younger consumers prefer tea bags to loose tea.

50% drink tea or coffee out of home a couple of times a week.

Coffee is typically drunk in the morning or at work.

Cocoa is an in-home drink with consumption limited to once or twice a week.

73%

Drink 3-5 cups of tea daily

54

52%

Drink 1-2 cups of coffee daily

37%

Never drink coffee

Older consumers prefer tea while those under 35 years prefer coffee

Remarkably, tea is more commonly consumed in Kenya than water.

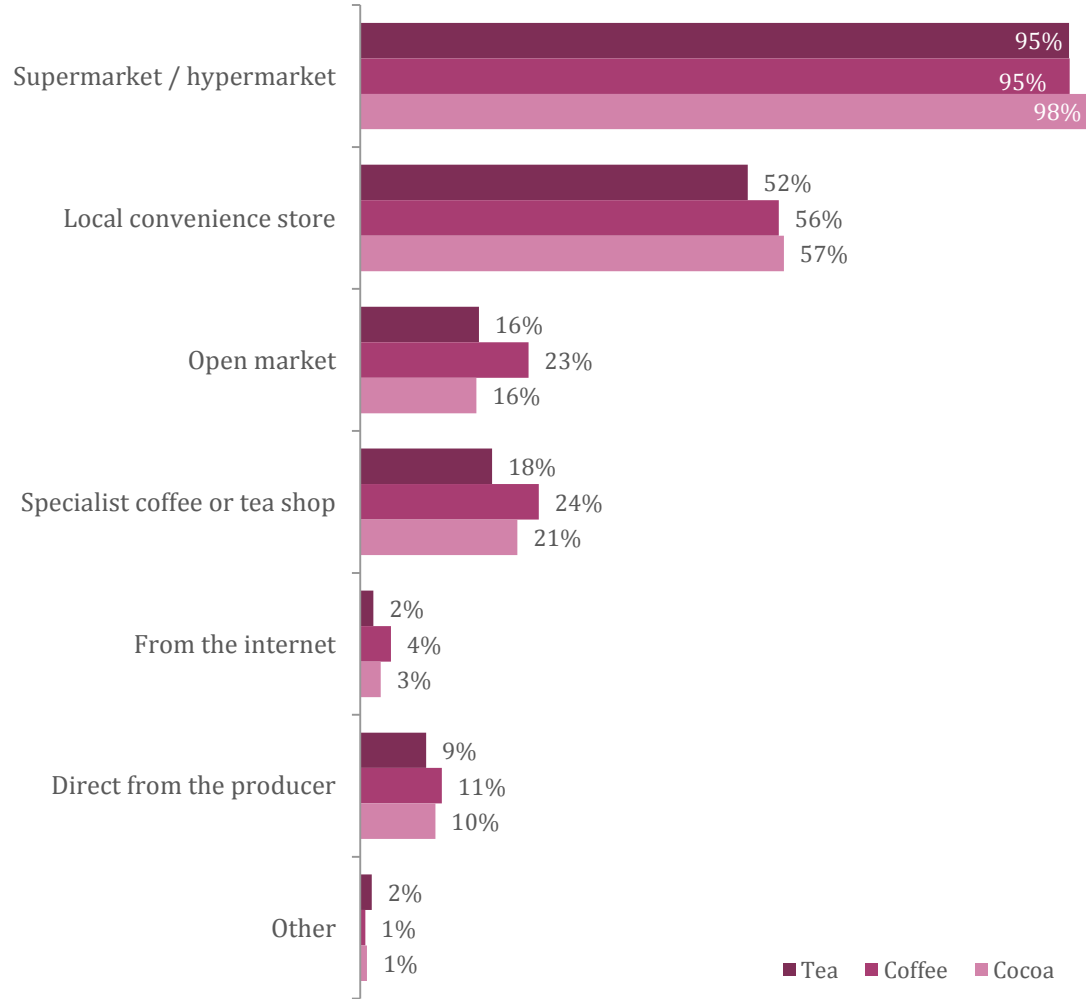
- 34% drink on-the-go coffee at least once a month, but only 24% take tea and 19% hot chocolate drinks.
- Tea is purchased weekly or monthly dependent on the size of the household with purchases of coffee and other hot beverages less frequent. Super/hypermarkets are the usual channel of purchase while coffee purchases may be made at specialist stores or at open markets.

Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)

Euromonitor International for the Trade for Development Centre

CONSUMER SURVEY

Supermarkets are the source of the majority of hot drink purchases



As heavy tea drinkers Kenyan's purchase tea more frequently than any other type of drink. Tea is purchased on weekly basis by 17% of respondents while this figure reaches less than 10% for other hot beverages. Nearly a third of respondents purchase tea several times a month, whilst only about 14% buy coffee and chocolate-based hot beverages at least monthly.

Proximity to local services influences purchasing with local convenience stores the second most favoured location for purchase of hot drinks of all kinds.

Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)

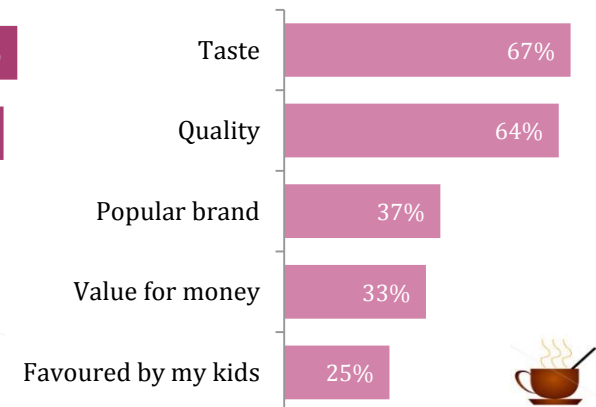
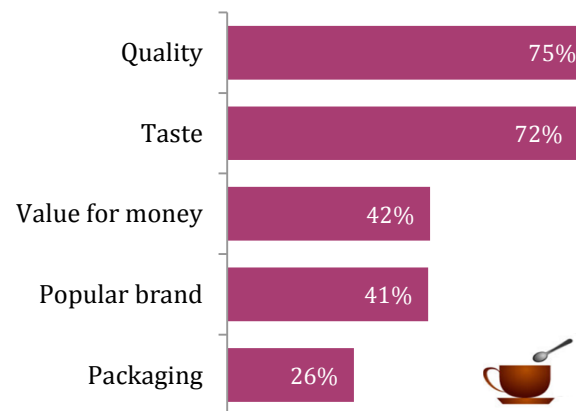
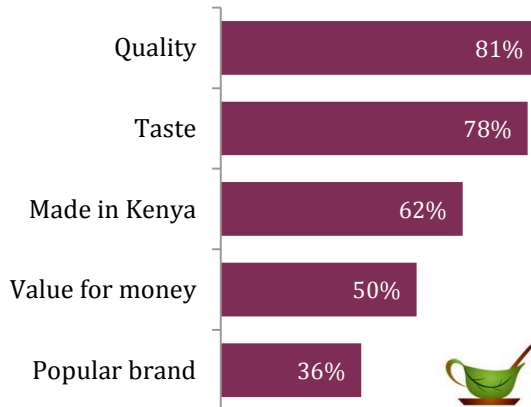


CONSUMER SURVEY

For both tea and coffee, quality and taste are key selection criteria



Top drivers of Hot Beverages Purchases in Kenya



Quality and good taste are most common drivers of consumer choice to buy tea

- As local tea brands dominate the market and offer a wide assortment and price points for every pocket, it could be assumed that local tea manufacturers have proved to be successful in offering teas of high quality and taste.

Quality, followed by taste, remain key purchasing drivers in coffee

- Industry experts are however sceptical whether the Kenyan consumer is really knowledgeable about quality or taste of coffee.
- More consumers look for value for money in coffee than in tea, which is in line with the average per kg price for coffee being 1.4 times higher than tea in Kenya.

Taste is key in powdered hot drinks as the target consumers for these products are primarily children

- Consumers are more concerned about the brand popularity in cocoa and similar products, thus most probably trusting more well-known and international brands, i.e. Cadbury.
- As powdered hot beverages are commonly consumed by children, their opinion is also an important criteria.

Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)

CONSUMER SURVEY: TEA CONSUMPTION

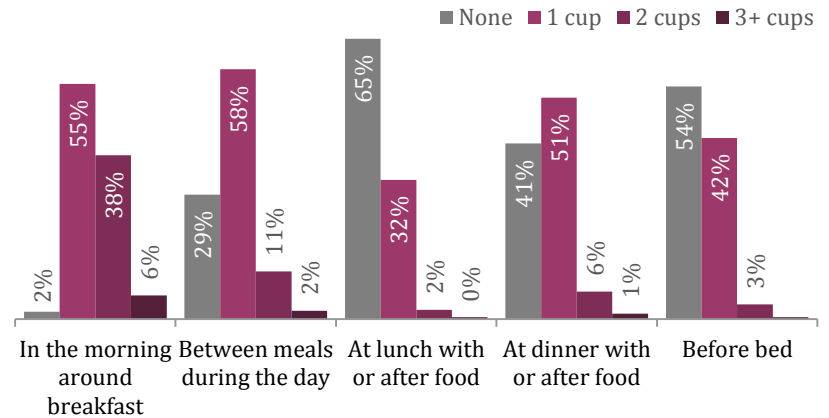
Kenyans love tea and drink at least three cups of tea a day



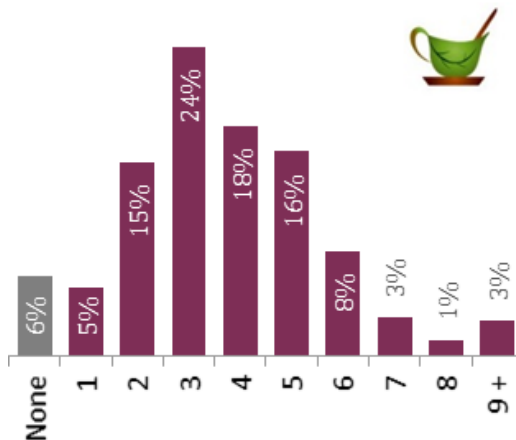
Tea Consumption Patterns

- Tea is typically consumed at home, at work and in foodservice outlets throughout the day.
- It is an occasional drink for some consumers at different points in the day but lunch and before bed are the least favoured occasions for consumption.
- Few consumers go to foodservice outlets expressly to drink tea with 37% never purchasing a take-away cup.

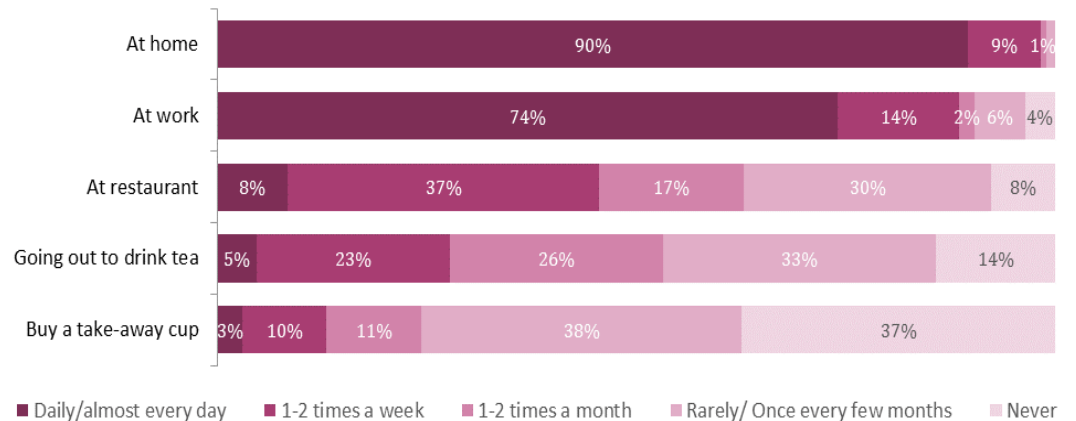
Daily Tea Drinking Patterns



Daily Tea Drinking Patterns (Number of Cups per Day)



Tea Consumption Occasions and Frequency



Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)

Euromonitor International for the Trade for Development Centre

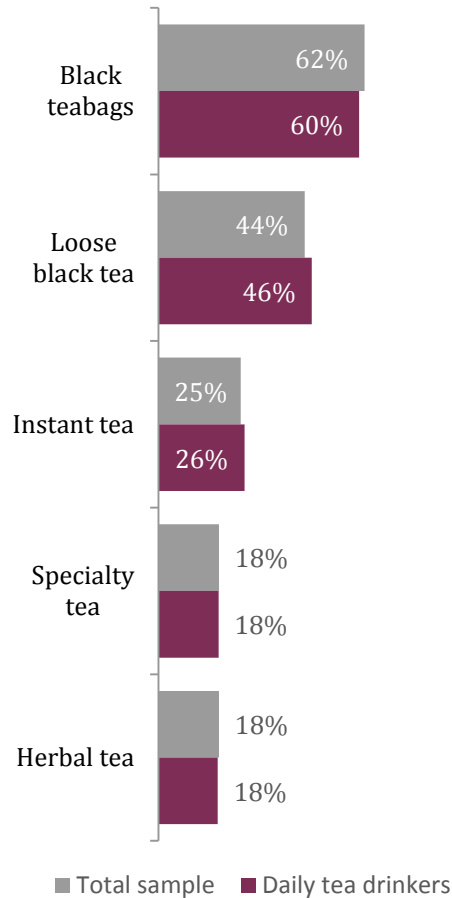


CONSUMER SURVEY: TEA CONSUMPTION

Convenience, quality and value for money influence tea purchasing



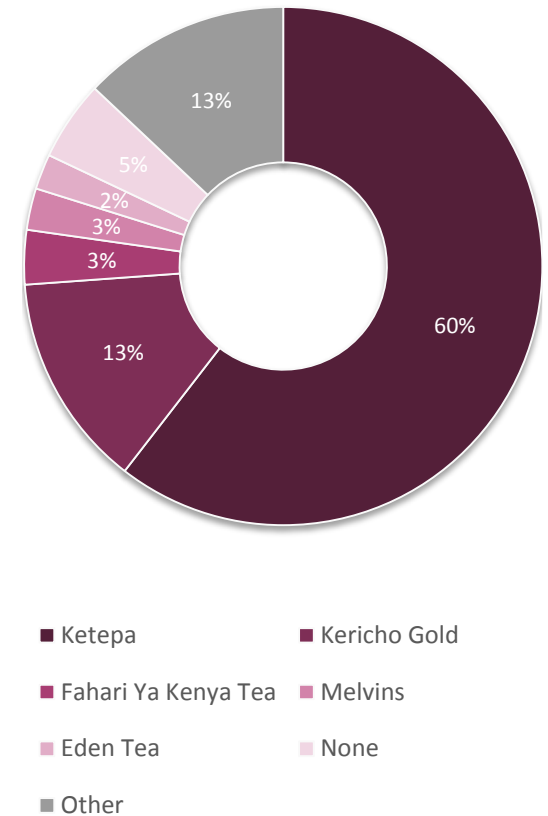
Favourite Tea Formats



Loyalty is strong with half always buying the same brand of tea

- Tea bags are preferred by 67% of consumers between 18-29 years while loose tea is favoured by 79% of 50-59 year olds.
- For 80% of respondents quality and taste are the most important criteria when purchasing tea.
- 60% believe it is important to buy locally produced or “Made in Kenya” tea.
- Value for money is a major purchasing criteria for about 50% of respondents.
- Kericho Gold is the only brand that carries the Fairtrade logo but it is widely available across all channels.
- Kericho Gold is popular among loose tea drinkers.

Top of Mind Tea Brands



Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)



CONSUMER SURVEY: COFFEE CONSUMPTION

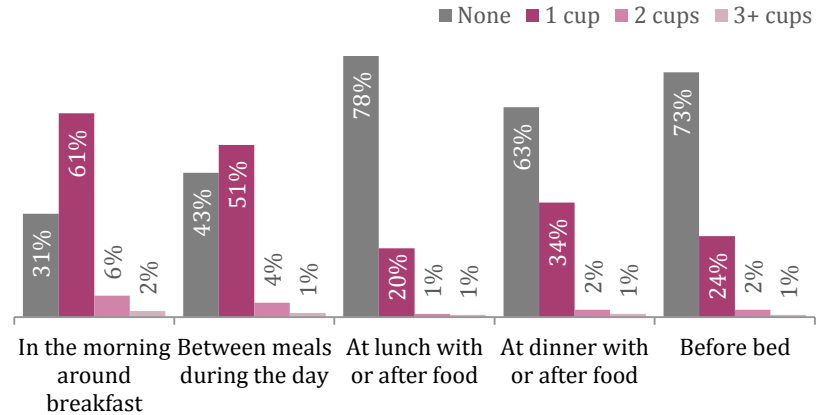
Less coffee is consumed on a daily basis than tea



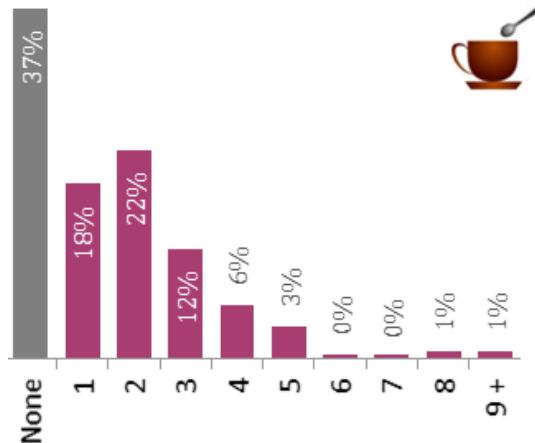
Coffee lovers consistently favour this beverage regardless of location

- Coffee is predominantly drunk only once or twice a week with around one third of respondents drinking at least one cup of coffee every day.
- Confirmed coffee lovers drink coffee with the same frequency at home and at work and although the frequency of visiting foodservice or take-away outlets is generally low in Kenya coffee is still a frequent choice among consumers.

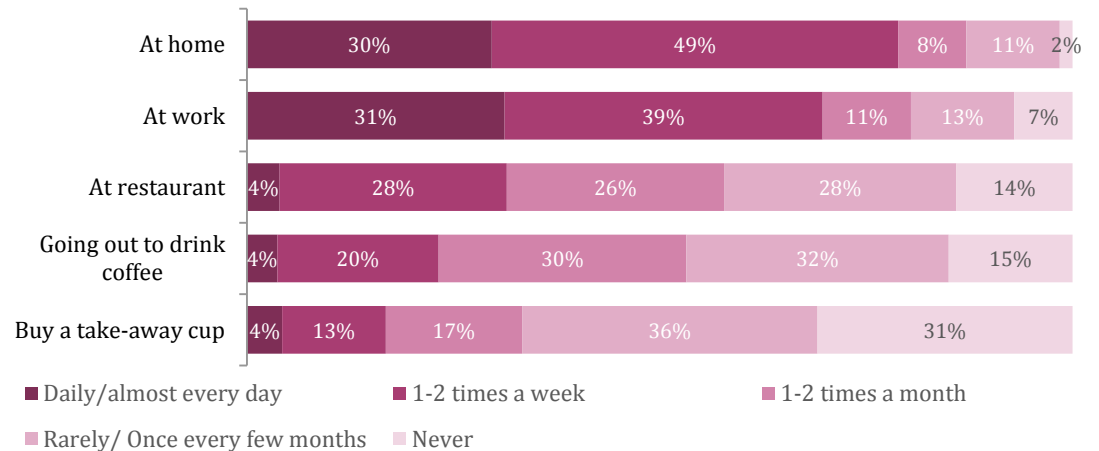
Daily Coffee Drinking Patterns



Daily Coffee Drinking Patterns (Number of Cups per Day)



Coffee Consumption Occasions and Frequency



Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)

Euromonitor International for the Trade for Development Centre

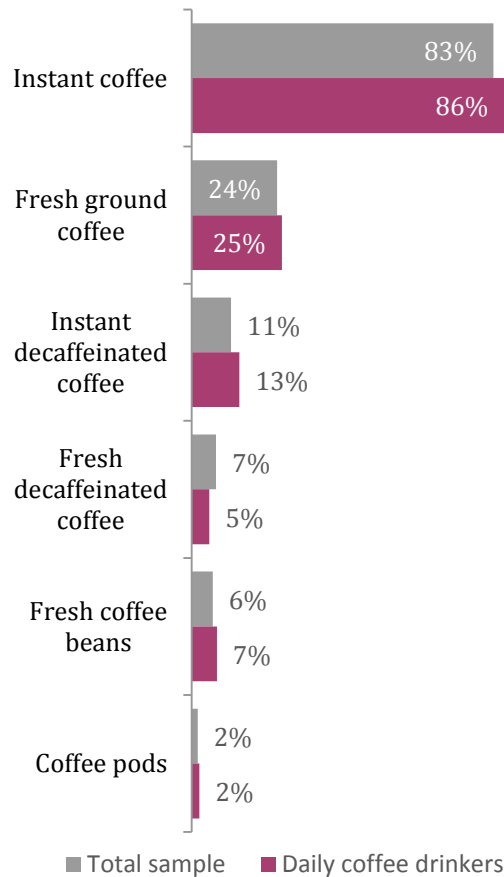


CONSUMER SURVEY: COFFEE CONSUMPTION

Younger consumers look to experiment and offer low brand loyalty



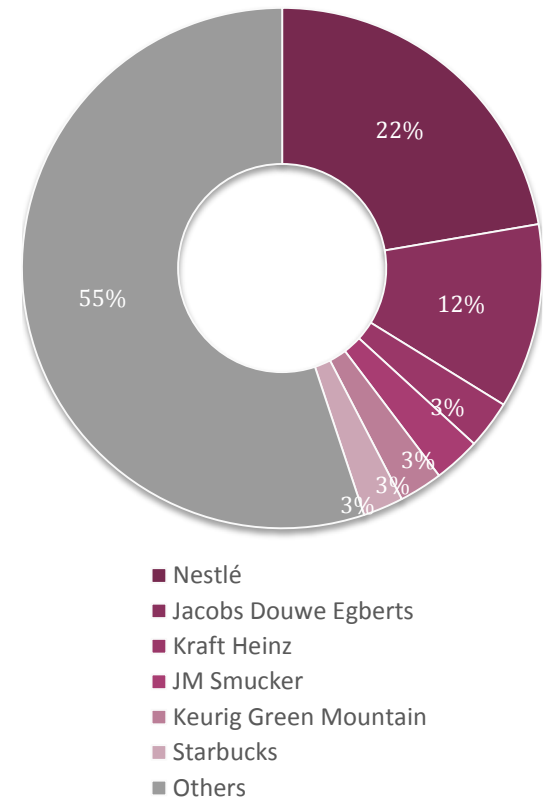
Favourite Coffee Formats



Preferences and purchase criteria are strongly held

- Instant coffee dominates consumer choice despite being over twice the price of fresh ground coffee.
- Quality and taste are the key purchasing criteria for 74% of consumers.
- With a higher overall price, value for money in coffee is of greater importance to consumers than for tea.
- Nescafé is the leading brand but Fairtrade-certified Dormans is a strong local brand with a good foothold in both instant and ground coffee and also sells at lower price points than Nescafé.
- Loyalty to brand is strong with 57% often purchasing the same brand of coffee.

Top of Mind Coffee Brands



Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)



CONSUMER SURVEY: COCOA CONSUMPTION

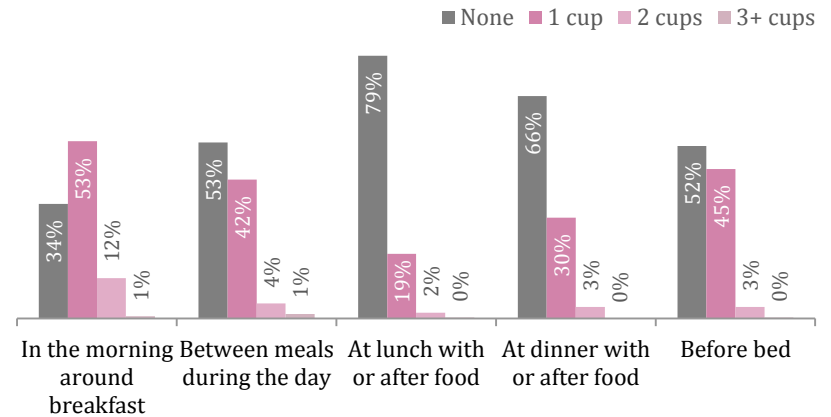
Cocoa based drinks are popular on an occasional basis



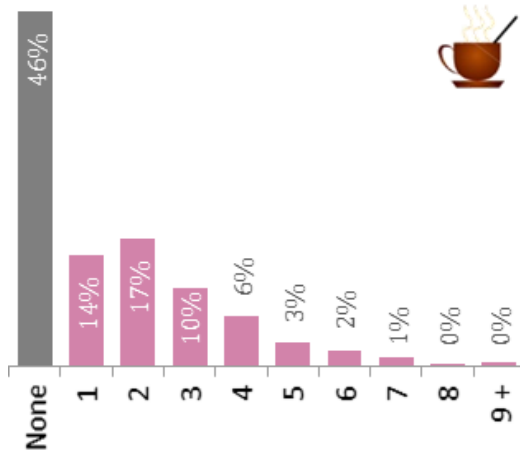
Breakfast is a key drinking time for cocoa drinks

- Cocoa based drinks are generally consumed at home or, with less frequency, at work.
- It is not a popular drink in Kenya in a take-away format or in a restaurant.
- Cocoa is most popular at breakfast time with 53% of respondents most likely to drink it at this time. Bedtime is also popular with 45% of respondents liking a hot drink before bed.

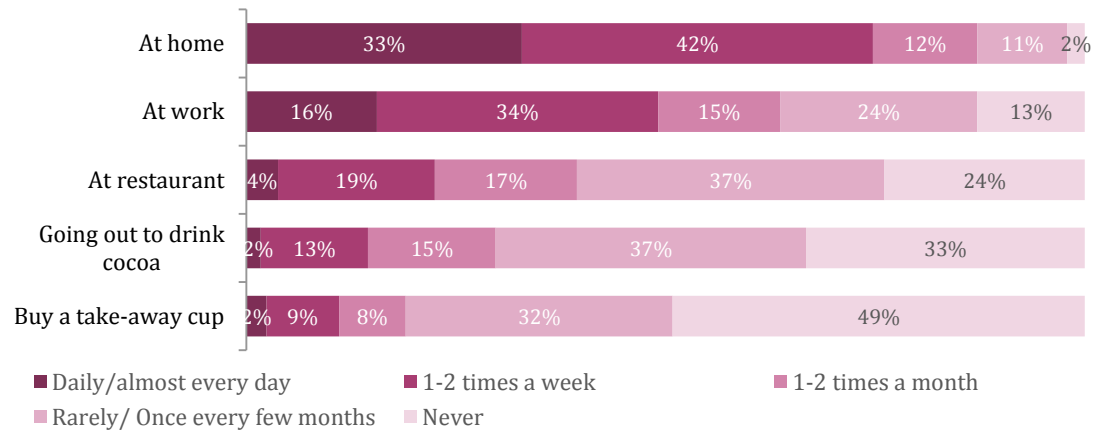
Daily Chocolate-based Hot Beverages Drinking Patterns



Daily Chocolate-based Hot Beverages Drinking Patterns (Number of Cups per Day)



Chocolate-based Hot Beverages Consumption Occasions and Frequency



Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)

Euromonitor International for the Trade for Development Centre

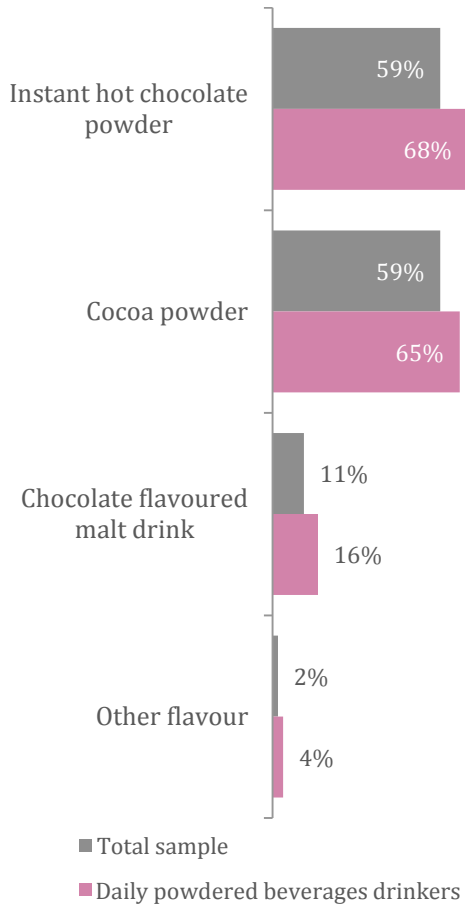


CONSUMER SURVEY: COCOA CONSUMPTION

Taste is important in keeping children happy as primary consumers



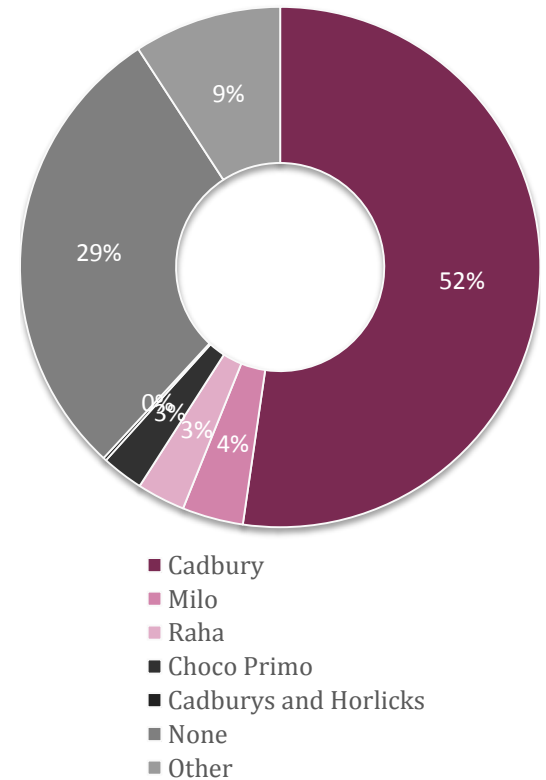
Favourite Flavoured Drinks Formats



Pricing is under least pressure among hot drinks for flavoured drinks

- Chocolate flavoured drinks are marginally more popular than malt base drinks despite the higher price for chocolate.
- Quality and taste are important but brand and trust in the brand quality are key as consumers focus on the quality of children's consumption. A premium will be paid to ensure good nutritional value.
- Cadbury Drinking chocolate is the most widely available brand but local brand Raha which mimics it sells at a much lower price.
- Brand loyalty is high at 70% with a high reliance on the preference of children in the ultimate choice of brand and product.

Top of Mind Other Hot Drink Brands



Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)



FOODSERVICE AND INSTITUTIONAL CHANNELS IN KENYA

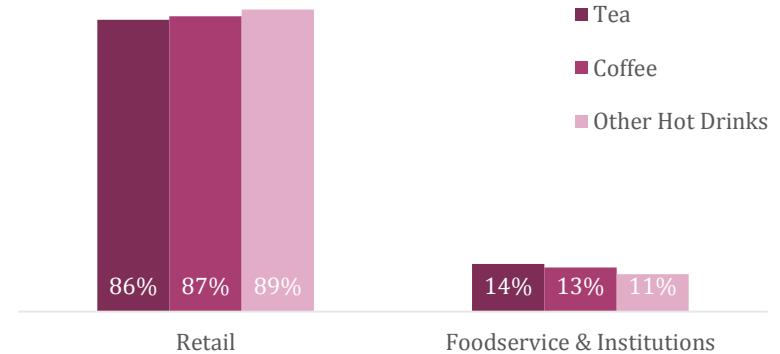


Expanding foodservice and office sectors fuels growth in sales

Coffee drives food service sales

- While retail is the dominant channel for sales of all types of hot beverages, increasing out-of-home, home delivery services and on-the-go purchasing has led to CAGR 4.1% sales increase through foodservice outlets. Coffee and other hot drinks are the fastest growing categories in foodservice.
- Growth in foodservice is driven by the growing number of established and new entrants in the chained and independent coffee shops, fast food outlets, hotels and catering companies.

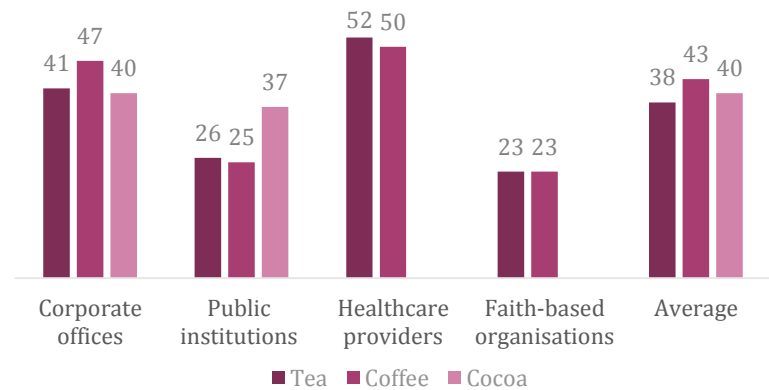
Channel sales by drink type



Tea bags and instant coffee dominate

- Tea and coffee are the most commonly consumed hot drinks with wide availability in all establishments.
- 57% of establishments prefer tea bags, 14% prefer loose tea but only 12% purchase multiple formats of tea. 85% of coffee purchased is instant with fresh ground coffee or beans only present in 10% of establishments.
- Vending machines are used in some larger institutions like hospitals but pod coffee machines are rare.

Consumption: Average grams per person per month



Source: Euromonitor International from pulse interviews conducted in November and December, 2016 (n=43)

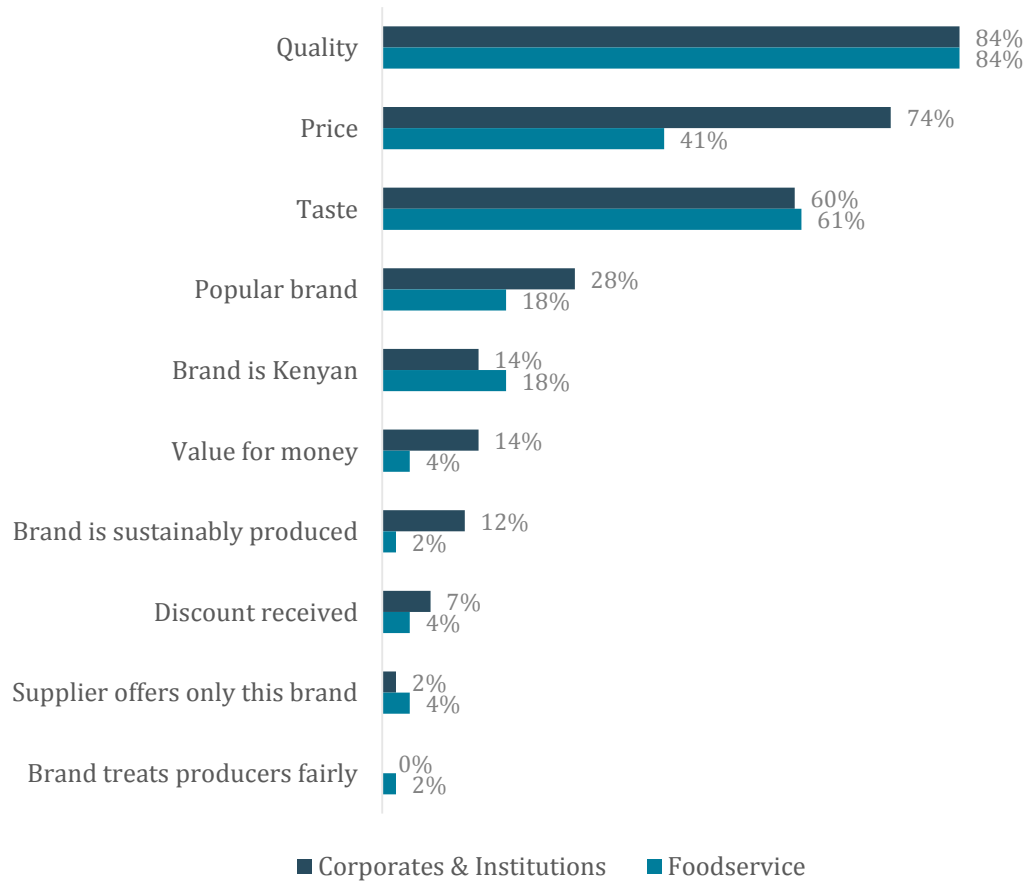


FOODSERVICE AND INSTITUTIONAL CHANNELS IN KENYA



Supply in retailing is less attuned to price than among corporates

Factors influencing Choice of Hot Beverage in Foodservice, Corporates and Institutions



Ketepa and Nescafé appeal on quality and taste

- Quality, price and taste are key purchase criteria for both institutions and businesses and in food service. These product aspects are more important than origin, sustainability or ethical claims.
- Price is less important as a purchasing criteria for selecting hot beverage brands for foodservice and hospitality outlets, as higher prices can be passed directly to consumers to reflect the cost of speciality products or other quality aspects. The option of a Kenyan product is also favoured more highly in foodservice.

Quality is the key purchase criteria with 62% buying in bulk from a single supplier and 36% from supermarkets. Central purchasing is not common.

Source: Euromonitor International from pulse interviews conducted in November and December, 2016 (n=43)





ASSESSMENT OF FAIRTRADE CERTIFICATION

FAIRTRADE IN KENYA

Ethical narratives remain the preserve of smaller, niche brands



207,338 t

Production volumes of Fairtrade certified tea & coffee, Kenya 2015

166 t

Local Sales of Fairtrade certified hot drinks, Kenya 2015

KSh399.4 mn

Retail RSP sales of Fairtrade certified hot drinks, Kenya 2015

Fairtrade is well represented among smallholders and estates in the region and substantial volumes of tea and coffee production is Fairtrade certified. This has not, however, translated into large volumes sold of certified tea and coffee. Poor presence in retail with only two local brands has translated into low market share for Fairtrade-certified hot drinks. Consumers in Kenya were also generally found to lack knowledge of the label although they support many of the values underpinning Fairtrade, creating opportunities which can be exploited through educational campaigns.

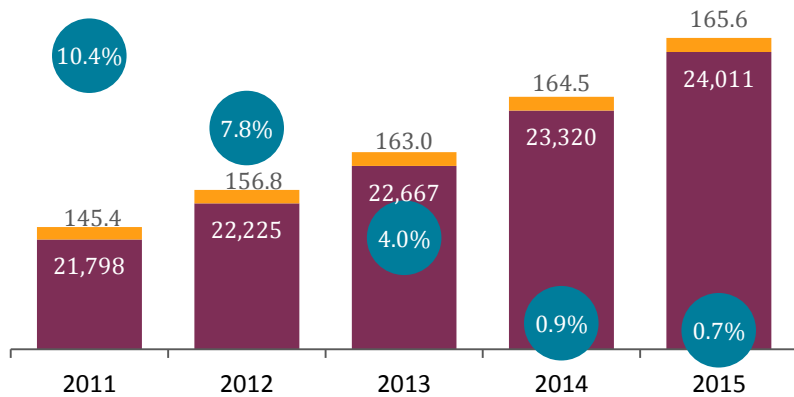
Source: Euromonitor Passport Database

FAIRTRADE: NICHE ETHICAL CONSUMERISM IN KENYA

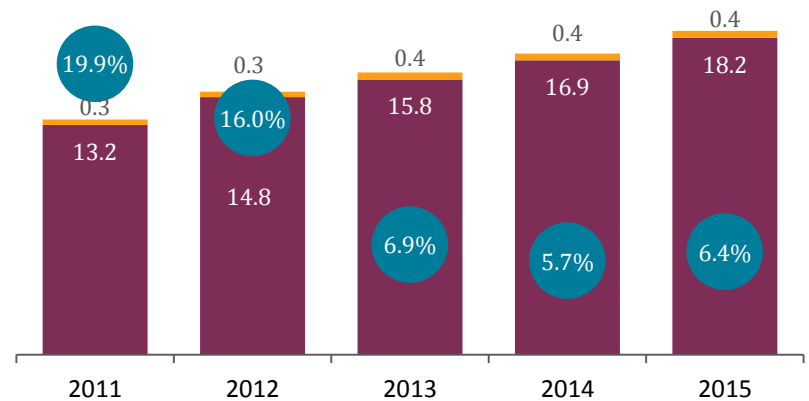


Fairtrade branding is small but takes an increasing share of sales

Retail Volume Sales of Hot Drinks 2011-2015 tonnes



Retail RSP Sales of Hot Drinks 2011-2015 KSh billion



Fairtrade Certified vs Conventional Hot Drinks, Fairtrade YOY % Growth

- Fairtrade sales in Kenya are estimated at 165.6 tonnes, up 13.9% in absolute terms since 2011. Fairtrade comprises 6.1% of the total retail market by volume.
- Local brands in coffee such as Gold Crown Beverages Kenya, Dormans Coffee Group and Vava Coffee are certified. Imported certified brand Percol was also found in one store.
- In tea, Kenya Tea Development Authority supports certification with many of its grower cooperatives and processing factories fully certified by Fairtrade. Certified products are sold locally under brands such as Kericho Gold.
- Retail sales by value of Fairtrade certified hot drinks expanded by 39.5% in absolute terms between 2011 and 2015 to reach KSh399.4 million (US\$4.1 million).
- Local competitors are producing high quality, ethically sourced products in attractive packaging to attract more affluent and selective purchasers with some success. Premiumisation of ethically sourced products drives growth in value in this market.

Source: Euromonitor International

Note: Value provided in local currency at retail sales price RSP; fixed exchange rate; historic current prices, forecast constant

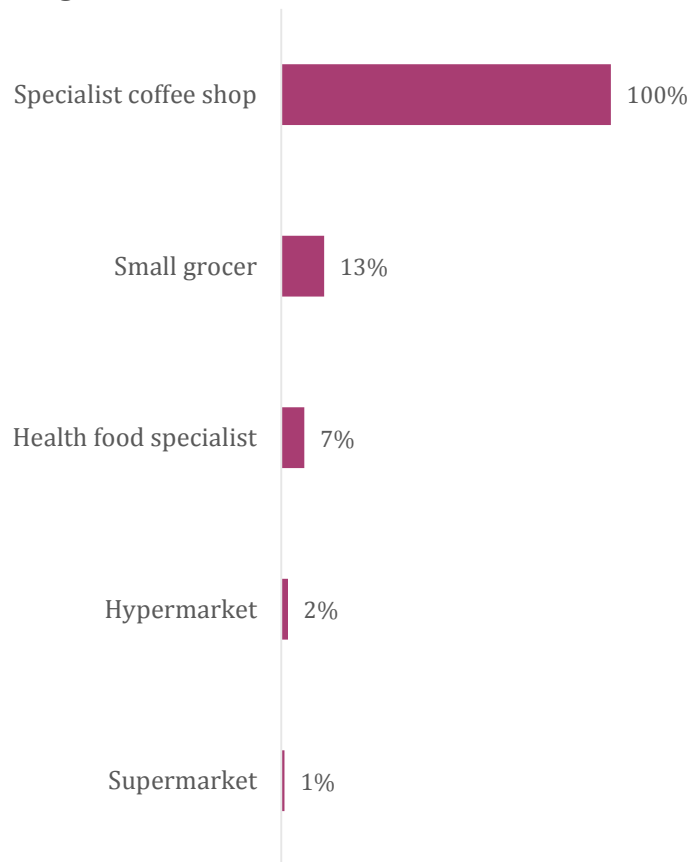
2015 prices

Euromonitor International for the Trade for Development Centre



FAIRTRADE: PENETRATION OF CERTIFIED BRANDS IN KENYA**Low presence of products from ethical sources on retail shelves**

Hot drinks shelf facings with Fairtrade certification as proportion of total tea, coffee and powdered hot drinks facings

**Certification is not a usual feature in Kenyan shelves**

- The presence of ethical labelling in stores across Kenya is very low. Specialist coffee shops which trade on the promise of ethical sourced ingredients are the only place where stock purchasing is from certified sources.
- Fairtrade certification featured only on three brands that are widely stocked: local brands Kericho Gold including Kericho Gold Attitude Teas and Dormans as well as imported brand Percol.
- In hypermarkets operated by Nakumatt Holdings, for example, from a selection of 1,000 hot drinks facings only 38 were from certified sources. Similarly, Fairtrade certified hot beverage brands were not prevalent on supermarket shelves, and were encountered in only two out of nine supermarkets visited in Nairobi.
- Staff in store also have a very low level of recognition of Fairtrade or other ethical certifications.
- Products carrying ethical labelling are also most likely to come from specialist ingredients from varied origins and, as a result, sell at a premium.

Source: Euromonitor International from store audits conducted in November and December, 2016

FAIRTRADE: CONSUMERS PERCEPTION



Promotion of Fairtrade should focus on under 25 year olds

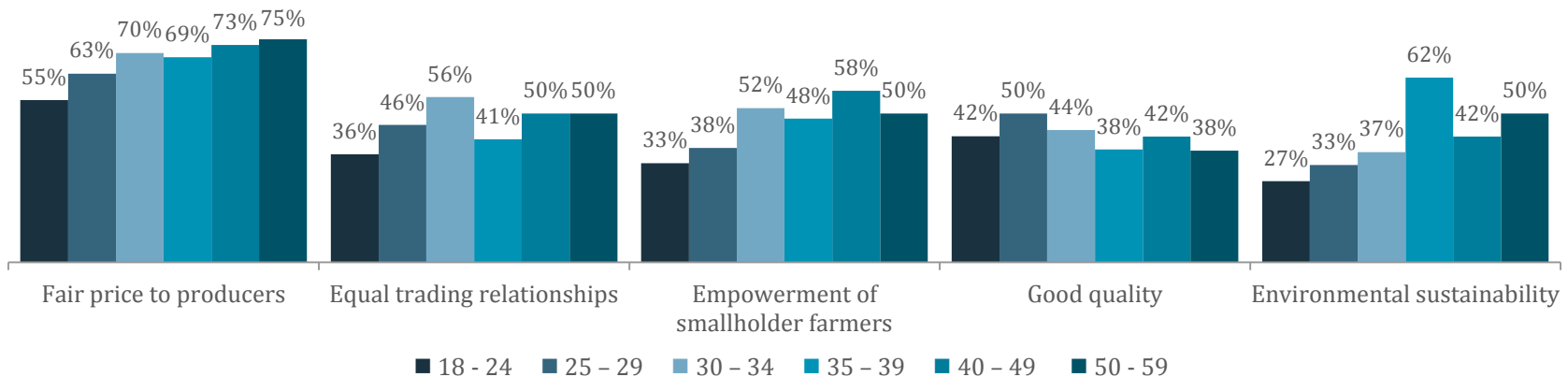
Fair price to producers is most widely known concept

- Awareness of most recognised Fairtrade concept, “Fair price to producers”, is highest among cocoa drinkers (83%) than among coffee (59%) or tea drinkers (65%) as well as among older consumers.
- One of the leading Cadbury chocolate bars in Kenya carries the Fairtrade logo which is thus strongly associated with the Cadbury brand at present.
- Overall awareness levels of Fairtrade show little difference between coffee (43%) and tea drinkers (36%)

Older consumers are more aware than younger

- Consumers over 35 years generally have a greater awareness of the underlying concepts of Fairtrade than younger consumers.
- Consumers under 30 years consistently show a lower knowledge of the key values associated with Fairtrade, particularly about the more popular concept of environmental sustainability to which they would be wider exposed to online.
- Awareness of UTZ and Rainforest Alliance is very low.

Top five associations with Fairtrade by age segment



Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)

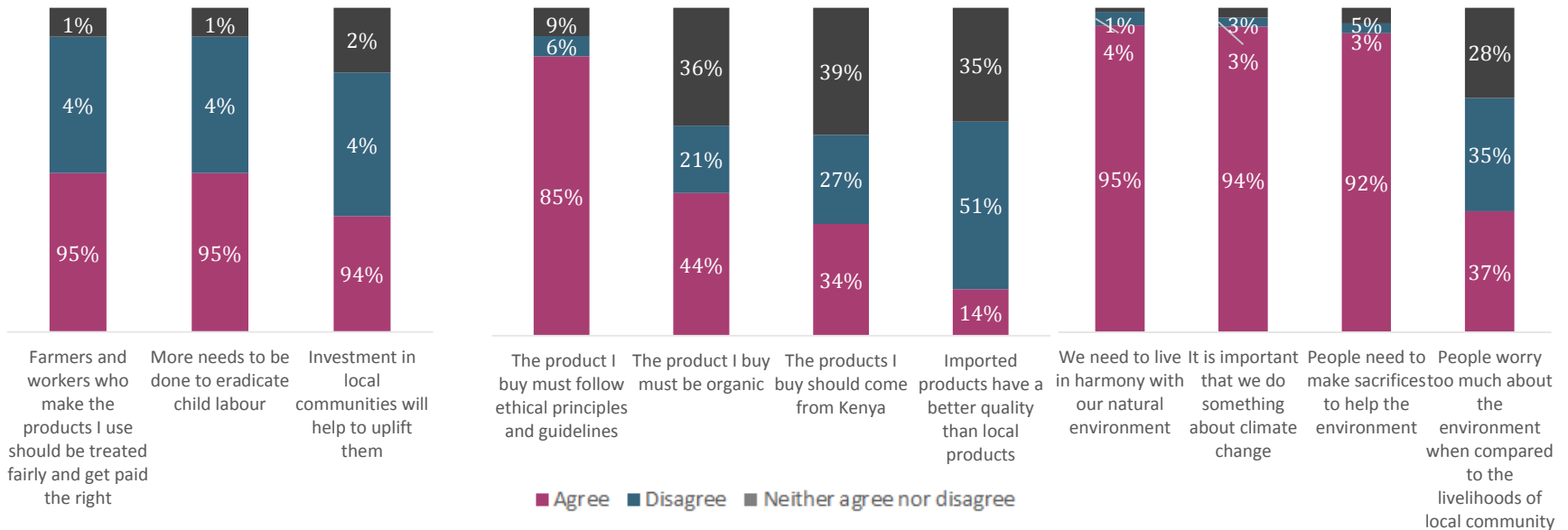


FAIRTRADE: CONSUMERS PERCEPTION



Kenyans express strong concern for ethical business activity

- While about 90% of all respondents agree that ethical farming, action on child labour and fair payment to farmers will help increase the quality of their lives, the associations with the values of Fairtrade needs to be expanded among Kenyan consumers.
- The challenge is to convert such positive Fairtrade attitudes into purchasing practices.
- While consumers are committed to buying ethically produced products they are much less committed to buying local or organic products.
- Over 92% of all respondents expressed strong concerns about the protection of nature and the environment as well as climate change.
- However, about a third (37%) are sceptical about protecting the environment at the expense of local livelihoods.



Source: Euromonitor International from consumer surveys conducted in November, 2016 (n=501)
 Euromonitor International for the Trade for Development Centre



FAIRTRADE: PERCEPTION ACROSS INSTITUTIONS AND FOODSERVICE ESTABLISHMENTS

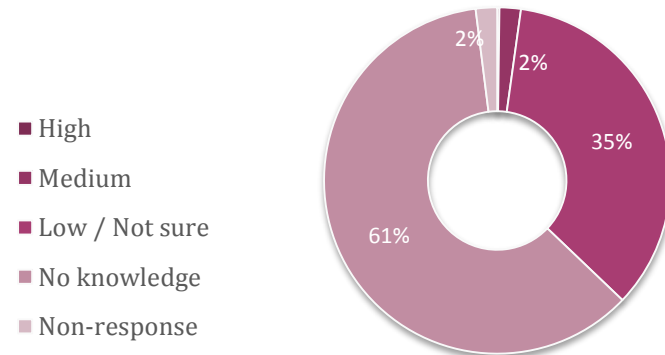


Attitudes towards Fairtrade are positive among all establishments

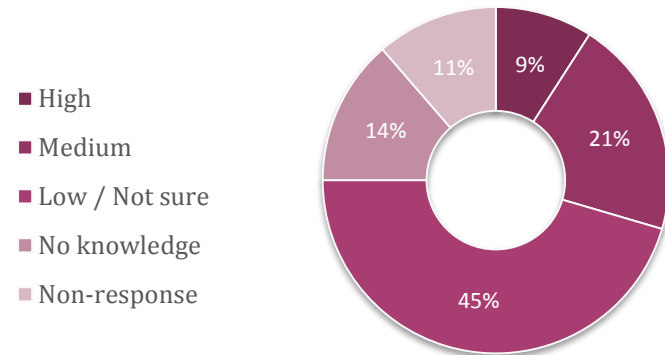
Low awareness of ethical and sustainably sourced beverages

- Institutional purchasers are familiar with products with sustainable production practices and this drops to 2% for the foodservice and hospitality sectors. The claim that “a brand treats producers fairly” is not considered at all by institutional purchasers.
- 84% of institutional respondents could not provide an example of ethical certifications, with the remaining 16% recalling only UTZ but not Fairtrade. Respondents in foodservice and hotels did not identify any ethical certifications.
- The local quality mark by the Kenyan Bureau of Standards was referred to by 21% of institutional respondents and 61% in foodservice.
- Knowledge of Fairtrade and associated concepts was low with 30% having a basic understanding of certification, 45% a limited perception and 14% having never heard of Fairtrade.
- Once an explanation was given, 54% of institutions and 85% of foodservice expressed willingness to pay higher prices for the Fairtrade certified brands.

Foodservice awareness of Fairtrade certification



Institutions awareness of Fairtrade certification



Source: Euromonitor International from pulse interviews conducted in November and December, 2016 (n=43)

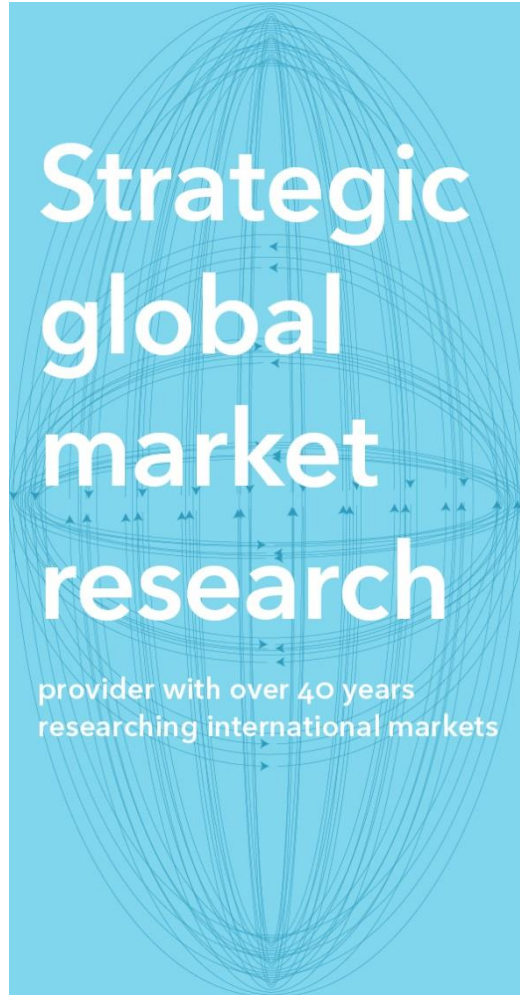




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demographic, macro- and socio-economic data on consumers and economies



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