

HOT BEVERAGES IN KENYA AND EAST AFRICA: Opportunities for Fairtrade certified tea, coffee and powdered hot drinks brands

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LIST OF ABBREVIATIONS

AFFA	Agriculture, Fisheries and Food Authority
BTC	Belgian development agency
B2B	Business-to-business
B2C	Business-to-consumer
CAGR	Compound annual growth rate over a specified period of time
CBD	Central Business District
CCMMAS	Commercial Coffee Millers and Marketing Agents Association
CDP	Cocoa Development Project
CMA	Coffee Marketing Agent
CPDA	Christian Partners Development Agency
EATTA	East Africa Tea Trade Association
FAO	Food and Agriculture Organisation
FI	Fairtrade International
FMO	Fairtrade Marketing Organisations
FMOEA	Fairtrade Marketing Organisation Eastern Africa
FTA	Fairtrade Africa
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
HACCP	Hazard Analysis and Critical Control Point
ICO	International Coffee Organisation
IFC	International Finance Corporation
KALRO	Kenya Agricultural and Livestock Research Organisation
KCPTA	Kenya Coffee Producers and Traders Association
KEBS	Kenyan Bureau of Standards
KRA	Kenya Revenue Authority
KTDA	Kenya Tea Development Agency Holdings Ltd
KTGA	Kenya Tea Growers Association
RSP	Retail Sales Price
SAN	Sustainable Agriculture Network
TDC	Trade for Development Centre
UCDA	Uganda Coffee Development Authority
USDA FAS	United States Department of Agriculture, Foreign Agricultural Services

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

INTRODUCTION

BACKGROUND INFORMATION

Fairtrade connects consumers and producers with the intention of reducing poverty through trade. It represents an ethical label as well as an established route through which farmers and workers in developing countries are empowered to access markets, secure more value for their produce and build more sustainable livelihoods with less environmental impact.

Since 2008, attention has turned to building demand for Fairtrade products in emerging markets including those of East Africa. Part of the aim of this initiative is to help Fairtrade producers increase sales by diversifying the regional and local markets they can sell into.

A study conducted in 2010 indicated a potential market for the Fairtrade brand in Kenya, and potentially in the wider East African region. As a result, FMOEA (Fairtrade Marketing Organisation Eastern Africa) was established in Kenya in 2012 to help drive Fairtrade, with the overall aim of improving the livelihoods of African farmers through greater intra-African trade.

It is hoped that this will be achieved through the first sustainable and ethical label in the region that is genuinely understood by largely urban and middle class consumers.

The research is commissioned by the Trade for Development Centre (TDC) of the Belgian development agency (BTC) which promotes fair and sustainable trade and aims at economic and social empowerment of small producer organisations by enhancing their business knowledge and improving their access to markets.

AIM AND OBJECTIVES

The aim of this report is to provide an assessment of the opportunity offered by Fairtrade certified tea, coffee and cocoa in Kenya, Burundi, Rwanda, Tanzania and Uganda. This will support Fairtrade and Fairtrade certified brands in targeting their marketing strategies more effectively within Kenya and the wider region.

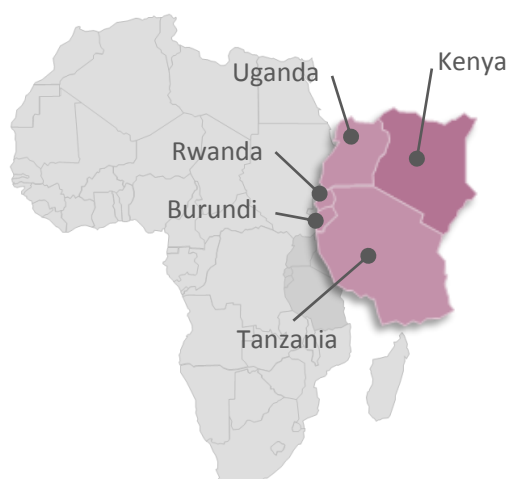
This report will examine the hot beverages market, focussing on tea, coffee and cocoa sold through both B2B (foodservice and institutions) and B2C (retail) channels. The main focus will be on Kenya, but qualitative analysis of other East African markets will also be provided.

The specific objectives are to:

- Estimate market size and brand shares for tea, coffee and cocoa in Kenya for consumers, foodservice and businesses or institutions.
- Provide a qualitative analysis on the demands and trends in the beverage market in both Kenya and Eastern Africa.
- Analyse the local and regional trade supply chains for tea, coffee and cocoa in East Africa.
- Provide insight on consumer lifestyles, attitudes, preferences and purchasing behaviour for tea, coffee and cocoa in Kenya (B2C analysis).

- Provide information on business preferences, trends and purchasing behaviour for tea, coffee and cocoa in Kenya, including hotels, cafes, public institutions, faith-based institutions, etc. (B2B analysis).
- Provide information on a selection of multinational East African businesses and their preferences and purchasing behaviour for tea, coffee and cocoa across the region which could then be targeted for expanding the B2B market beyond Kenya.

SCOPE



CATEGORY COVERAGE

The report examines the hot drinks beverages market, focussing on tea, coffee and cocoa sold through both B2B (foodservice and institutions) and B2C (retail) channels.

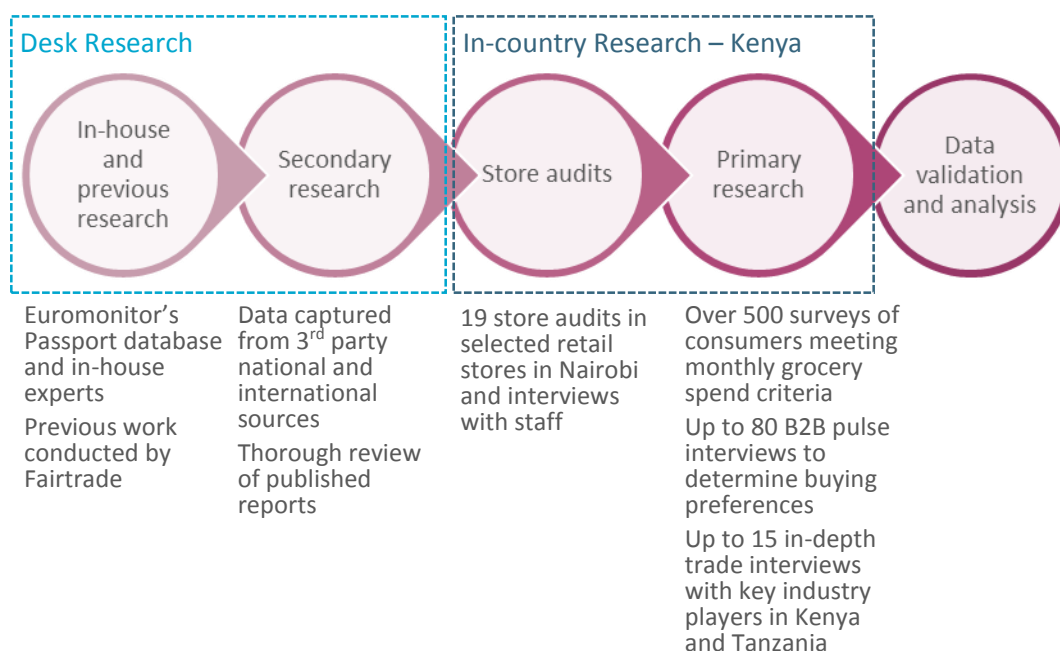
COUNTRY COVERAGE

Kenya is the main focus of the research and all primary research will be conducted there. The research scope for other East African countries of Burundi, Rwanda, Tanzania and Uganda will be fulfilled from secondary sources only.

METHODOLOGY OVERVIEW

Euromonitor's research approach comprises a combination of different methodologies focused on in-country research. It has specifically been designed to address all aspects of Fairtrade Africa and BTC's objectives.

The research was conducted using secondary sources as a basis for Kenya and the other East African countries in the geographic scope. In addition, in-country data collection using primary research techniques was completed for Kenya. An overview of these steps is shown below and the detailed project methodology is described in Appendix I.



1. TEA, COFFEE AND COCOA SECTORS IN EAST AFRICA

1.1 INTRODUCTION

Agriculture is an important engine of economic growth and a significant contributor to GDP in East Africa, with tea, coffee and cocoa key export commodities in the region.

Agriculture remains the backbone of East African economies (Table 1) and provides a livelihood to many of its citizens. In 2015, the sector accounted for around a third of Kenya's GDP and a significant proportion of employment, making it a key source of income for its adult population (Euromonitor International, 2016 September). Despite similar climatic and environmental conditions, agricultural development varies considerably between countries in the region.

Kenya in particular has a sophisticated agricultural sector which is export-oriented for a number of produce categories, even though the country has limited arable land and rainfall. Kenya's main crops are tea, coffee, flowers, fruit, tobacco, sugar, cotton, sisal and wattle.

Farm output is also a major earner of foreign exchange in Uganda, with coffee, tea and cotton especially important. The local impact of climate change along with falling commodity prices constitute potential downside risks for the regional agricultural sector.

Conversely, agriculture is still subject to low crop yields in Tanzania, Burundi and Rwanda, because of low levels of mechanisation and irrigation. Furthermore, the sector continues to be constrained by the limited interest shown by foreign investors and shortages in basic infrastructure, particularly electricity and rural feeder roads that result in substantial wastage of produce on the way to market.

Higher levels of subsistence agriculture in Tanzania, Burundi and Rwanda mean that a greater proportion of people depend on agriculture than in Kenya and Uganda. Small scale farmers most often select crops such as coconuts, coffee, tea, cotton and groundnuts as these offer a higher return. In Burundi alone, for instance, coffee is the principle source of income for around 800,000 households and their future depends crucially on current plans for the sector's reform (Euromonitor International, 2015c, October).

Given Kenya's ranking among the top five global tea exporters, the sector features prominently in Kenya's Vision 2030. However, flagging economic growth in Kenya has allowed its neighbours to catch up their tea production

Tea and coffee contributed nearly 26% of export revenue in Kenya in 2015 (UN Comtrade Database). 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. Kenya's Vision 2030, unveiled in 2007, has set the goal of transforming Kenya into an industrialized middle-income nation by 2030. The goal is to maintain and sustain economic growth of 10% per year for 25 years (Euromonitor International, 2016 September). Vision 2030 has committed government to additional investment in agriculture, transport infrastructure and environment management as a priority to accomplish this outcome.

Table 1 2015 Agriculture's GDP and Employment Contribution (%)

Source: Euromonitor International from national statistics

	Agriculture's Contribution to GDP	Employment, - % of employed population
Kenya	32%	17%
Uganda	17%	23%
Burundi	40%	90% (*)
Tanzania	25%	73%
Rwanda	32%	87%

Note: (*) In Burundi, roughly 90% of the population dependent on subsistence agriculture.

Although the Kenyan government has been unable to meet many of the targets it had set out to achieve in manufacturing, tourism, trade, and infrastructure, the 2016 Annual Progress Report shows some achievements in the implementation of reforms targeting the public sector, as well as technological development. As far as the agricultural sector is concerned, crop yields have remained stagnant in Kenya, whilst they have risen 2% and 8% over the past decade in Uganda and Rwanda respectively (Aglionby, 2016). The country also posted lower economic growth rate in the last two years compared to its neighbouring countries. In 2015, Tanzania registered real GDP growths of 6.9% and Kenya 5.6%, well below the 8.7% target for the year (Euromonitor International, 2016 September). Lack of funding, lengthy procurement processes, severe drought, election-related strife and occasional acts of terrorism stifled the implementation of flagship projects.

Kenya remains an attractive investment destination as the economic hub of East Africa with much potential if economic fundamentals are aligned.

Euromonitor International estimates real GDP growth of 6.5% per year in the medium-term with most sectors enjoying strong gains (Euromonitor International, 2016 September). Kenya's economy should continue to attract investment as solid investor confidence and the absence of capital controls make it appealing when compared to several other major African economies.

In addition, Kenya's standing has improved by 21 places in the 2017 World Bank Ease of Doing Business report, ranking 92th out of 190 countries surveyed (Table 2) (Euromonitor International, 2016 September). Kenya also ranked 96th out of 138 economies in the 2016-2017 Global Competitiveness Index (GCI), up from 99th in the previous year as the country continues to improve the future skillset of its workforce and invest in infrastructure development (Schwab, 2016). Lastly, at the end of 2015 Kenya ratified the new Trade Facilitation Agreement, aimed at building capacity in this area, reducing high trade costs, and increasing cooperation between customs and other authorities.

Table 2 2016-2017 Competitiveness Indicators

Source: Euromonitor International from the World Bank and the World Economic Forum

	Ease of Doing Business Ranking (out of 190)	Global Competitiveness Index (out of 138)
Kenya	92	96
Uganda	115	113
Burundi	157	135
Tanzania	132	116
Rwanda	56	52

According to World Bank's Economic Update (March 2016), the country has the potential to be one of Africa's great success stories. However, to sustain these rates of growth and uplift the economy to a middle income status, Kenya needs to tackle poverty and corruption and boost equality, productivity and bolster its competitive abilities in general.

1.2 PRODUCTION AND PROCESSING

Kenya plays a pivotal role in East African tea as a top global producer and the site of the influential Mombasa Tea Exchange through which much of the tea grown in the region is traded

Increased production of tea has guaranteed Kenya the third leading position after China and India amongst the world's tea growing countries, accounting for 8% of global tea production as of 2015 (AFFA, 2016b). The other selected East African countries produced less than half of Kenya's output in tea in the same year, and less than 55,000 tonnes each (Figure 1).

Uganda leads both coffee and cocoa production and is one of the world's largest Robusta producers

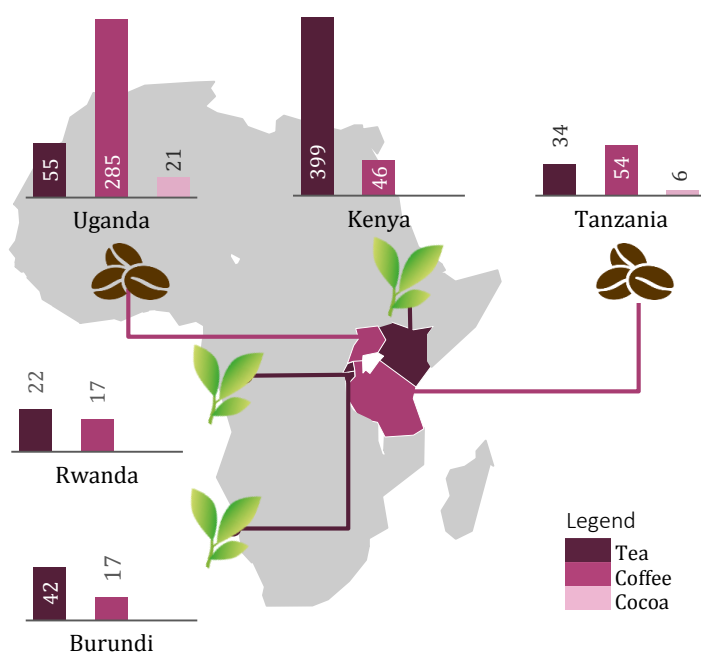


Figure 1 Tea, Coffee and Cocoa Production 2015 ('000 tonnes)

Source: Euromonitor International from AFFA, FAOSTAT and ICO

For coffee and cocoa, Uganda is the leading producer in the region whereas output in Kenya is relatively minor. Uganda is one of the largest Robusta producers globally, with 78% of its coffee production devoted to Robusta. In 2015, Uganda coffee production was estimated at 285,300 tonnes, which is to say 3.2% of the world production (ICO, n.d.). Cocoa cultivation is generally insignificant and only Tanzania and Uganda record some production.

Both large vertically integrated companies, and major multinational food producers, and smallholder farmers participate in the tea, coffee and cocoa value chains in East Africa

Both the tea and coffee sectors are organised around a vertically integrated value chain, structured into regulatory aspects, research, production, collection, processing, trading and other value addition operations. While the upstream part of the value chain exhibits extreme fragmentation at the grower level, the downstream part is characterised by a heavy concentration of players.

Vertically integrated players, such as Unilever Tea Kenya Ltd (formerly known as Brooke Bond Kenya Ltd) and James Finlays Kenya Ltd, have direct control from the farm input supply to the cup, by owning and managing plantations, freight companies, trading companies, processing and packaging companies, enhancing their bargaining power in negotiations. In Kenya, the case example is the global consumer product giant Unilever Group, which controls around 12% of the world's tea market by value (Euromonitor International, 2015b, October). Its Kenyan-based subsidiary, Unilever Tea Kenya Ltd, owns amongst the largest plantations covering over 8,700 ha and operates 11 processing factories in the country (Monroy, Mulinge, & Witwer, 2012).

Smallholder farmers, however, play a vital role in the cultivation of tea, coffee and cocoa in East Africa generating the largest percentage of the production output ranging between 62% and 71% depending on the country. In Burundi, for example, smallholders account for about 65% of the area allocated to tea and 62% of total tea production (OTF Group, 2008). In Rwanda, around 66% of the total tea producing land is in the hands of 30,000 smallholders (Foster & Mark Graham, 2014). Uganda forms somewhat of an exception as large tea estates continue to dominate output (Ezra, Lakuma, & Madina, 2014).

Nevertheless, this sector is characterised by low productivity levels due to smallholders' limited access to inputs and technology with average yields for smallholders in Burundi, for example, only four tonnes of green leaf per hectare in comparison to 4.8 tonnes of green leaf per hectare for estates (OTF Group, 2008).

Smallholder farmers face a myriad challenges which inhibit their access to export markets and are also disproportionately impacted by the adverse effects of climate change

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 creates some difficulties in including these farmers in the export market as big-name international companies such as Unilever Group, Nestlé, Lavazza and Associated British Foods require better, and have high social and environmental standards.

For instance, Unilever Group, through its Lipton flagship brands, claims that 100% of its tea leaf sold in the US is Rainforest Alliance Certified, whether it is produced at its own tea estates in Kericho Kenya or bought from smallholder farmers around the world. Nestlé also committed to implement responsible sourcing in its supply chain through The Nescafé Plan, which aims to source 90,000 tonnes of coffee that is compliant with the Sustainable Agriculture Network (SAN) principles by 2020. The SAN is a global coalition of non-profit organisations to promote environmental and social sustainability of agricultural activities through the development of standards for best practices, certification and training for rural farmers. To do so, the coalition partners with internationally accredited certification bodies, including AfriCert Ltd and Rainforest Alliance.

The challenges faced by smallholder farmers are exacerbated by a number of technical and financial vulnerabilities that inhibit these from exploring their full potential. 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.

Additionally, at the cooperative and grower level a general perception of mismanagement and corruption along the supply chain persists (Government of Kenya, 2016b; Monroy et al, 2012). As an example, upon delivery of tea, the weight of green leaves at the factory is recorded and rounded downwards to absolute figures (Monroy et al., 2012). This translates into a direct loss to farmers and provides an opportunity for theft. 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 (CPDA, 2008; Monroy et al, 2012). 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.

Governments in the region are investing in agricultural support programmes such as irrigation projects and streamlining the activities of commodity boards

To tackle some of these challenges, public authorities are increasingly investing in irrigation and subsidised fertiliser schemes. In Kenya, the Ministry of Agriculture, Livestock and Fisheries launched a fertiliser and seeds cost-reduction initiative for bulk purchases under the Vision 2030 blueprint. Additionally, KSh20.8 billion (US\$212 million) were allocated for irrigation projects around the country, including the Galana-Kulalu Irrigation Project, in next year's budget (Kangethe, 2016b). Kenya's government has also recently set up a task force with the mandate of recommending measures to improve the domestic coffee sector (Government of Kenya, 2016a, 2016b). Furthermore, Uganda's government will increase its spending on agriculture by 1.1% according to the 2016/2017 budget. In Tanzania, the government is providing readily available land for large scale agriculture and improving the operation of crop boards (Euromonitor International, 2016, April).

Private investment in Kenya's infrastructure and manufacturing footprint will play an important role in reducing operational costs, such as expenses on costly foreign inputs, and thus boost harvest gains. The Japanese car manufacturing firm Toyota, through its Toyota Tsusho Fertiliser Ltd subsidiary, inaugurated a new fertiliser-blending factory in Eldoret, Kenya, in 2016 (Bwisa, 2016). After extensive research in collaboration with the local Moi University, the company has developed a balanced nutrition blended fertiliser suited to Kenyan soil and crops, marketed under the new brand Baraka Fertilizer.

All the initiatives to stimulate production and exports look promising. However, a strong increase in competitiveness across East African countries is difficult to anticipate with authorities sending mixed messages on their commitment to tea, coffee and cocoa sectors. A case in point, in July 2016, the Kenya Revenue Authority announced the introduction of an income tax ranging between 10% and 30% on commercial small-scale farmers of tea and coffee by 2018, probably increasing the strain on smallholders' finances (Mwangi, 2016).

1.2.1 TEA

CROP PRODUCTION

Tea crop volumes across selected East African countries showed a general increasing trend over the 2011-2015 period with good rains, but Rwanda was the exception suffering from a prolonged drought

Tea growing in Kenya is concentrated around two productive areas, namely to the east and to the west of the Great Rift Valley Zone (Figure 2). The west is characterised by highly populated areas, heavy rainfalls and a wide variety of other crops, while the east presents a variable topography and diversified weather conditions ranging from warm lowlands to typical alpine regions (Monroy et al., 2012).

Tea is harvested all year round with two peak seasons of high crop between March and June and October and December, which coincide with the high rainfall seasons.

The leaves from the growing tips of the shrubs are plucked and collected into baskets. These are then taken to a collection point, where they are weighed and recorded by a factory employee. The plucked green leaf must be processed within 12 hours after harvesting.

In the other East African countries, tea is commonly grown at high altitudes, often in mountainous areas with steep slopes and high precipitation levels. In Uganda, these include the slopes of Mount Rwenzori and along the crescent of Lake Victoria areas. Tanzania's three main tea-growing areas are the Southern Highlands Zone (the Mufindi, Njombe and Rungwe districts), the Northeast Zone (the Lushoto, Korogwe and Muheza districts) and the Northwest Zone (the Bukoba and Muleba districts) (Ezra et al., 2014; Sutton & Olomi, 2012). Meanwhile, production in Burundi is concentrated in Teza, Rwegura, Tora, Ijenda and Buhoro (OTF Group, 2008).

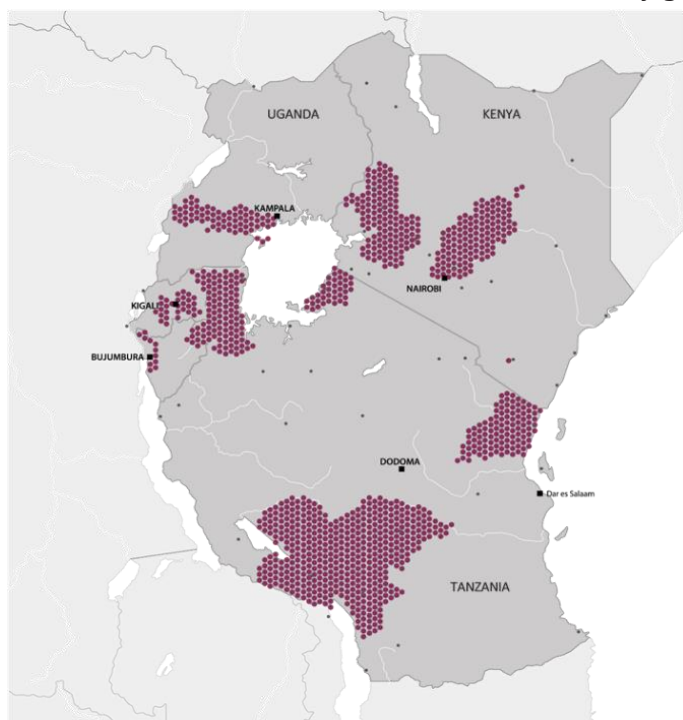


Figure 2 Tea Growing Area in East Africa

Source: Euromonitor International from FAO and Monroy et al., 2012

Around half a million smallholder farmers in Kenya produce two thirds of the country's total tea

The tea growing industry comprises two separate sectors: large scale farms, referred to as estates with their own plantations and

processing factories, and the smallholder sector. The plantation sector is dominated by multinationals (e.g. Unilever Tea Kenya and James Finlays Kenya), but smallholder farmers contribute the largest percentage of tea production output. Latest statistics show that approximately 65% of the total tea crop in Kenya is produced by an estimated 450,000 to 570,000 smallholder farmers (Monroy et al., 2012). This arrangement is similar in other countries in the region with the exception of Uganda (Ezra et al., 2014).

Smallholders usually grow tea on an average plot size of less than nine hectares, not entirely planted with tea, but mixed with other cash and food crops. This allows smaller farmers to mitigate some of the risks associated with reliance on one crop (Monroy et al., 2012). In 2014, the average yield stood at 2,127 kg per hectare for the smallholders compared to 2,834 kg per hectare for tea plantations (AFFA, 2014).

Poor weather hit Kenya's tea production, which declined by about 10% in 2015

According to official statistics from Kenya's Agriculture, Fisheries and Food Authority (AFFA, 2016b), tea production in the country slightly increased over the 2011-2015 period and amounted to 399,211 tonnes in the latter year (Chart 1). Although 2015 was disappointing with weather-related shortfalls in the first half, production output was cushioned by a steady rise in the cultivated land under tea over the period and the adoption of high yielding clonal type of tea (Ezra et al., 2014; The Economist Intelligence Unit, 2015).

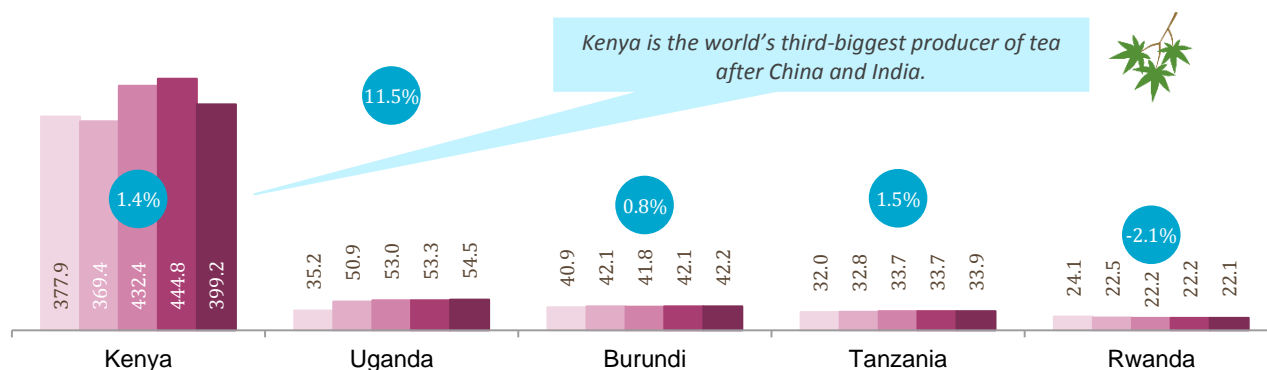


Chart 1 Tea Production 2011-2015 ('000 tonnes) and CAGR 2011-2015

Source: Euromonitor International from AFFA and FAOSTAT

Positive intervention in Uganda's tea sector has elevated output from this country to second place in the region. Encouragement of tea growing is also reaping benefits in Rwanda

By contrast, combined tea production across the remaining selected East African countries was less than 153,000 tonnes in 2015 (Euromonitor International, 2015a October, 2015c October, 2016 April). Uganda has witnessed an increase in tea output since 2011, making it the second largest tea producing country in the region with 55,000 tonnes. The healthy growth was derived from Uganda's strategy to encourage more farmers to embrace the crop and expand the cultivated land under tea (Nakaweesi, 2012). Financed by the World Bank, the new strategy is expected to introduce tea production in new areas such as Nebbi and Kisoro by 2018. Burundi and Tanzania followed in importance, with a combined production output of 76,100 tonnes in 2015 (Euromonitor International, 2015a October, 2016 April).

Rwanda was the only tea producing country in the region which witnessed a decline in output over 2011-2015 (Euromonitor International, 2016 January). This decline is likely to reverse in the short term as new entrants plan to expand plantations and open new tea factories amid a drop in tea prices globally (Tumwebaze, 2016). In mid-2016, the government signed an agreement with Unilever Group for the establishment of two large-scale tea sites and the construction of a tea processing factory in Nyaruguru

District. The project, which started in September, entails an estimated investment of KSh4.9 billion (US\$50 million) (Reuters, 2016). Additionally, the National Agriculture Export Board of Rwanda recently drafted a new tea leaf handling model along the value chain aimed at introducing a quality benchmark linked to the average national price to reward farmers for investing in value addition.

PROCESSING AND GRADING

The Kenyan Tea Development Agency KTDA controls much of the tea processing and marketing on behalf of smallholder farmers but faces criticism that benefits do not accrue sufficiently to farmers

The value addition of tea starts at the factory, where processing and grading take place (Figure 3). Tea processing and grading involves the crushing of green leaves, which leads to controlled fermentation of the liquor present. Tea quality and price are determined on the basis of liquor, aroma and leaf appearance.

Processed tea, also called "made tea", is transported to warehouses near the Port of Mombasa managed by the KTDA subsidiary Chai Trading Company Ltd (Monroy et al., 2012). On receipt of the tea, warehouses issue a weighment report, with the date of arrival and other details pertaining to the tea (Monroy et al., 2012).

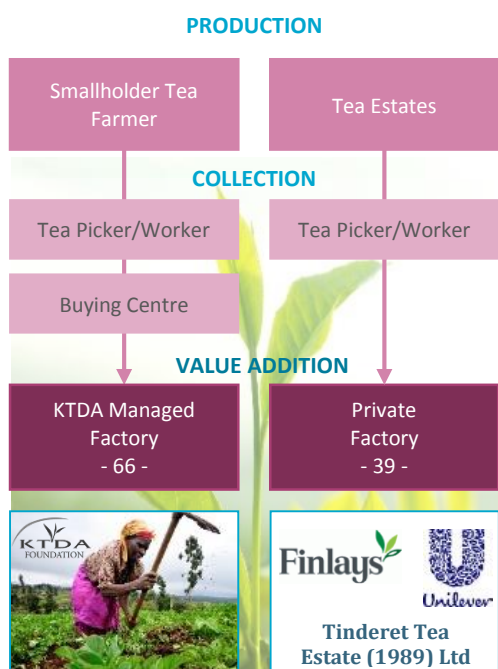


Figure 3 Tea Production and Processing Structure and Related Actors in Kenya
Source: Euromonitor International

After harvesting, smallholder farmers sell their baskets of green leaf through the KTDA, which is the largest private tea management agency in the world. The organisation is mandated with promoting and fostering growth and development of tea growing among smallholder farmers as well as overseeing the end-to-end processes from the cultivation of tea at the farm level to its marketing on local and international markets.

According to company sources, it currently manages 66 tea cooperative manufacturing plants across the country and commands around 80% of tea processing in Kenya. KTDA's processing factories currently produce standard black, green, purple and white teas. Purple tea has been its most recent addition at the Njeru Industries plant, although production output largely targets the Asian market.

As of 2013, 54 factories are Rainforest Alliance (IFC, 2014) and there are 31 tea producers currently registered with Fairtrade

in Kenya.

Smallholder farmers receive an initial monthly payment per kilogram of green leaf delivered which has been agreed in advance for all KTDA's factories. A second payment is later determined depending on the profit margin obtained after auctions based on the selling price of tea, and also considering management fees, loan payments and planned capital investments. KTDA's commission is established at 2% over selling price (Monroy et al., 2012). In 2015, the Agency distributed 75% of total revenues of tea sales at the Mombasa

"Unlike in Sri Lanka or India, the Kenyan government has been unable to prioritise supporting tea and coffee sectors through the launch of initiatives to cushion low commodity prices, rise consumer awareness and promote their interests abroad. In the case of tea, it has left KTDA with the whole burden."
— Market Researcher at a Processing Company, Kenya

Tea Auction to smallholder farmers – equivalent to KSh62 billion (US\$631 million), an increase from 71% in the previous year thanks to increased volumes, higher tea prices and a favourable exchange rate (KTDA, 2016).

Smallholder farmers in Kenya are generally well remunerated for their tea, but have little control over decisions around commission fees, business investments and dividend sharing even though all costs are deducted from tea payments to them (CPDA, 2008; Monroy et al, 2012). KTDA is presumed to take excessive responsibility regarding the provision of research and extension services, which could be supported by the government, and this is considered to impact small-scale farmers negatively.

Large-scale tea plantations, which are organised under the Kenya Tea Growers Association (KTGA), operate 39 estate-owned processing factories in the country according to information available in its website. Examples of large-scale tea plantations with operations in Kenya include Unilever Tea, James Finlays, The Sotik Tea Companies and Williamson Tea, among others. James Finlays and Williamson Tea have Fairtrade certified plantations. Several of the plantations and factories which form part of the Kenya Tea Development Agency (KTDA) are also Fairtrade certified, such as Rukuriri, Iraini, amongst others.

1.2.2 COFFEE

CROP PRODUCTION

Kenya's coffee production has flattened since 2011 due to low prices and the loss of production from large plantations in the suburbs of Nairobi, whereas Uganda and Tanzania have recorded sustained growth

In Kenya, which grows only Arabica coffee, the major producing regions are on deep, fertile and acidic volcanic soils found in the highlands (Figure 4). In particular, both Nyeri (western slopes of Mount Kenya) and Murang'a are regarded as some of the best and most important production regions (Bagal, Belletti, Maescotti, & Onori, 2013). In Uganda, Robusta coffee is grown in low altitude areas whilst Arabica coffee is cultivated in the highland areas on the slopes of Mount Elgon and Mount Muhabura (Ahmed, 2012). Meanwhile, Tanzania's

Two coffee harvests in a year:
The main crop is harvested between September and December, and the short rains crop between March and July.

three main producing areas are the Northern and Southern Highlands, and the Western Lake Zone in the Kagera Region (Baregu, Barreiro-Hurle, & Maro, 2013).

As with tea, about 700,000 smallholder farmers in Kenya produce around two thirds of the country's coffee output from some 77% of the land area under coffee

The coffee sector across East Africa is characterised by a dual production system. In the upstream part of the supply chain in Kenya, for instance, it is possible to distinguish 3,217 medium and large coffee growers (Estates), and around 700,000 smallholder farmers with cultivation areas smaller than two hectares (Bagal et al., 2013; Bennett, Rios, Himmel, &

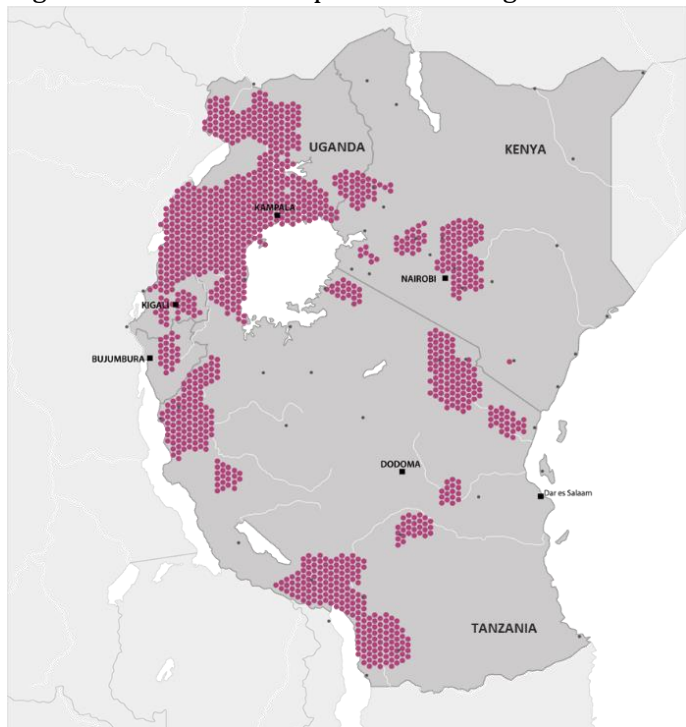


Figure 4 Coffee Growing Area in East Africa

Source: Euromonitor International from FAO and Bagal et al., 2013

Wairegi, 2016; Government of Kenya, 2016b). In countries like Burundi and Rwanda, smallholder coffee farms might consist of only 100 trees (ICO, 2015).

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 (Government of Kenya, 2016; Monroy et al., 2013). Cooperatives also retain ownership of the processed coffee until it is sold at auctions. One cooperative can count between 1,000 and 15,000 coffee growers (Bagal et al., 2013).

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 (ICO, 2015). The longer time period between delivery of crops and payment in Kenya acts as a disincentive for local smallholder farmers.

In Kenya a presidential task force has been established to look at easing restrictions on smallholder farmers to help improve their returns and access to subsidy programmes

The Presidential National Task Force on Coffee Sub-Sector Reforms has recognised the restrictiveness of current laws governing the sector that prevent farmers from freely participating in the coffee value chain. The task force has therefore recommended that government re-engineer coffee cooperative societies by focusing on expanding their sources of income and the range of services provided, thus enhancing financial management, amongst others (Government of Kenya, 2016a, 2016b). If vertically integrated, smallholder farmers should be able to sell their own coffee by presenting one catalogue at the auction and have one point of contact for direct sales (Government of Kenya, 2016a, 2016b). The restructuring process is considered critical for reducing delays in cherry payment and the success of subsidy programmes.

According to Kenya's regulations, cooperatives should return at least 80% of coffee revenues to farmers, while the remaining must cover operational costs such as wet milling (Bennett et al., 2016). In this regard, recommendations from the Presidential National Task Force on Coffee Sub-Sector Reforms pointed to a reduction of the threshold of charges to 15% (Government of Kenya, 2016b).

Lower productivity levels from smallholders when compared to estates arise from the limited use of crop protection and nutrition inputs. Nonetheless, smallholder farming dominates Kenya's coffee sector. In 2015, the harvest area in Kenya covered 113,500 hectares, of which around 77% was planted by smallholder farmers (AFFA, 2016a). In Uganda and Tanzania, from a literature revision smallholders' contribution is as high as 90% (Ahmed, 2012; Baregu et al., 2013).

East African countries are responsible for about 4% of the world's coffee production with Kenya only contributing 0.5% albeit of highly appreciated Arabica coffee

Kenya's coffee crop production was estimated at 45,600 tonnes in 2015, equivalent to 0.5% of the world production (Chart 2) (ICO, n.d.). After a slump in 2012 due to high input costs, adverse weather conditions and disruptions from post-election violence, smallholders' share of total crop production has increased steadily in recent years (AFFA, 2014; Monroy et al., 2013). This can partly be attributed to the fact that medium and large coffee growers, especially in the growing areas bordering the city of Nairobi, have given way to housing developments and thus disappeared. In 2015, nearly 65% of coffee was produced by smallholder farmers, and the remaining 35% by estates (AFFA, 2016a).

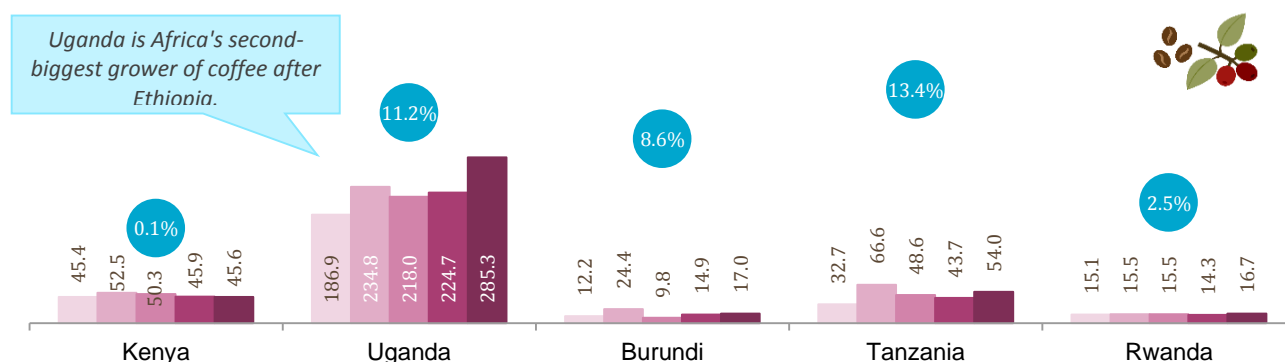


Chart 2 Coffee (Arabica and Robusta) Production 2011-2015 ('000 tonnes) and CAGR 2011-2015

Source: Euromonitor International from ICO

Along with Kenya, Uganda and Tanzania are other major producers of coffee in East Africa. 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 (ICO, n.d.). 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 (Tanzania Coffee Board, 2012). The substantial progress made by both countries has been prompted by the implementation of ambitious government-sponsored programmes aimed at increasing production, diversifying export markets and boosting domestic consumption (USDA FAS, 2016a, 2016b). For example, the Uganda Coffee Development Authority (UCDA) 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 (USDA FAS, 2016b). Meanwhile, Burundi and Rwanda recorded low production levels, mostly due to a lack of agricultural intensification (ICO, 2015).

PRIMARY AND SECONDARY PROCESSING

The limited choice in processing for smallholder farmers in Kenya puts little pressure on cooperatives' governance models and efficiency

The processing of coffee comprises two phases, wet and dry milling (Figure 5). Wet milling consists of the delivery of harvest cherries to a cooperative society's processing factory by smallholders, where these are then pulped, washed and dried. Estates are able to wet-process their coffee on their own, and

currently, Estates operate about 3,000 pulping stations in Kenya (Government of Kenya, 2016b). Later, the parchment coffee is delivered to a commercial dry coffee mill, where the parchment skin is removed and the coffee is categorised into seven official grades based on bean size and density for auctioning. Once processing is finalised, the coffee is referred to as clean or green coffee beans (Bagal et al., 2013).



Figure 5 Coffee Production and Processing Structure and Related Actors in Kenya

Source: Euromonitor International from Bagal et al., 2013

Coffee Directorate, of which half were commercial millers (Government of Kenya, 2016b). The millers have a combined milling capacity of over 350,000 tonnes on the basis of an eight hour shift (Government of Kenya, 2016b). Some of these millers gathered under the umbrella body of Commercial Coffee Millers and Marketing Agents Association (CCMMAS), which provides a code of practice and unitisation when disputes arise with growers.

According to the 2001 Coffee Act, a commercial miller can also work as a Coffee Marketing Agent (CMA). As of 2015, eight official CMA operated in the country (Government of Kenya, 2016b). CMAs are responsible for securing dry milling, classifying the coffee, preparing catalogues for dealers before auctions and setting hidden reserve prices for each coffee lot on sale (Bennett et al., 2016). Storage of coffee lots are also proscribed. Under the 2001 Coffee Act, cooperatives are obligated to pay to CMAs fees in an amount not exceeding 3% of the gross coffee sale proceeds (Bagal et al., 2013).

All cooperatives in Kenya must use a CMA to transport coffee to mills and warehouses and then sell it at the national weekly auction in Nairobi or through arranging direct sales to interested buyers. Hence, there is no direct contact between producers of coffee and buyers in Kenya (Kamau, 2015). This, coupled with limited choices for processing, further undermines transparency along the supply chain, with smallholders often having no knowledge if payments properly reflect the coffee delivered.

In fact, the Presidential National Task Force on Coffee Sub-Sector Reforms in Kenya during 2016 reported that the absence of effective oversight from the government and cooperatives encourages some millers to overstate the milling loss, manipulate grades, interchange coffee ownership, and introduce hidden charges (Government of Kenya, 2016b). Therefore one of its recommendations consists on eliminating cross ownership between millers and CMAs setting up a mandatory publication system for annual milling tariffs and other charges, aimed to safeguard the interest of smallholder farmers.

1.2.3 COCOA

CROP PRODUCTION

Cocoa production in East Africa is still at a small scale, with most of the region's limited production coming from Uganda and Tanzania

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 (Chart 3). Over 2011-2015, the two countries generated a combined output of 25,300 tonnes on average, adding less than 1% to the global cocoa bean market (Euromonitor International, 2015c October; 2016, April).

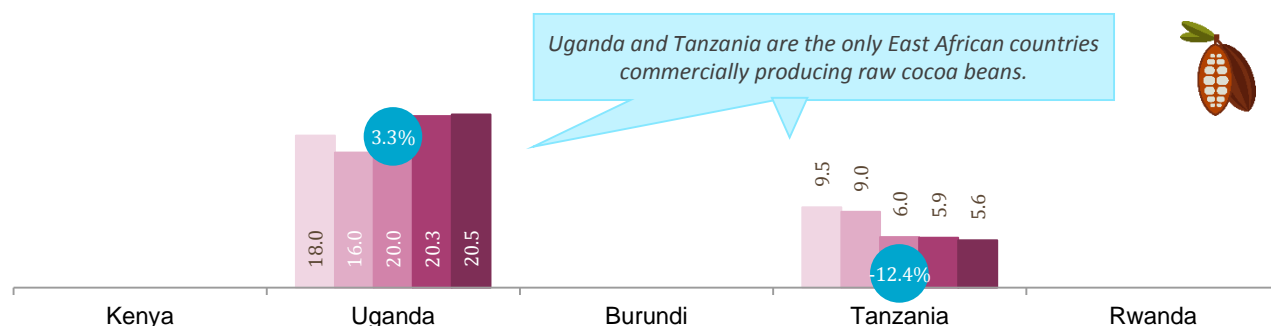


Chart 3 Cocoa Production 2011-2015 ('000 tonnes) and CAGR 2011-2015

Source: Euromonitor International from FAOSTAT

The total area suitable for cocoa farming in Uganda is estimated at 92,000 hectares, although the land under cultivation is still relatively small (Figure 6). In 2015, only 47,800 hectares were harvested, mostly in the west and central regions (Euromonitor International, 2015c October).

Thanks to higher prices for cocoa on international markets and government incentives, cocoa farming is anticipated to strengthen over the next three years. 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 (Nabwiiso, 2015). These initiatives aim to facilitate a target of 50,000 hectares of cocoa to be reached by the end of 2020 as a strategy to diversify exports and increase opportunities for farmers, especially in areas affected by the coffee wilt disease at the end of the 20th century.



Figure 6 Cocoa Growing Area in East Africa

Source: Euromonitor International from Lutheran World Relief, 2015 and Nyomora, Kanyeka, & Ndunguru, 2012

Uganda and Tanzania show significant potential for organic cocoa production

Similar to tea and coffee production in East Africa, cocoa is primarily a smallholder farmer crop. An estimated 35,000 smallholders are involved in the cultivation of cocoa across Uganda and Tanzania (Lutheran World Relief, 2015; Nyomora et al., 2012).

The majority of these farmers grow cocoa on plots well below a hectare in organic conditions using traditional farming methods, where the application of pesticides remains minimal. Despite the high potential for organic production in the region, which can command a price premium of up to 50%, uncertified organic farmers dominate due to the lack of formal technical skill, high certification costs and stringent procedures. A few exceptions are the organic smallholder cocoa programmes promoted by Esco Ltd in the Bundibugnyo district in Uganda and Biolands International Ltd (a subsidiary of Barry Callebaut AG) in the district of Kyel in Tanzania. Biolands' cocoa is certified organic by the Swiss Institute for Market Ecology. In Uganda Rwenzori Farmers' Cooperative Union Ltd and Bundikakemba Growers' Cooperative Society Ltd are Fairtrade certified.

PROCESSING

Cocoa-processing remains underdeveloped in Tanzania and Uganda as lack of resources remains a challenge

Despite the competitive advantage of cocoa beans from Uganda and Tanzania in terms of size and aroma, poor post-harvest handling and lack of resources remain major challenges to the quality of cocoa on the market. Cocoa beans are merely harvested, fermented and sun-dried before being shipped overseas to cocoa consuming countries (Nyomora et al., 2012). This deprives smallholder farmers of the wealth of value-added practices which for cocoa include a number of products from chocolate to beauty and personal care products.

1.3 FAIRTRADE PRODUCTION

Fairtrade is most prevalent on the production side with Kenya accounting for more than half of the farmers and plantations involved in the production of Fairtrade certified tea in the region

Fairtrade is well represented on the producer end. The number of Fairtrade certified tea smallholder farmers and plantations across Kenya, Uganda, Tanzania and Rwanda stood at 41 in 2015 whereas for coffee 63 producer organisations are certified across the region (Table 3). Nearly 73% of certified tea producers are concentrated in Kenya with 11 producers also members of the Kenyan Tea Development Agency KTDA. Certified coffee producers are more evenly spread, reflecting the crops' growing pattern, with 62% of certified coffee organisations located in Kenya and Uganda. Two Fairtrade certified cocoa producers operate in Uganda.

Table 3 2015 Fairtrade Certified Tea / Coffee Producers, Production and Sales Volumes

Source: Euromonitor International from Fairtrade Africa

	Producers	Tea Fairtrade Production Volume (MT)	Fairtrade Sales Volume (MT)	Producers	Coffee Fairtrade Production Volume (MT)	Fairtrade Sales Volume (MT)
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.

According to the seventh edition of the Report Scope and Benefits of Fairtrade (2015), the average plot size of a Fairtrade tea farmer in the region was just 0.4 hectares, significantly lower compared to the overall average of smallholder farmers' cultivation areas for tea in Kenya at nine hectares.

Both for tea and coffee, Fairtrade certified production in Kenya forms a significant proportion of overall production (Table 3, Chart 4, Chart 5). Fairtrade certified production volumes have also increased substantially from 2011 to 2015 (a CAGR of 16.4% for tea and 59.5% for coffee), presumably in response to the efforts of Fairtrade working with producer organisations. Certified volumes are smaller in other countries both in absolute terms and relative to total output. Despite a good representation among Tanzanian tea in 2015, Fairtrade has been losing ground in this country for both commodities.

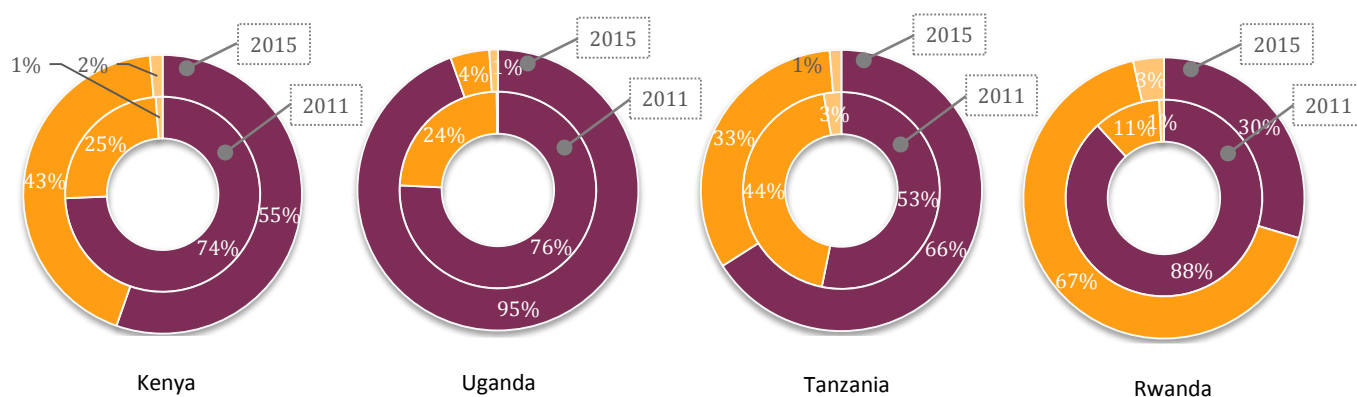


Chart 4 Conventional Tea Production, Fairtrade Production and Fairtrade Production sold as Fairtrade Certified 2011, 2015

Source: Euromonitor International from Fairtrade Africa, no data provided for Burundi

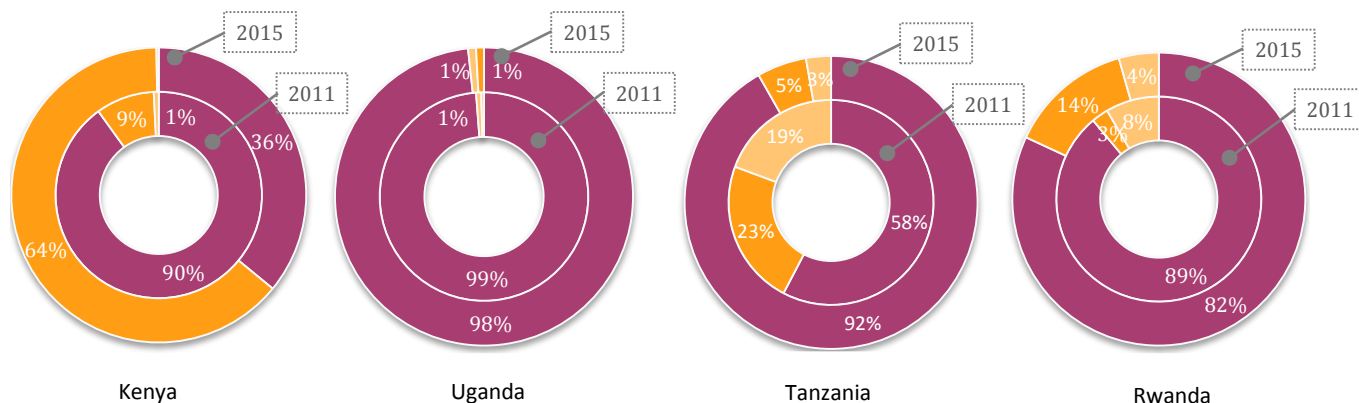


Chart 5 Conventional Coffee Production, Fairtrade Production and Fairtrade Production sold as Fairtrade Certified 2011, 2015

Source: Euromonitor International from Fairtrade Africa, no data provided for Burundi

Low volumes of Fairtrade certified production are sold as Fairtrade certified tea and coffee.

Not all Fairtrade production is sold as Fairtrade certified tea or coffee either locally or abroad, as production is blended with conventional produce. On average across the region, 3% of certified tea production in 2015 was sold as Fairtrade certified, a proportion which has declined somewhat from 4% in 2011. For coffee, 22% of regional Fairtrade volumes was sold certified. As for tea, the proportion of coffee volumes remaining within the ethical supply chain has declined (to 0% in Kenya's case) with the exception of Uganda where 50% of coffee volumes are sold Fairtrade certified.

1.4 INSTITUTIONAL AND REGULATORY FRAMEWORK

The Ministry of Agriculture of Kenya holds a major role in tea and coffee sectors through its regulatory and research divisions, which bring together upstream and downstream actors of the value chain

Whilst Kenya has liberalised its tea and coffee sectors, policy reforms in that respect were more limited than in other East African countries such as Uganda (Bagal et al., 2013; Kagira, Kimani, & Githii, 2012). Indeed, state-related institutions still play an important regulatory role in the production and marketing of both products (Table 4).

Table 4 Supply Chain Governance: State-related Organisations

Source: Euromonitor International

Governance	Kenya	Uganda	Burundi	Tanzania	Rwanda
Government	Ministry of Agriculture, Fisheries and Livestock	Ministry of Agriculture, Animal Industry and Fisheries	Ministry of Agriculture and Livestock	Ministry of Agriculture Food Security and Cooperatives	Ministry of Agriculture & Animal Resources
Regulatory	Agriculture and Food Authority Tea Directorate Coffee Directorate	Uganda Coffee Development Authority	Office du Thé du Burundi Office du Café du Burundi	Tea Board of Tanzania Tanzania Coffee Board	National Agricultural Export Development Board
Research	Tea Research Foundation Coffee Research Foundation	National Agricultural Research Organisation National Coffee Research Institute	-	Tea Research Institute of Tanzania Tanzania Coffee Research Institute	-

Kenya's tea and coffee sectors operate under the Ministry of Agriculture, which provides technical and policy guidance. It is mandated with data collection, trainings for farmers and research through two

separated divisions: the Tea Research Foundation of Kenya and the Coffee Research Foundation. Statutory bodies under the Ministry of Agriculture include the Tea Directorate and the Coffee Directorate which were solely established to regulate the tea and coffee sectors.

1.4.1 TEA

The Tea Research Foundation of Kenya, as the technical arm of the Tea Directorate, plays a vital role in actively encouraging farmers to adopt new farming techniques and varieties

The Kenyan tea supply is supported by the apex regulatory body, the Tea Directorate, and its technical arm, the Tea Research Foundation of Kenya. The former, which operates under the Tea Act (Cap 343) and Agricultural Act (Cap 318), is mandated to regulate tea farming, research, processing, trade and promotion in local and global markets. In addition, it advises the government on all policy matters related to the sector through the Ministry of Agriculture.

In 2012, the Ministry of Agriculture introduced a levy of 1% over the auction selling price on all Kenyan tea exports aimed at funding the Tea Research Foundation of Kenya and the Tea Directorate as well as improvements of the sector's infrastructure (Monroy et al., 2012).

The Tea Research Foundation has the responsibility to carry out research on tea and advise farmers on the control of pests and diseases, improvement of planting material, general husbandry, yields and quality. To do so, it organises field visits and demonstrations, and also published research findings and reports. Since inception the Foundation has developed and released to tea growers 45 clones of suitable tea, yet many farmers have not adopted them thanks to the high cost of planting and poor dissemination of related information. As a means of funding the Foundation, farmers in Kenya pay a tax to sustain the sector's research and development (see Chapter 2).

1.4.2 COFFEE

The Coffee Research Foundation is responsible for conducting research of all issues related to coffee and providing advice and training to farmers in Kenya

Like tea, the coffee sector is regulated by the Kenyan Coffee Directorate, whose functions consist of promoting good agricultural practices as well as the virtues of drinking coffee and the image of Kenyan products in the market place. It is also responsible for the registration and licensing of coffee nurseries, growers, millers, marketing and management agents, auctioneers, buyers, packers and roasters to ensure to adherence to standards.

The Coffee Research Foundation, which is part of the Kenya Agricultural and Livestock Research Organisation (KALRO) and financed by the Coffee Directorate through a levy of 2% on coffee sales, is responsible for promoting research and investigating coffee-related issues. According to the Presidential National Task Force on Coffee Sub-Sector Reforms, the statutory deduction to fund research activities is discriminatory, as the jurisdiction of the Coffee Research Foundation follows under AFFA and KALRO, both of which cover other commodities (Government of Kenya, 2016b). Further, the Foundation is the only authorised source of Certified Coffee seeds in the country, i.e. seeds of traditional coffee varieties such as SL28, SL34 and K7. Ruiru-11 seeds are produced through manual pollination, a labour intensive and delicate process.

1.4.3 COCOA

No regulatory bodies were encountered for the promotion of cocoa in Uganda and Tanzania

The cocoa sector in Uganda is coordinated by the Ministry of Agriculture, Animal Industry and Fisheries, but there is no autonomous and specialised regulatory body with political oversight from the ministry responsible for its marketing and development. However, the sector is also supported by the Uganda Cocoa Association, which was revived following the 2015 Cocoa Multi-stakeholder Platform Meeting in Kampala after being closed for 10 years (Ssenoga, 2015). Tanzania faces a similar situation, with smallholders represented by Farmers Associations, as for example in Mbingu.

2. SUPPLY CHAIN AND TRADE

2.1 TRADING ENVIRONMENT

Transparency and diversification in both the tea and coffee sectors needs to be encouraged to reduce vulnerability to economic and price shocks and encourage foreign exchange earnings

Kenya is the major tea and coffee trading hub in East Africa. Traded volumes are greater than produced quantities suggesting that tea and coffee from neighbouring countries are imported to Kenya before being re-exported (Figure 7). Overall tea exports from selected East African countries have kept fairly stable over the period between 2011 and 2015, with an average of 529,000 tonnes exported per year (UN Comtrade Database). However, a remarkable increase was noted in exports of coffee, which rose by 4.6% from a combined volume of 315,000 tonnes in 2011 to 360,000 tonnes in 2015 mostly due to an increase in production output in Uganda and Tanzania during the period (UN Comtrade Database).

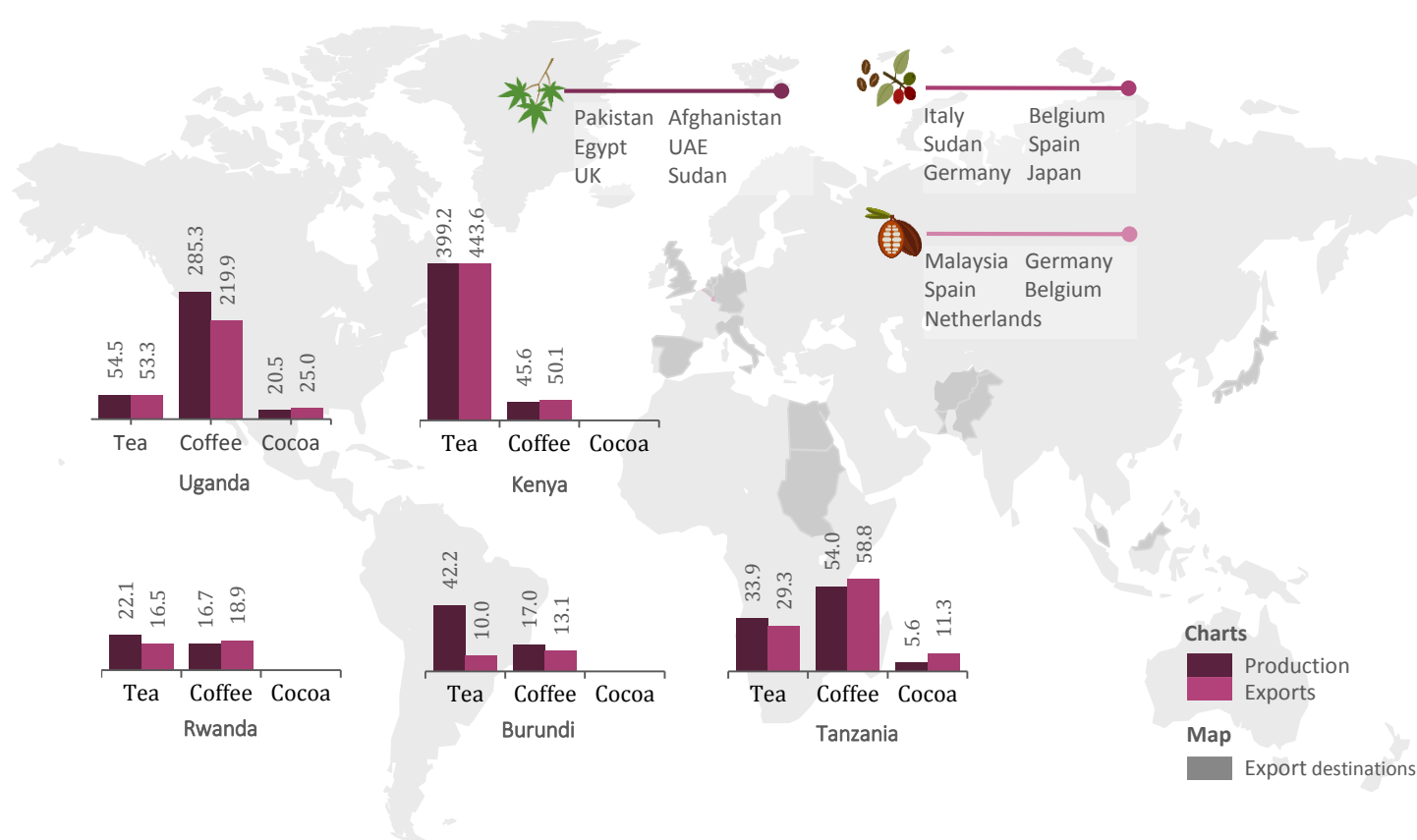


Figure 7 Total Production and Exports of Tea, Coffee and Cocoa ('000 tonnes) 2015 and Key Destinations

Source: Euromonitor International from UN Comtrade Database

Compared to exports, imports into countries in the region remain volumetrically insignificant. On the one hand they reflect Kenya's importance as a trading hub with tea and coffee from neighbouring countries re-exported through Kenya. On the other hand, imports comprise finished goods such as Nescafé's instant coffee, premium branded teas, and powdered hot drinks, including cocoa or malt-based drinks.

Kenya has a good reputation for quality tea and coffee in international markets. However, trade flows remain overwhelmingly oriented towards bulk exports of semi-processed tea or green coffee rather than higher-end specialty blends, notwithstanding that some tea and coffee is processed for local consumption. This not only limits the sectors' revenues but it also hampers the earning potential of East Africa's smallholder farmers. In addition, it increases their vulnerability to commodity price shocks.

Kenya's dependence on only a small number of traditional destination markets is also a source of concern, as it enhances its susceptibility to economic shocks thus leading to volatility and instability in export earnings. The danger of overreliance on a few markets was demonstrated in 2015 by Sudan's decision to reduce tea imports from Kenya (USDA FAS, 2016b), at a time when Egypt's political crisis in February 2011 also led to a drop of 8.8% in the price of tea (Kagira et. al, 2012).

Kenyan tea and coffee auctions are the most common route to international markets for regional tea and coffee production but opinion is divided on their impact

The most common route for marketing East Africa's tea and coffee is through auctions in Kenya. Nonetheless, in-country operations and processes constitute another challenge. Coffee and tea marketing systems in Kenya remain centralised and regulated, as opposed to those implemented in Uganda, with recently proposed changes not yet filtering through. Such rigidity continues to inhibit direct contact between growers and buyers and thus prevents the establishment of fairer trade relationships.

Although Kenya's auction systems seem to be a component of value chains that do work properly by incentivising the production of high quality tea and coffee, higher levels of transparency and integrity are also required. As an example, there has been some evidence of collusion among tea brokers to influence the price paid at the Mombasa Tea Auction (McGregor, 2016; Monroy et al., 2012). In order to dispel negative perceptions as well as ensure transparency and accountability, the East Africa Tea Trade Association (EATTA) has been encouraged to introduce an electronic trading systems (McGregor, 2016; Monroy et al., 2012). Although the trade association released a statement communicating the advanced stage of its plans to automate the trade at the end of 2014, the implementation of the platform is only due to be completed by 2018. Once finalised, the project is anticipated to result in a 15% reduction in the cost incurred by producers in the financing of an entire trading cycle and 15% increase in the volume as well as value of tea traded through the system (Ngunjiri, 2016).

A reversal of these fortunes is possible. For instance, 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 in the years to come (Kipsang & Matoke, 2016). Other key opportunities include intensifying production, quality improvements, enhanced transparency and traceability, certification, export diversification through market niches, in-country value addition and promotion of local consumption.

2.1.1 TEA

THE MOMBASA TEA AUCTION

The Mombasa Tea Auction plays a leading role in auctioning tea across East Africa. Trades happen on a weekly basis and are the main source of prices for tea

The Mombasa Tea Auction in Kenya, one of the largest auction bourses in the world, manages the marketing of tea from nine countries in Africa, including Uganda, Burundi, Tanzania and Rwanda. It is supervised by the EATTA. However, the Mombasa Tea Auction's role has faced challenges in recent years, including greater competition from the Dubai Tea Trading Centre operated by the Dubai Metals and Commodities Centre as well as credibility issues derived from poor trading practices carried out by KTDA, brokers and multinationals.

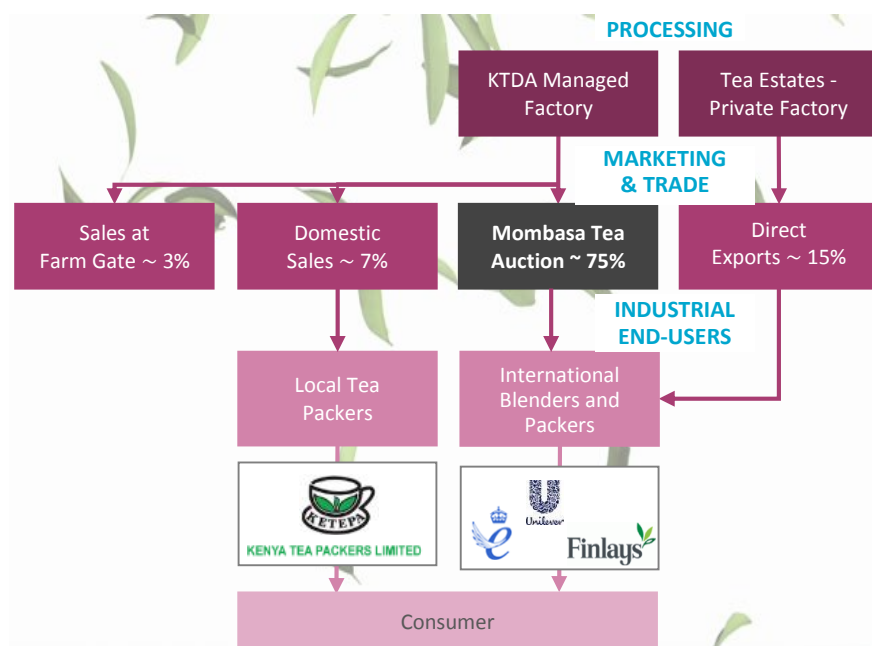


Figure 8 Tea Supply Chain in Kenya

Source: Euromonitor International from Monroy et al., 2012 and KTDA, 2016

along with quality factors such as aroma, appearance and provenance, determine price (Ezra et al., 2014). In 2015, the average price for black made tea on the Mombasa Auction stood at KSh280 (US\$2.85) per kilogram, which compared to KSh258 (US\$2.63) per kilogram in the previous year (KTDA, 2016). While tea from Kenya performed relatively well, tea sourced from Uganda and Tanzania continues to fetch a low average price by regional standards suggesting poorer quality.

The Mombasa Tea Auction charges a fixed brokerage fee of 1.5% of the selling price, with 1% deducted from tea payments to farmers and the remaining paid by the buyer (Monroy et al., 2012).

In each auction, sales are controlled by a small number of buyers. According to EATTA's website, the five largest buyers account for more than half of the tea traded through the auction. As an example, Cargill Kenya Ltd, which acts as a buying agent for Unilever, is usually responsible for the largest single share of annual tea purchases at the Mombasa Tea Auction, buying around 15% of tea at the auction. Others include Global Tea Commodities Kenya Ltd (which supplies Gold Crown Beverages Kenya), L.A.B. International Kenya Ltd, James Finlay Mombasa and Chai Trading Co Ltd.

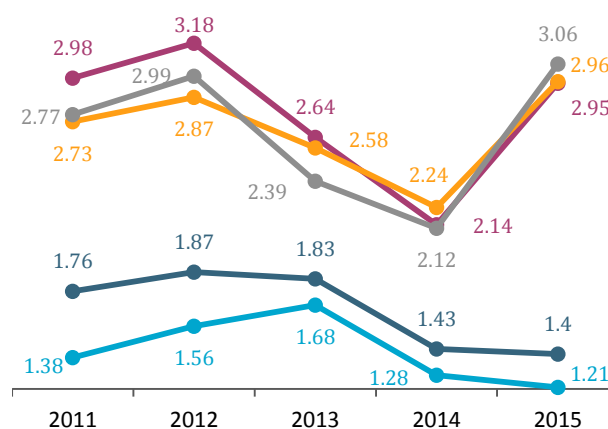


Chart 6 Mombasa Auction Average Price (US\$ per kg) for Primary and Secondary Grades per Country (Kenya, Uganda, Burundi, Tanzania and Rwanda) 2011-2015

Source: Euromonitor International from Africa Tea Brokers Ltd

TEA BROKERS

Tea brokers are intermediaries in the tea market at export level

According to data compiled by EATTA, 11 registered companies currently operate as tea brokers at the Mombasa Tea Auction facilitating the sale of tea on behalf of

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

producers. These include Africa Tea Brokers Ltd, Atlas Tea Brokers Ltd, Bicorn Exim Ltd, Tea Brokers East Africa Ltd and Anjeli Ltd, amongst others.

Tea brokers' main responsibilities include tasting the tea for the purpose of quality verification; determining the best price for different qualities of tea; liaising with warehouses to ensure that tea is received, handled and stored in a professional manner; and addressing concerns from buyers as to quality and quantity of purchases. Besides the fixed fee applied by the Mombasa Tea Auction, authorised tea brokers charge a 0.75% operating commission based on the sale plus a KSh9.8 (US\$0.1) per kilogram sold to cover transport, warehousing and port handling costs (Monroy et al., 2012). The rates are established by KTDA, but without consultation with farmers (CPDA, 2008; Monroy et al, 2012).

A multi-stakeholder task force constituted to evaluate the sustainability of the Kenya's tea sector recommended in 2016 to reduce taxes and levies, including the Mombasa sales commission and brokerage fees, aimed at improve returns to tea farmers (Kamatu, 2016). If recommendations are implemented, the 1% levy on tea sold at a weekly auction in Mombasa Tea Auction would be slashed to 0.75%, while brokerage fees paid will be cut to 0.5% (Kamatu, 2016).

According to the 2014 Tea Industry Status Report released by the Tea Directorate, KTDA, tea brokers and large buyers frequently engage in price manipulation and post-auction, private sale of withdrawn teas, thus reducing the overall commodity price and earnings for smallholders. Moreover, multinationals such as Unilever and James Finlay are believed to purchase their own high grade teas at higher prices than those quoted at the auction (McGregor, 2016; Tiampati, 2014). Following the publication of the report, small-scale tea farmers in Kenya led by the Kericho governor filed a KSh93 billion (US\$900.5 million) suit against KTDA, tea brokers and EATTA to recover losses suffered on behalf of the alleged price fixing (Wasuna, 2015).

EXPORT / IMPORT PERFORMANCE

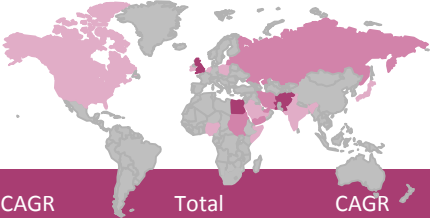
Kenya was the world's top exporter of tea by weight in 2015, accounting for around 20% of global tea export volume. However, export value has seen a decline in the period 2011 to 2015 as major trade partners faced economic headwinds






Kenya was the world's top exporter of tea by weight in 2015 (AFFA, 2014; UN Comtrade Database). The country exported 447,650 tonnes of processed tea on average annually over 2011-2015, equivalent to around 20% of global tea exports (Table 5). This was equivalent to an average export value of KSh118.9 billion (US\$1.2 billion) per annum during the same period (UN Comtrade Database). Thereby Kenya's tea earnings represented about 20% of total Kenyan exports, 16% of global tea export earnings and 1.8% of Kenya's GDP (Euromonitor International, 2016a, September; UN Comtrade Database).

Nonetheless, the value of Kenya's tea sold to international markets has experienced a decline over 2011-2015.

Table 5 Total Exports of Tea (tonnes), Marketed Production at Current Prices 2015 and Key Destinations

Source: Euromonitor International from UN Comtrade Database



	Total Exports	CAGR 2011-2015	Total Revenue	CAGR 2011-2015
Kenya	443,461	4.7% 	US\$1,154.2 mn	-0.6%
Uganda	53,311	-0.9% 	US\$70.3 mn	-0.6%
Burundi	10,032	1.6% 	US\$14.1 mn	2.7%
Tanzania	29,293	2.0% 	US\$46.3 mn	-0.3%
Rwanda	16,548	-8.1% 	US\$67.4 mn	6.3%

The drop was fuelled by a slump in purchases from Iran, Russia and Kazakhstan following the collapse of crude oil prices and a depreciation of their national currencies (Andae, 2016).

To reverse the situation and ensure Kenya's competitive position in international markets, Kenya's government lifted the 1% ad-valorem tax charged on tea under the 2016/2017 budget. Only Kenya charged this tax at the point of export making Kenya's tea more expensive when compared to Uganda and Tanzania.

Uganda and Tanzania ranked eighth and 11th as the world's largest tea exporters in 2015, respectively (UN Comtrade Database). Around 97% of Uganda's tea export volume was shipped to Kenya to be sold at the Mombasa Tea Auction in the year (UN Comtrade Database). Tanzania's bilateral trade with Kenya was comparatively lower during 2015, accounting for only 49% of the country's total tea export volume (UN Comtrade Database). 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. Unilever Group, Tanzania Tea Packers and the Rungwe Smallholder Tea Growers Association are some of the entities promoting this practice.

Kenya exports tea to nearly 60 countries. Key export destinations are Pakistan, Egypt and the United Kingdom, accounting for more than half of national tea export volume as of 2015 (UN Comtrade Database). Emerging markets of the United Arab Emirates, Iran and Saudi Arabia also provide attractive opportunities. Kenya's excessive reliance on a few export partners, coupled with a relatively small internal tea consumption, are however commonly identified as major challenges for growth of the Kenyan tea sector (Monroy et al., 2012).

2.1.2 COFFEE

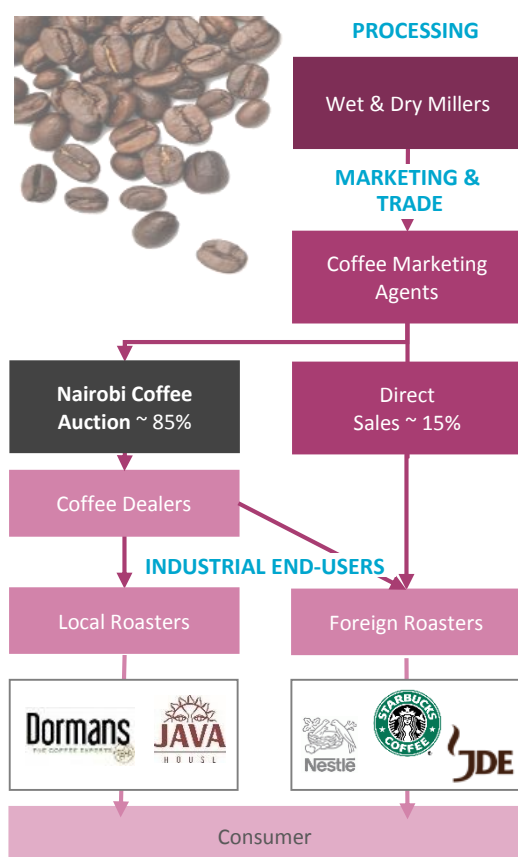


Figure 9 Coffee Supply Chain in Kenya
Source: Euromonitor International Bagal et al, 2013

NAIROBI COFFEE AUCTION

Although Uganda's smallholder farmers are increasingly exploring direct sales and other avenues to market their product, Kenya's coffee is still primarily traded at the Nairobi Coffee Exchange

Since a limited liberalisation was introduced in Kenya, smallholder farmers have the option of selling their coffee directly to international buyers through a CMA (Figure 9). Signed direct sales contracts must be registered with the Coffee Directorate upon inspection. Nonetheless, around 85% of Kenya's coffee is still traded through wholesale auctions at the Nairobi Coffee Exchange (Bennett et al, 2016). Auctions, which are organised through an electronic bidding system, are managed by the Kenya Coffee Producers and Traders Association (KCPTA).

Both estates and smallholder cooperatives contract one of the five licensed marketing agents each year to represent them at the wholesale coffee auctions (Government of Kenya, 2016b). The coffee is then purchased by one or more of about 60 licensed coffee dealers (Government of Kenya, 2016b). However, only 25 licensed dealers are currently active

(Government of Kenya, 2016b). Following a successful bid at the auction, licensed marketing agents issue final invoices.

These payments minus statutory deductions are passed on to smallholder farmers and estates. Even though CMAs should pay Kenyan cooperatives within 14 days of the coffee auction, evidence suggests that this is rarely the case with many smallholder farmers experiencing payment delays exceeding six months (Bagal et al, 2013; Kamau, 2015). This situation was corroborated by the Presidential National Task Force on Coffee Sub-Sector Reforms in Kenya during 2016, which recommended the introduction of minimum advance payments for coffee farmers on the spot for coffee cherry deliveries (Government of Kenya, 2016a, 2016b).

Once the purchase is finalised, licensed coffee dealers proceed with re-grading, sorting according to texture and colour, gravity separation, hand-picking and blending the coffee to match the needs of their customers. Ultimately, these re-bag the coffee in either 60 kilogram bags or bulk it into 300-350 kilogram bags for transportation to the Port of Mombasa from where it is exported (Monroy et al., 2013).

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 of parchment - Milling basic charges
- KSh5,000 / tonne of parchment - Other milling charges
- Negotiable - Marketing commission
- KSh364 / bag - Export bags+ VAT
- KSh2,500 / tonne - Export bags+ VAT
- 20% - Cooperative overheads and charges

EXPORT / IMPORT PERFORMANCE

Although Kenya is a highly prized source of the world's finest Arabica coffee, Uganda is the leading exporter of coffee amongst the selected East African countries with substantial Robusta harvests

Despite being a source of high quality mild Arabica coffee for blending and specialty markets, Kenya is a small coffee trading country (Chart 7). Kenya's coffee exports increased from 39,830 in 2011 equivalent to KSh20.9 billion (US\$223.5 million) to 49,370 tonnes in 2015 worth KSh23.4 billion (US\$238.3 million) (UN Comtrade Database). This represented a mere 6% of the country's agricultural exports and positioned Kenya as the 16th largest global coffee exporter in 2015 (Bennett et al, 2016; ICO, n.d.).

As Africa's second-biggest grower of coffee, export volume from Uganda vastly outpaced that from Kenya over the historic period (ICO, n.d.) (Table 6). Uganda's coffee exports rose 9.1% from 201,280 tonnes in 2011 to over 219,880 tonnes in 2015 (UN Comtrade Database). Compared to Kenya's regulated marketing system, about 97% of coffee from Uganda was exported by more than 30 companies through direct sales (USDA FAS, 2016b). Lower prices achieved for Ugandan coffee on average reflect the large proportion of Robusta coffee which trades at around half the price of Arabica coffee.

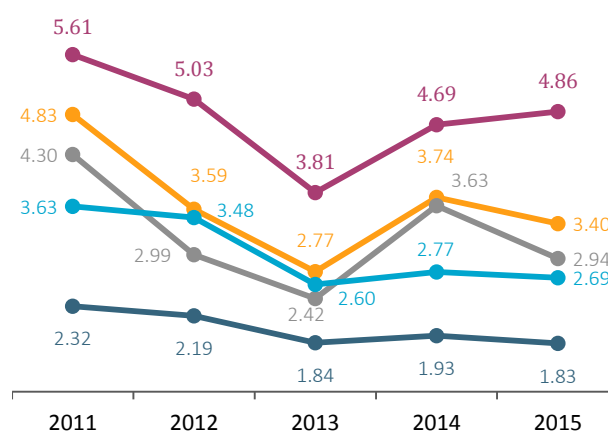


Chart 7 Benchmark export coffee price (US\$ per kg) per Country (Kenya, Uganda, Burundi, Tanzania and Rwanda) 2011-2015

Source: Euromonitor International from UN Comtrade Database

Over the last five years, Kenyan coffee has been exported to 70 different destinations. In 2014, around 67% of the total coffee exports went to Europe (AFFA, 2014; UN Comtrade Database). Germany, Belgium and Sweden were the most important export destination for the continent, with volume shares of 20%, 10% and 8%, respectively (AFFA, 2014; UN Comtrade Database). The US

follows in importance as the second most important export destination for Kenyan coffee after Germany (AFFA, 2014; UN Comtrade Database). Conversely, Sudan has lost volume share in recent years due to its introduction of new quality testing requirement for coffee imports (USDA FAS, 2016b).

2.1.3 COCOA

COCOA BUYERS AND EXPORTING COMPANIES

Despite low production volumes of cocoa beans by farmers in Uganda and Tanzania and as such low total cocoa exports by all companies combined, foreign exchange earnings from cocoa have increased

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 (Nyomora et al., 2012). After the purchase is finalised, buyers transport the cocoa to store facilities for cleaning and aggregation before shipping.

Examples of key exporting companies based in Uganda are Esco, Olam, ICAM Chocolate, Three Farmers and World Botanic Ltd. Esco and Olam are estimated to take the biggest export shares of around 40% and 30%, respectively (Lutheran World Relief, 2015). However, some organised farmers groups such as Bundibugyo Cocoa Association have recently been able to link up directly with international buyers in Europe, thus upgrading in the supply chain and benefiting from record highs in prices. As for Tanzania, Biolands and Kilimo Hai dominate shipping of raw cocoa (Nyomora et al., 2012).

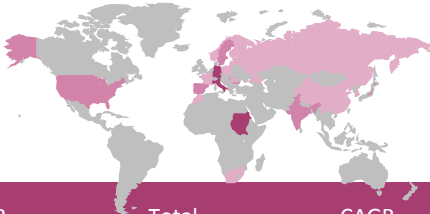
EXPORT / IMPORT PERFORMANCE

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. (Table 7).

Cocoa bean exports from both countries grew at a double-digit rate since 2011, putting the figure at 36,310 tonnes in 2015 (UN Comtrade Database). Political disturbances in Cote d'Ivoire, the largest producer of the crop, have been

Table 6 Total Exports of Coffee (tonnes), Marketed Production at Current Prices 2015 and Destinations


Source: Euromonitor International from UN Comtrade Database



	Total Exports	CAGR 2011-2015	Total Revenue	CAGR 2011-2015
Kenya	49,373	7.4%	US\$238.3 mn	2.2%
Uganda	219,883	2.2%	US\$402.6 mn	-3.6%
Burundi	13,070	-7.0%	US\$38.4 mn	-15.4%
Tanzania	58,753	9.8%	US\$158.2 mn	1.9%
Rwanda	18,862	4.5%	US\$64.1 mn	4.3%

Table 7 Total Exports of Cocoa Beans (tonnes), Marketed Production at Current Prices 2015 and Destinations

Source: Euromonitor International from UN Comtrade Database



	Total Exports	CAGR 2011-2015	Total Revenue	CAGR 2011-2015
Kenya	695	n.a.	US\$2.6 mn	n.a.
Uganda	24,998	8.7%	US\$56.7 mn	6.2%
Tanzania	11,315	6.7%	US\$23.2 mn	0.8%

one of the key drivers of rising demand for East African cocoa. In the same year, cocoa beans accounted for approximately 3% of total export dollars in Uganda, fetching earnings of KSh5.6 billion (US\$56.7 million), yet it is not in the list of the top 10 priority crops (UN Comtrade Database).

The main importing countries for Ugandan and Tanzanian cocoa beans are Malaysia and the European Union (Germany, the Netherlands, Spain, Italy and Belgium) (UN Comtrade Database). However, new markets in China and other Asian economies also offer good prospects for the sector.

2.2 END-USERS: PROCESSORS AND MULTINATIONAL COMPANIES

Little processing occurs in East African countries, with some exceptions for a few locally-made tea and coffee brands in Kenya targeting the regional market

Traditionally little value was added to tea, coffee and cocoa beans in East African countries, which dilutes their potential visibility in the retail market and recognition by final consumers around the globe. Although this is still largely the case, recent government efforts in Kenya and investment by local companies in Kenya might slowly pave the way to increase the amount of value added processing, employment and improved working conditions within producing countries. These include Kenya Tea Packers' processing and blending dedicated to the production of tea, Dormans Coffee Group's coffee roasting factory and Nairobi Java House Roastery.

Low levels of local consumption from East Africa's small consumer base acts as a deterrent for foreign investment in consumer products. Nestlé's 15% cut in its workforce in 2015 across equatorial African countries, including Kenya, is indicative of the challenges faced by consumer companies lured to Africa by a growing middle class, which turned out smaller than expected (Manson, 2015b). Inadequate infrastructure, low logistics efficiency, corruption and safety issues are additional impediments for major international companies moving into the region.

2.2.1 TEA PACKERS AND BLENDEES

Value addition of Kenyan tea exports remains minimal amidst government's generous initiatives to entice multinational companies to reallocate their processing and packaging of tea to the country

The second stage of value addition comprises blending and packaging of processed tea, which are the most profitable activities in the tea value chain. These are believed to represent about 80% of the retail price (Monroy et al., 2012).

Currently, nine private companies operate as tea packers in Kenya (compared with just five in Tanzania, for example), including Kenya Tea Packers. The company, owned primarily by the KTDA, is a blending firm targeting the national market, which is estimated to control around 60% of locally consumed tea through retailing (Euromonitor International, 2016, March).

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)

Over the years, Kenya's government, the Tea Directorate and other stakeholders involved in the supply chain of tea had put continuous efforts into the sector so that value addition is carried out in the country. Implemented measures include VAT exemption and a ten-year tax holiday. Kenya's Export Processing Zones offer additional incentives particularly to export oriented investors. Nevertheless, the bulk of locally-produced tea is still packed and blended in consumer countries such as Germany and the United Kingdom by multinational tea companies.

Local packers buying tea for value-addition are subject to a 16% value added tax (VAT) in Kenya that is passed on to consumers which is not applied to exporters of bulk tea or competitors in other East African countries (Kihara, 2011). This tax regime, alongside a weakened Kenyan currency making packaging materials imported from Sri Lanka, Dubai and India more expensive, diminishes the competitive edge of locally-packaged and produced tea in the domestic market. Although the Ministry of Agriculture has proposed to waive VAT in 2015, only the ad-valorem tax charged on tea was lifted under the 2016/2017 budget.

2.2.2 COFFEE ROASTERS AND MULTINATIONAL COMPANIES

Multinational companies such as Nestlé command strong leadership in the main consumer countries of coffee

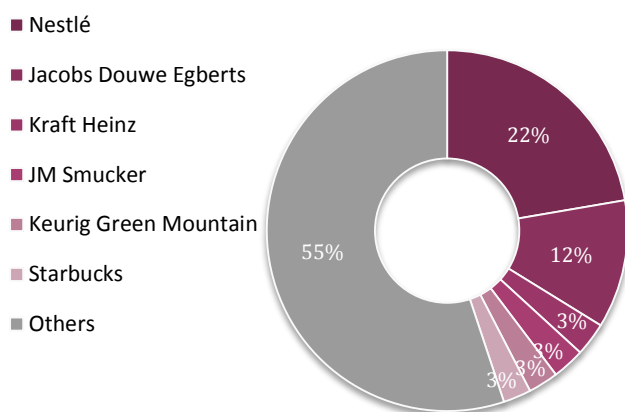


Chart 8 Overview of Major Companies' % Value Shares in Coffee Markets Worldwide 2015

Source: Euromonitor International

Roasters and multinational companies are major industrial end-users of coffee. Six large multinational companies provide nearly half of all the coffee consumed by the 25 main global consumer countries (Chart 8). JM Smucker, Starbucks, Keurig Green Mountain and Kraft Heinz, for example, controlled 52% of the US market in 2015. In Germany, Jacobs Douwe Egberts alone held a value share of 23% in the same year (Euromonitor International, 2016).

Roasters and some distributors such as Starbucks already offer some indication of provenance when selling coffee within their origin programmes. Nevertheless, the “single origin” branding of coffee does not necessarily imply a proof of compliance, as some players maximise on it by blending with other coffees (Bagal et al, 2013).

Domestic roasters challenge the incumbents by capitalising on the story behind their coffee production

A few local roasters operate in Kenya. Dormans Coffee Group, for example, is now one of the leading coffee exporters and roasters in East Africa, with the capacity to produce over 15,000 tonnes of a wide range of blends of roasted coffee per annum.

Dormans Coffee Group was the first coffee roaster in the country to obtain the Fairtrade, UTZ and Hazard Analysis and Critical Control Point (HACCP) certifications. This allows the company to capitalise on the story behind its coffee production, targeting consumers who value sourcing and supply chains that benefit farmers and local communities. Apart from its Kenyan operations, it is a major investor in both the Tanzanian and Rwandan coffee sectors.

Examples of Kenyan-based roasters:

- Dormans Coffee Group (Tatu City)
- Nairobi Java House Roastery (Nairobi)
- Ransley Coffee Co Ltd (Nairobi)
- Sasini Tea & Coffee Ltd (Nairobi)

As far as Nairobi Java House Roastery is concerned, the company has established itself as a major chain operator of coffee shops and restaurants in-and-around Nairobi and Uganda. Its green coffee is mostly sourced from the Central province of Kenya and then roasted and sold according to the Kenyan Bureau of Standards (KEBS) (Bagal et al, 2013). KEBS was hired by the Coffee Directorate to develop industrial standards and a code of practice on origin differentiation for “Coffee Kenya”, which covers the entire process of production for coffee to selling (see Chapter 4).

The commercial strategy of several local roasters is based on the commercial trademarks “Coffee Kenya”, “Kenya AA” and “Dormans”, which already enjoy a positive reputation (Bagal et al, 2013). This is also reflected in the brand preferences expressed by consumers in the consumer survey and in the market shares enjoyed by these coffee brands (see Chapter 3).

The entry of COOP Danmark – Denmark’s largest supermarket chain - into the business during 2016 is also noteworthy. The new locally-produced brand, Mount Kenya Cirkel Kaffe, is targeted at the European market (Kangethe, 2016a). The move comes at a time Kenya has succeeded in rectifying its Economic Partnership Agreement with the European Union thus safeguarding the country to ship roasted coffee to Europe without attracting taxes (Omondi, 2016). Being a single customs territory, however, the other members of East African Community – Tanzania, Uganda, Burundi, Rwanda and South Sudan – must also sign the pact to make it enforceable. The measure further signals the government’s commitment to revive the Kenya’s coffee sector.

- COOP Danmark and the Danish Investment Fund invested in the establishment of an industrial coffee roasting and packaging facility in Kenya, Africa Coffee Roasters.
- Based at the Export Processing Zone in Nairobi, the factory has a production capacity of 4,000 tonnes of roasted coffee per year.



2.2.3 COCOA ROASTERS AND CONFECTIONARY COMPANIES

Excluding a few firms carving out a niche in the craft chocolate business, grinding facilities in East Africa are largely non-existent

The processing and production of chocolate and confectionery products is concentrated in the hands of major international companies, namely ADM, Cargill, Barry Callebaut, Mars, Nestlé, Kraft and Ferrero. Currently, large-scale processing of cocoa is conducted neither in Uganda or Tanzania, though Uganda Cocoa and Commodities Ltd has a project in the pipeline (Lutheran World Relief, 2015).

At an artisanal level, however, Kweka's Chocolate Mamas is one of the few East African firms carving out a niche in the chocolate business. Positioned as a gourmet chocolatier, the company was founded in 2012 and uses cocoa beans from small-scale farmers in southwestern Tanzania (Honan, 2015).

2.3 VALUE ADDITION ALONG THE SUPPLY CHAIN

Value and margins, compared on a like for like basis, are highest at the end of the value chain

Most value for tea and coffee is added at the end of the value chain – in the foodservice channel, whereas the value added in the intermediary stages of beneficiation and retail is much smaller (Chart 9). The same applies for cocoa insofar it is consumed as a hot drink.

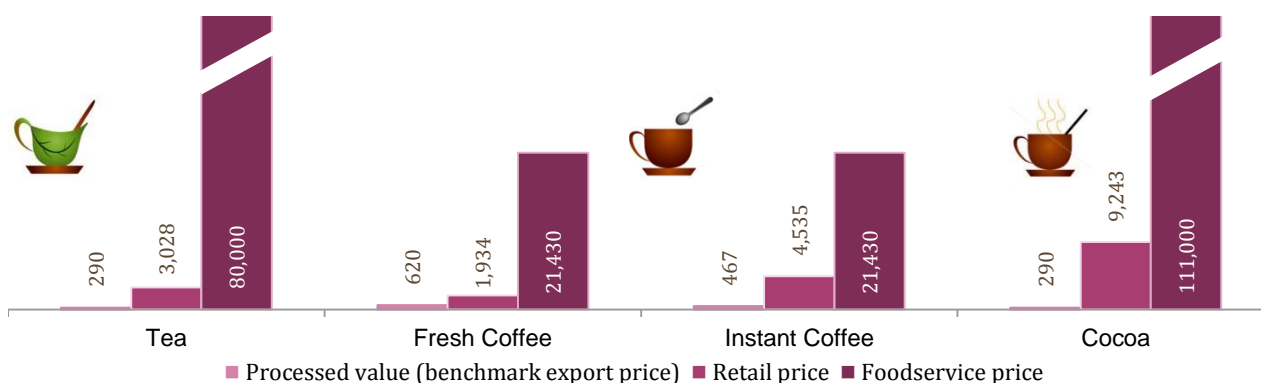


Chart 9 Value creation along Kenya’s tea, coffee and cocoa value chains (KSh per kg) 2015

Source: Euromonitor International from Africa Tea Brokers Ltd, UN Comtrade Database, ICCO, store audits, selected food service
 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%

Tea and instant coffee sold in retail to Kenyan consumers is on average 10 times as expensive as the underlying commodity, whereas the premium for fresh coffee is lower. Cocoa is only one component in hot chocolate which helps explain the premium achieved for this beverage.

The highest mark-ups are realised at specialist coffee shops. Service and ambience account for much of the premium alongside the perceived higher quality of what is in the cup, both for tea and for coffee. For instance, Nairobi Java House charges KSh160 (US\$1.63) for a cup of masala or green/herbal tea, 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 be extensive. Some establishments such as Nairobi Java House charge over 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 (Chart 9). As an example, Java House charges KSh200 (US\$2.3) for a cup of hot chocolate, while the same drink can be made at home for the equivalent of KSh18 (US\$0.19) per serving.

3. HOT BEVERAGES CONSUMPTION IN EAST AFRICA

3.1 POSITION OF PRODUCTS ON DOMESTIC MARKETS

Developing from a small base in terms of overall consumption, coffee and powdered hot drinks markets are gaining momentum in East Africa, whereas tea has been widely entrenched across the region

Local consumption of hot beverages, inclusive of tea, coffee and flavoured powered drink (which encompass cocoa, hot chocolate but also malt-based and other flavoured drinks) in the selected East African countries is low. The total hot beverages market in all five East African countries is volumetrically close to continent-leader, South Africa. However, a larger regional population means that consumer spending on average in East Africa is considerably lower at KSh165 per capita (US\$1.68) in 2015, in comparison to KSh1,345 (US\$13.70) in South Africa (Euromonitor International, 2016, March).

Combined hot beverages consumption in the region grew at a CAGR of 4.3% from 2011 to 2015, with an estimated 53,900 tonnes sold in 2015 (Chart 10) (Euromonitor International, 2016, March). As local economies develop and more people are able to afford packaged food, coffee, tea and flavoured powered beverages have been key beneficiaries of growing consumer purchasing power.

The three most populous countries, Kenya, Uganda and Tanzania, constitute the largest hot beverages markets in East Africa in volume terms (Euromonitor International, 2016, March). Kenya also shows the highest consumption in per capita terms, reflecting higher per capita incomes.

Tea is the traditional beverage in all countries in East Africa. Despite initiatives to encourage coffee drinking, especially in coffee producing countries such as Uganda, consumption remains at low levels but is gaining slow acceptance with more affluent consumers in urban areas. Some, such as Tanzania, and coastal areas of Kenya, have a strong Arabic influence which extends to coffee drinking.

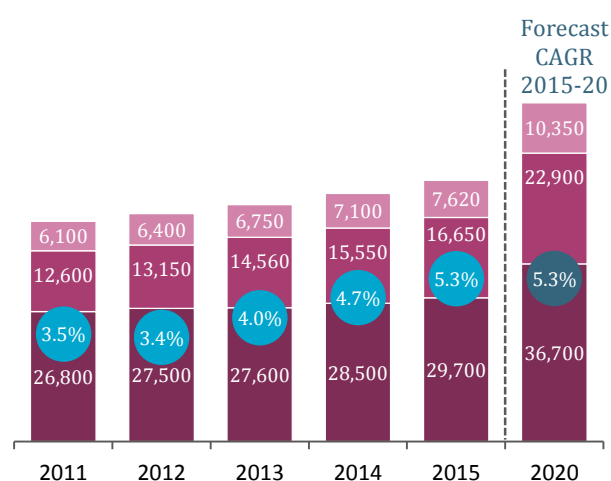


Chart 10 Regional Consumption of Hot Beverages by Category 2011-2020 (tonnes): Tea, Coffee and Flavoured Powered Beverages; YOY % Growth and CAGR 2015-2020

Source: Euromonitor International

Note: Data for Kenya based on annual market research; data for Uganda, Tanzania, Burundi and Rwanda modelled.

Coffee is enjoying a period of strong growth in East Africa amidst established regional preferences

Coffee has been the main engine of hot beverage growth in East Africa. Although tea accounted for 55% of total volume sales in 2015, coffee's CAGR of 7.2% was well ahead of the 2.8% CAGR of tea (Euromonitor International, 2016, March). The dual development of modern retail channels and sustained prominence of traditional points of sale are important variables influencing sales of coffee in East Africa. In addition, affluent urban areas of East Africa (particularly in Kenya, Tanzania and Uganda) have seen a substantial increase in local specialist coffee shops and chains of cafés serving local coffee products.

Sales of hot beverages in East African countries under review are forecast to grow by a CAGR of 5.3% in volume terms between 2015 and 2020 (Euromonitor International, 2016, March). Rapidly developing consumer retail markets in East Africa, combined with rising incomes and traditional preferences for hot beverages, will continue to create new opportunities for hot beverages in the future. Growth will be

contingent on growing economies, an improving security situation and further investment in modern retailing channels and Western-style specialist coffee shops.

3.1.1 TEA

East African consumers take up just a fraction of the tea produced by local farmers in the region

Tea consumption is higher when compared with coffee in the selected East African countries due to its dominance in Kenya, yet tea recorded only moderate growth rates over 2011-2015. Per capita expenditure across the region reached only KSh75 (US\$0.76) on average, and was significantly below that of South Africa (KSh403; US\$4.10) (Euromonitor International, 2016, March).

Kenya, Uganda and Tanzania are the largest tea markets in East Africa (Euromonitor International, 2016, March). Kenya has a long and deep culture of drinking tea.

Kenyan tea in the form of chai (simply tea with milk and sugar) is the beverage of choice and it is mainly drunk at breakfast, meal times and also tea time (10 a.m. and 4 p.m.). Tea drinking is also used to show warmth and build friendships. For instance, when a guest visits a Kenyan household or an office, tea is served. In Uganda, in turn, tea is mainly consumed in the morning and in the evening, with bread, cassava and chapatti. Tea is also popular in Tanzania where it has been reported that up to 30% of tea consumption may be smuggled into the country to avoid paying taxes (Sutton & Olomi, 2012).

"Coffee consumption in Tanzania has always been very low compared to tea consumption. Coffee is rather consumed occasionally, whereas tea is consumed at least twice or three times a day by all members of the household."

— Operations Manager at a Governmental Organisation in Tanzania

Both formal and informal sales are important for East African tea consumption as a whole reflecting varying levels of development of modern retail and foodservice across the region

Domestic loose black tea remains popular in the rural and peri-urban areas, and also among low-income consumers, especially in tea-growing zones, as it is affordable. It is mainly distributed through corner shops, open air markets, street vendors and supermarkets. However, packaged, branded fruit/herbal and



Picture 1 Uganda Safari Tea brand displayed at a Grocery Retailer in Uganda

Source: Euromonitor International

green tea blends are growing in importance among younger generations aged between 18 and 35 years old as well as in high-class hotels and restaurants. Nevertheless, growth opportunities have not been fully realised, as speciality, fruit/ herbal and green teas are still viewed by many as premium products due to their pricing and limited distribution in upmarket supermarkets and hypermarkets across the region. Store audits in Nairobi suggest that even in such outlets in middle class areas such teas are not particularly prominent on the shelf.

The competitive landscape in Uganda is dominated by cheaper domestic brands and economy imports from neighbouring countries. The leading brand in tea is Kisubi, packaged in foil bags (Euromonitor International, 2014b, June). Other significant brands include Mukwano, Garden, Kayonza Tea, Uganda Safari Tea and Africana Tea (Picture 1). A similar scenario prevails in Tanzania. The most popular brands are Chai Supa and Chai Bora, owned by Zanzibar Tea Packers Co Ltd (Euromonitor

International, 2014a, June). Chai Supa and Chai Bora are available in tea bags with strings and tags, while loose tea can be found in various boxes of 3-500 grams.

Tea is forecast to see a volume CAGR of 4.4% over 2015-2020 in the region (Euromonitor International, 2016, March). The market will mainly be driven by favourable demographics, rising disposable incomes among consumers and the introduction of new tastes and blends (see also Section 3.4.2). Only a marginal increase in per capita consumption is expected, however.

3.1.2 COFFEE

Coffee is a major growth driver of hot beverages in East Africa albeit off a low base, as the drink becomes more popular and governments look to encourage drinking local produce

Although a large proportion of coffee production from the region is exported, domestic markets also consume some of the local produce. Total sales of coffee across East African countries under review have grown significantly as investment into the region has resulted in increasing disposable incomes and aspirational consumption habits. Despite rapid growth, per capita expenditure on coffee across the region reached only US\$2.60 (KSh255) on average, and remains much below the South Africa's average of US\$4.20 (KSh412) in 2015 (Euromonitor International, 2016, March).

This translates to annual per capita consumption at less than 0.5kg per capita, dependent on the country. More urbanised and richer Kenyans drink more per capita than in other countries in the region, despite government attempts to encourage local consumption, as in Uganda. Nonetheless, the Kenyan Coffee Directorate suggests that in rural Kenya, coffee is perceived to be primarily an export product and most coffee farmer households do not actually consume it. By contrast in Tanzania, respondents spoken to during this research suggest that local consumption could affect the compilation of final production and consumption statistics.



Picture 2 Vendor and Customer in Tanzania for bitter brewed coffee and a candy called Kashata

Source: Euromonitor International

Tanzania is indicative of coffee drinking trends in the region, where more coffee is drunk in the informal market making it hard to quantify because it stretches right from the villages and areas around coffee growing zones to urban centres especially Dar es Salaam. In Tanzania's low- to mid-income areas in Dar es Salaam, Arusha, Kagera and Dodoma as well as its coastal regions, the tradition of drinking hot Arab style bitter/strong coffee, known as "kahawa chungu", sold by vendors on the streets, is common. Ready-to-drink coffee is carried in metal kettles, which are mounted on top of a metal fire base fuelled by hot charcoal (Picture 2). The cups are usually 50-100ml per serving sold for TShs100–200 (US\$0.05–0.09). The most loyal customers drink between five to 10 cups of "kahawa chungu" every day. The Tanzanian Coffee Board, however, also points to coffee's growing prominence in corporate and government offices, alongside tea.

"I have a customer who owns a kiosk. I ensure that I pass by his stall at the least 3 times in a day. He takes an average of 4-5 cups of the coffee at any one time. He does not skip buying the coffee unless something has happened and he has not come to work."

— Kahawa Chungu vendor

In Uganda, as in Kenya, coffee is drunk most frequently by mid- and high-income households in the morning and in the evening, as well as at work. The Ugandan Coffee Development Authority launched a marketing campaign in August 2016 to boost local consumption to 20% of production by highlighting the economic benefits which can accrue along the value chain (Nakaweesi, 2016).

Aside from fresh coffee, instant coffee, which consists of predominantly Robusta coffee and some low grade Arabica, is estimated to make up most consumption at nearly 90% of total volume, as it is quick and easy to prepare. In addition, single-serve instant coffee sachets enjoy greater accessibility, affordability and convenience compared to fresh coffee alternatives. Rwanda appears to be the exception to regional consumption patterns with lower relative consumption of instant to fresh coffee.

Coffee in the region is generally distributed through corner shops, open-air markets, street vendors, supermarkets or specialist coffee shops. The most popular brand in Tanzania is Africafe, owned by Afri Tea and Coffee Blenders Ltd, due to its quality and wide range of tastes (Euromonitor International, 2014a, June). Africafe is available in many different packages including tins and pouches of 50, 100 and 250 grams.



Picture 3 Soya Kaawa brand displayed at a Grocery Retailer in Uganda
Source: Euromonitor International

The leading coffee brands in Uganda are Soya Kaawa and Masaba, with these owned by local coffee producers (Picture 3) (Euromonitor International, 2014b, June). Soya Kaawa and Masaba are significantly cheaper than other coffee brands in the country namely Star, Nescafé and Mac Coffee, which supports their strong popularity among Ugandans.

Coffee in East Africa is forecast to increase in volume by a CAGR of 6.6% over 2015-2020 (Euromonitor International, 2016, March). The market will be driven mainly by increasing disposable incomes among consumers, and growing coffee production. The emergence of a new urban coffee consumption culture boosted by the opening of stylishly expensive specialist coffee shops and restaurants in cities like Nairobi and Kampala will also play a part.

3.1.3 POWDERED HOT BEVERAGES

With the exception of Kenya and Tanzania, powdered hot beverages across East Africa are still a niche market but holds good growth prospects

After growing at a CAGR of 5.8% over 2011-2015, powdered hot beverages sales in selected East African countries reached 7,625 tonnes in 2015, showing a strong correlation with population growth among children and teenagers across East Africa. Powdered hot beverages comprise cocoa- and malt-based as well as other powdered hot drinks, but exclude local porridge style drinks such as uji. The consumption of powdered hot drinks in the region thus remains significantly lower than that of tea and coffee. Average spending per capita stood at KSh165 (US\$1.68) during 2015, compared with a per capita spend in South Africa of KSh1,345 (US\$13.70) in the same year (Euromonitor International, 2016, March). Annual per capita consumption is highest in Kenya at around 0.6kg compared to others in region ranging from 0.1kg for Burundi to 0.4kg for Tanzania (Euromonitor International, 2016, March).

Kenya and Tanzania have well-established yet relatively small powdered hot drinks markets. The young population of these countries and the large number of young children have bolstered sales of these beverages. They can be fortified, and thus represent a sweet, nutritious and relatively affordable option for low- and mid- income parents. Kenya, for instance, is one of the youngest countries in the continent with the median age staying at just 18.9 years as of 2015, thus offering ongoing opportunity for both local and imported powdered hot drinks brands (Euromonitor International, 2016a, September).

Chocolate-based flavoured powdered drinks form the largest category across East Africa, accounting for a volume share of 47% in 2015 (equivalent to over 3,580 tonnes) (Euromonitor International, 2016, March). It was followed in importance by malt-based powdered beverages. Major European brands – such as Nestlé’s Milo and Cadbury – have a strong presence in powdered hot drinks, in contrast to other hot beverages, particularly tea. Promotion and marketing of their nutritional benefits have been a key growth driver for the two brands.

Powdered hot beverages sales in selected East African countries are anticipated to grow by a CAGR of 6.3% over 2015-2020 in volume terms (Euromonitor International, 2016, March). Chocolate-based hot drinks are expected to see dynamic volume growth at a CAGR of 6.8% over the same period (Euromonitor International, 2016, March). The region’s large potential consumer base for powdered hot beverages will largely contribute to the steady growth in the future. Single-serve sachets are anticipated to be the best strategy to induce brand loyalty in future, as they allow low-income consumers to “sample” new brands effectively at a minimal cost, also making them an affordable treat suitable as an impulse purchase.

3.2 FOCUSING ON KENYA: MARKET SIZE

Tea retains a value stronghold in Kenya, but coffee and powdered hot beverages lead in terms of value and volume growth as consumers become more discerning in their tastes

Tea in Kenya is a mature category, but growing product innovations and changing consumer tastes promote growth in coffee and differentiated tea offerings. Over the 2011-2015 period, hot beverages posted a total volume increase of 11.9% to 27,938 tonnes and absolute value growth of 37.8% to reach sales of KSh18.6 billion (US\$191.0 million) (Euromonitor International, 2016, March). Continued expansion of the hot drinks category is increasingly dependent on an accelerated process of premiumisation, which refers to addition of value to a product by enhancing, amongst others, its appeal, quality, brand image, sourcing, to be able to sell it at a higher unit price. Nowhere is this more true than in Kenya, where a process of trading up from unpackaged to higher value packaged, branded products, particularly tea bags, goes hand-in-hand with higher income consumers looking to new categories, such as speciality, fruit/herbal and green teas.

Although tea drinking remains a highly important part of life in the country, coffee continues to make inroads supported by the increased adoption of an urban lifestyle, the growth of a vibrant local coffee shop culture, rising familiarity with the product and greater disposable incomes. Particularly young people increasingly perceive coffee as the premium, modern hot drink of choice. Rather than shifting away from tea, however, consumers in Kenya are expanding their consumption of all hot beverages, while becoming more discerning in their choices.

Demand for hot beverages in Kenya is expected accelerate further, growing by 17.5% in total from 2015 to 2020 (Euromonitor International, 2016, March). In value terms, hot beverages are projected to see KSh2.6 billion (US\$26.8 million) absolute retail value growth during the same period (Euromonitor

International, 2016, March). A positive economic outlook and continued population boom are projected to reduce inflationary pressures and contribute to future growth as disposable incomes for the nascent middle classes grow. Increasing demand from the country's middle-income population, together with new product development, intensive marketing and the entry of new players, are some of the key trends expected to boost consumption and values sales within the total hot beverages market over 2015-2020.

3.2.1 MOST KENYANS USE TEA AS THEIR EVERYDAY HOT BEVERAGE

TEA MARKET SIZE

Tea remains a staple beverage in Kenyan households drunk throughout the day at home and at work

Tea consumption in Kenya continues to grow steadily (Chart 11). Total volume sales of tea increased at a 2.5% CAGR over the 2011-2015 period, whilst retail value sales rose at a 7.3% CAGR at current prices to amount to KSh11.8 billion (US\$191.0 million) (Euromonitor International, 2016, March). Kenyans consumed 15,279 million cups of tea in 2015, up from 13,889 million cups in 2011 (Euromonitor International, 2016, March).

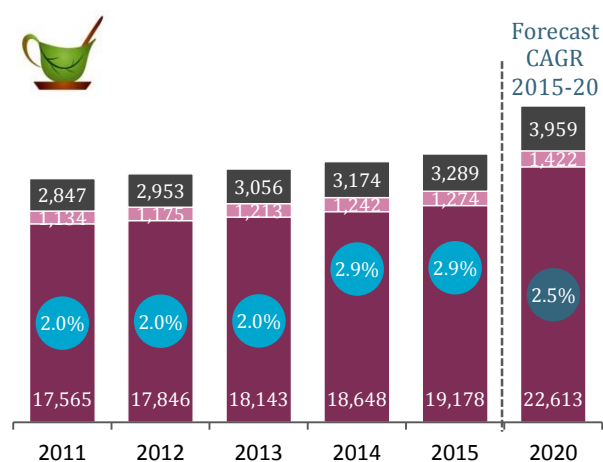


Chart 11 Total Volume Sales of Tea by Category 2011-2020 (tonnes): Black Tea, Other Tea and Sales through Foodservice; YOY % Growth and CAGR 2015-2020

Source: Euromonitor International

Note: Other Tea includes fruit/herbal tea, green tea, instant tea and "other tea"

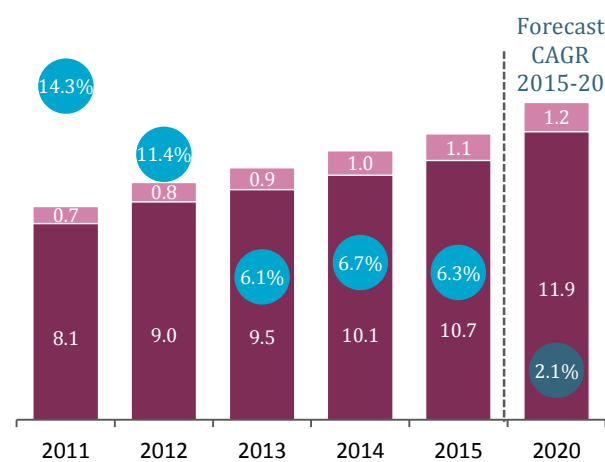


Chart 12 Retail Value RSP of Tea by Category 2011-2020 (KSh billion): Black Tea and Other Tea; YOY % Growth and CAGR 2015-2020

Source: Euromonitor International

Note: Value provided in local currency at retail sales price RSP; fixed exchange rate; historic current prices, forecast constant 2015 prices

Sustained consumer loyalty and continued marketing campaigns by the Tea Directorate, Kenya Tea Packers and Sasini Tea & Coffee, positioning tea as a beverage suitable for the whole family, were major drivers. As an example, Kenya Tea Packers sponsored the Kericho International Marathon in 2015, aimed at associating tea with a healthy lifestyle. Strong demand for higher-value and better quality products as well as new flavours also added to growth.

Even though black tea remains very popular, other tea, particularly fruit flavours such as camomile and ginger with high levels of antioxidants or less caffeine, was the most dynamic category thanks to health benefit claims (Chart 12). For instance, chamomile tea in Kenya has experienced increased demand towards the end of the 2011-2015 period for its calming benefits as well as an aid to sleep. Such teas have acquired the local Swahili name "Dawa", meaning medicine. This trend has also benefited sales of rooibos tea, imported from South Africa. Nonetheless, their comparatively high pricing and limited distribution hampered growth potential. Black standard tea, for example, had a low price mark of KSh556 (US\$5.66)

per kg as opposed to green tea which sold for KSh1,864 (US\$18.99) per kg in 2015 (Euromonitor International, 2016, March).

Total tea volume is anticipated to increase at a CAGR of 2.5% over 2015-2020, in line with the historic period. Retail value sales are expected to grow at a 2.1% CAGR at constant 2015 prices and reach KSh13.1 billion (US\$133 million) by 2020 (Euromonitor International, 2016, March). In a bid to keep consumers interested, brand rejuvenation through promotional activities, extensions, new product development and innovative marketing are expected to be a key focus for manufacturers over the 2015-2020 period. Niche products such as purple tea, other speciality tea and herbal tea are projected to perform well over the next five years, as consumers continue to perceive them as healthy choices. Recent human clinical trials of Saye herbal tea to control the spread of malaria in Sub-Saharan countries is also expected to augment demand for these products. Funded by the government of Burkina Faso Ministry of Health, the project commenced in July 2015 but no results on the outcome have been published so far.

DISTRIBUTION CHANNELS

Modern retail is the dominant channel for tea sales in Kenya with several businesses also opting to purchase their requirements from retail outlets

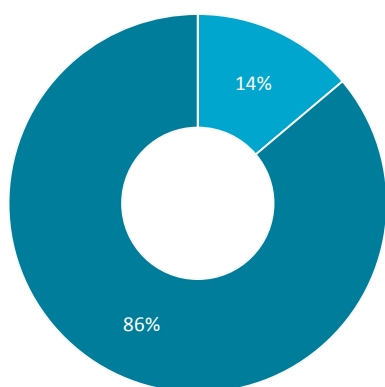


Chart 13 Retail and Foodservice Trade of Tea in Kenya 2015
Source: Euromonitor International

Consumption of tea at home prevails in Kenya (Chart 13). Small grocers, open air markets, supermarkets and hypermarkets thus remain the main distribution channels, accounting for an 86% volume share or 20,452 tonnes in 2015 (Euromonitor International, 2016, March).

Albeit from a low base, foodservice establishments however witnessed an increase in volume sales, especially of tea bags. Sales through this distribution channel grew at a CAGR of 3.7% in volume terms over 2011-2015, outpacing the 2.5% CAGR seen by grocery retailers (Euromonitor International, 2016, March). Outside urban areas, restaurants still offer tea, served as either mixed tea or masala chai, as the main beverage, with coffee viewed as a hot drink for those who are better off.

Tea consumption in government and corporate offices, conference venues and social events has further promoted growth of the market. Most companies offer hot beverages (mostly tea) at 10 a.m., a traditional tea time, which are taken with a snack. This is also supported by responses in the consumer survey discussed later which revealed that about 74% of Kenyans drink at least one cup of tea on a daily basis at their places of work (see Chapter 5).

3.2.2 KENYA'S COFFEE CONSUMPTION CULTURE IS STILL IN AN EARLY STAGE OF DEVELOPMENT

COFFEE MARKET SIZE

Despite an emergent café culture in Kenya's major towns, coffee is still viewed as a premium product for high-income consumers – it is also this population segment which is driving growth

Paradoxically, Kenya is renowned for producing one of the best quality Arabica coffee in the world, but a local coffee consumption culture is still an emergent trend in the country. Although consumption remains marginal, total volume sales of coffee advanced at a CAGR of 3.0% over the 2011-2015 period to approach 1,157 tonnes in the latter year (Chart 14) (Euromonitor International, 2016, March). In 2015, Kenyans

consumed 196.2 million cups of coffee per year, compared to 174.7 million cups consumed in 2011 (Euromonitor International, 2016, March).

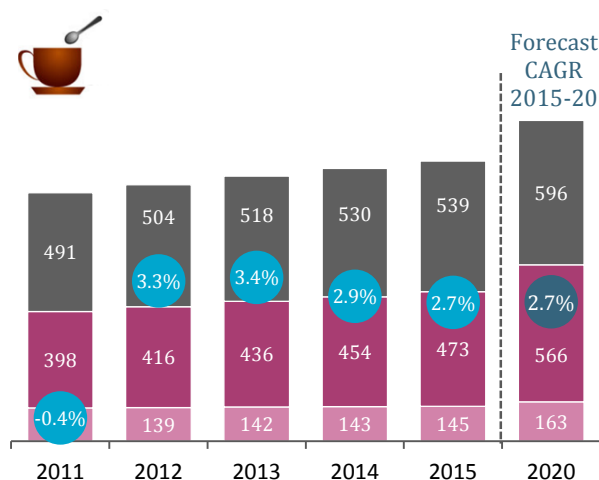


Chart 14 Total Volume Sales of Coffee by Category 2011-2020 (tonnes): Fresh Coffee (Fresh Coffee Beans and Fresh Ground Coffee) and Instant Coffee; YOY % Growth and CAGR 2015-2020

Source: Euromonitor International

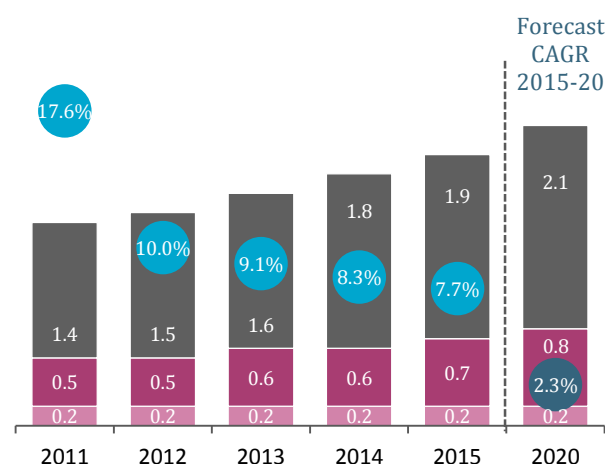


Chart 15 Retail Value RSP of Coffee by Category 2011-2020 (KSh billion): Fresh Coffee (Fresh Coffee Beans and Fresh Ground Coffee) and Instant Coffee; YOY % Growth and CAGR 2015-2020

Source: Euromonitor International

Note: Value provided in local currency at retail sales price RSP; fixed exchange rate; historic current prices, forecast constant 2015 prices

Retail value sales in turn grew at a CAGR of 8.8% during the same period totalling KSh2.7 billion (US\$27.9 million) – above the nation's inflation rate, thus signalling an increase in the average unit price (Chart 15). Inflation for the 2015 year was 6.6% (Euromonitor International, 2016a, September).

Growth was primarily driven by the burgeoning middle class, including the expatriate population and young working professionals, who hold coffee in high regard, the launch of coffee consumption multichannel promotion campaigns, and the proliferation of local specialist coffee shop chains within upper-income neighbourhoods in urban city centres such as Nairobi Java House, Artcaffé Coffee and Bakery, Savanna, Kaldis Coffee House and the Korean-owned G-Café selling its Maasai Coffee own brand. Other small specialist coffee shops include Tin Roof Café in the leafy Karen suburb, Pointzero Coffee in downtown Nairobi, and Gibsons Coffee House in Nairobi's Central Business District.

Instant coffee remains the most popular type of coffee sold in Kenya

Instant coffee remains the most consumed product type in Kenya, holding a 52% volume share as of 2015 (Euromonitor International, 2016, March). Respondents to the consumer survey also reported buying predominantly instant coffee. The dominance of instant coffee can partly be explained by its easy preparation and the popularity of the single-serving sachet format introduced by Nestlé Foods Kenya Ltd (Picture 4). Moreover, instant coffee tends to be more readily available and enjoys greater visibility in the majority of retail outlets and kiosks.

However, fresh coffee, particularly fresh ground coffee, outpaced instant coffee in terms of volume and retail value growth during 2011-2015 owing to its relatively higher affordability and climbing sales through coffee shops. Fresh ground coffee average



Picture 4 Nescafé's single-serving sachets at Eastmatt Tom Mboya, Nairobi

Source: Euromonitor International

unit prices stood at KSh1,669 (US\$17.0) per kilogram in 2015, compared to instant coffee which sold for more at KSh3,652 (US\$37.2) per kilogram in the same year (Euromonitor International, 2016 March).

Demand for coffee is expected to grow by a CAGR of 2.7% in volume terms during the forecast period 2015-2020 (Euromonitor International, 2016 March). Industry sources indicate that Kenya's coffee consumption culture is expected to become a mark of status and outcompete not only tea but also beer at social events (Euromonitor International, 2016, March). A positive economic outlook, higher disposable income, the growing young population and increased exposure to urban, busy lifestyles will promote growth in coffee consumption in Kenya.

DISTRIBUTION CHANNELS

As for tea retail channels account for the bulk of sales for at home preparation although coffee-to-go is increasingly offered through specialist coffee shops

Coffee in Kenya is mainly consumed at home or in offices. Therefore sales through retail channels account for the majority of coffee volume in the country, due to lower prices in comparison to specialist coffee shops and variety of pack sizes offered (Chart 16). Consumers prefer to buy coffee when they do their monthly shopping, as is also highlighted in the consumer survey discussed later where frequencies of coffee buying for at-home consumption are lower than for tea. Furthermore, many institutions and companies are also believed to buy their coffee from supermarkets.

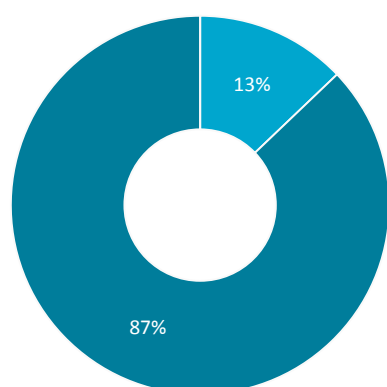


Chart 16 Retail and Foodservice Trade of Coffee in Kenya 2015
Source: Euromonitor International

In the work environment the caffeine content in coffee is generally believed to have a stimulating effect and prevent tiredness. Hence, professionals increasingly rely on coffee to keep up with early morning and late evening schedules. Coffee is served in offices during breaks, at conferences and other formal business gatherings. As elsewhere, coffee is increasingly perceived as an energy booster and associated with enhanced performance.

However, a shift has taking place towards the foodservice channel, which has gained 2% over retailing since 2011 (Euromonitor International, 2016, March). Locally owned chained coffee shops have emerged in recent years, boosting the development of the market. Increased activity in the foodservice channel has also coincided with a

construction boom of new malls in Nairobi, offering players a concentration of high-income consumers. Chained coffee shops have greater purchasing power and economies of scale, providing consumers with a guarantee of quality through brand association and product familiarity. These outlets offer products at relatively high prices, either for sit-in or coffee-to-go, yet are still gaining increased consumer support, showing the emergent aspirational, coffee culture in the country.

3.2.3 POWERDED HOT BEVERAGES SHOW GOOD GROWTH POTENTIAL

New product development geared at greater health benefits and convenience as well as increased marketing activities contribute to strong growth of powdered hot beverages in Kenya, favoured by younger age groups

Consumption of powdered hot beverages displays a positive trend, with drivers including a growing high-income consumer base in urban areas, a young and fast growing population looking for nutrient fortified products, product innovation and increased marketing activities among manufacturers (Chart 18). Unlike

tea or coffee, powdered hot beverages are an all-weather drink that can be consumed hot or cold lending the category superior growth potential in 2015.

At 4.5% in 2015, total volume growth of powdered hot beverages outperformed that of the historic period, which experienced a CAGR of 4.2% (Euromonitor International, 2016, March). Meanwhile, retail value sales recorded a CAGR of 12.1% over 2011-2015, to KSh4.1 billion (US\$42.4 million) in the latter year (Chart 17) (Euromonitor International, 2016, March).

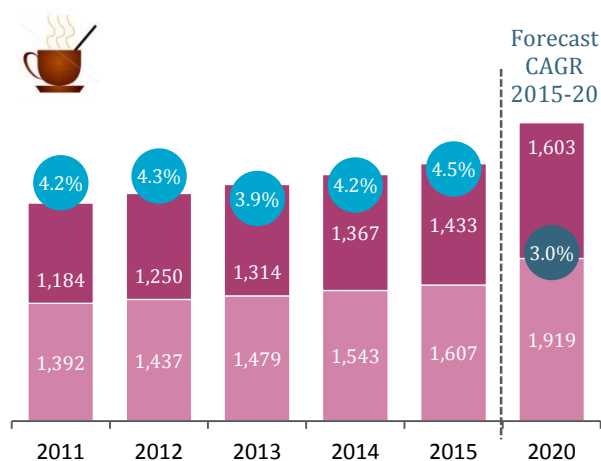


Chart 18 Total Volume Sales of Powdered Hot Beverages by Category 2011-2020 (tonnes): Chocolate-based Flavoured Powdered Drinks and Malt-based Powdered Drinks; YOY % Growth and CAGR 2015-2020

Source: Euromonitor International

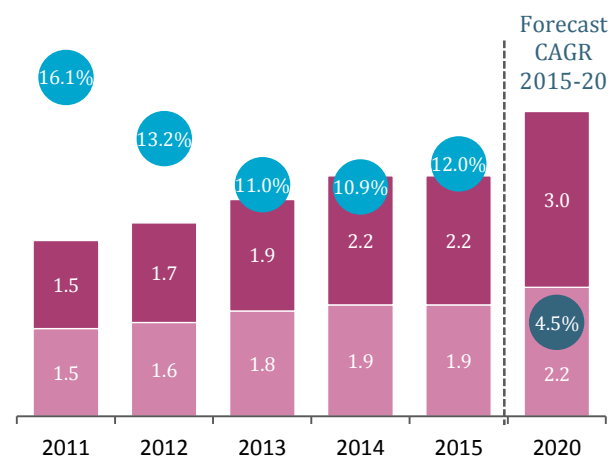


Chart 17 Retail Value RSP of Powdered Hot Beverages by Category 2011-2020 (KSh billion): Chocolate-based Flavoured Powdered Drinks and Malt-based Powdered Drinks; YOY % Growth and CAGR 2015-2020

Source: Euromonitor International

Note: Value provided in local currency at retail sales price RSP; fixed exchange rate; historic current prices, forecast constant 2015 prices

Chocolate-based flavoured powdered beverages are the most important category in Kenya, as chocolate is an all-time favourite amongst children and teenagers. However, malt-based powdered drinks are by far the main market driver, with a 4.9% volume CAGR during 2011-2015, amid a lack of choice in the category (Euromonitor International, 2016, March). Malt-based powdered hot drinks are generally perceived as beneficial to children's physical and mental development.

Powdered hot beverages volume sales are predicted to rise at a CAGR of 3% between 2015 and 2020 to reach 3,522 tonnes, underpinned by a projected increase in middle-level incomes and rising demand from the large child population (Euromonitor International, 2016, March). With over 42% of the population under the age of 15, the powdered hot beverages market stands to benefit from a significant demographic dividend (Euromonitor International, 2016a, September).

DISTRIBUTION CHANNELS

Powdered hot drinks are less well represented in foodservice outlets than tea and coffee

The retail channel leads sales in powdered hot beverages (Chart 19). Grocery retailers stock a variety of brands with more affordable prices compared to the foodservice channel and are widely spread, making them convenient for consumers. More so, foodservice outlets are still largely perceived to be for high income earners since they sell in cup sizes.

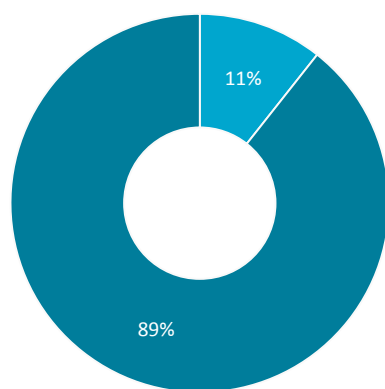


Chart 19 Retail and Foodservice Trade of Flavoured Powder Beverages in Kenya 2015

Source: Euromonitor International

Foodservice, however, outpaced retail sales in volume growth terms (CAGR of 3.8% vs. 7.8% over the 2011-2015 period, respectively), fuelled by briskly improving incomes and living standards that has allowed many more consumers to go out (Euromonitor International, 2016, March).

Although standing considerably behind tea and coffee, workplace consumption of powdered hot beverages has also slowly trended up during the same period. Part of this shift in consumption place was driven by the changing day-to-day realities of younger professionals. Results from institutional pulse interviews confirmed many companies and public institutions stock a large-sized metal tin or single-serve sachets of chocolate-based flavoured powdered hot drink in their offices (see Chapter 6).

3.3 NICHE ETHICAL CONSUMERISM

Ethical narratives largely remain the preserve of smaller, niche manufacturers in Kenya

Hot beverages in Kenya continue to witness growing product innovation and differentiation, especially amongst niche products. In the midst of multinational competitors, local players, such as Gold Crown Beverages Kenya, Dormans Coffee Group and Vava Coffee Ltd, have tried to leverage ethically-sourced products, fashionable pack sizes and designs to lure consumers (see Chapter 4). For example, Gold Crown Beverages launched Fairtrade certified Kericho Attitude brand in 2016. Retail sales of Fairtrade certified hot drinks have shown good growth, outpacing overall retail hot drinks growth until 2013, but thereafter sales growth has weakened in the face of increasing competition including from private label brands (Chart 20, Chart 21).

In 2015, volume sales of Fairtrade certified hot drinks in Kenya's retailing channel were estimated at 165.6 tonnes, up by 13.9% over 2011 (Euromonitor International, 2016, March). This was equivalent to 6.1% of the total retail market by volume in 2015 (Euromonitor International, 2016, March). In value terms, retail sales of Fairtrade certified hot drinks expanded by 39.5% in absolute terms during the same period to exceed KSh399.4 million (US\$4.1 million) in 2015 (Euromonitor International, 2016, March).

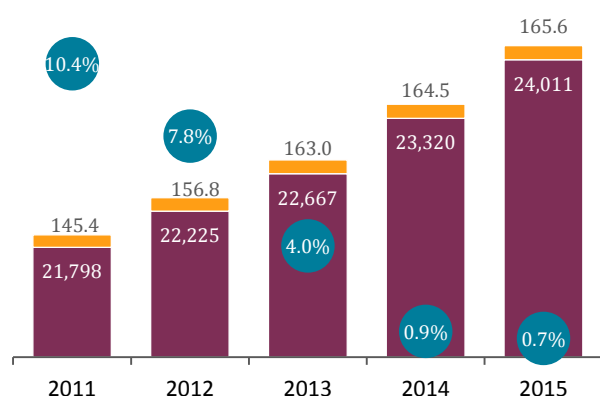


Chart 20 Retail Volume Sales of Hot Drinks 2011-2015 (tonnes): Fairtrade Certified vs Standard Hot Drinks; Fairtrade YOY % Growth

Source: Euromonitor International

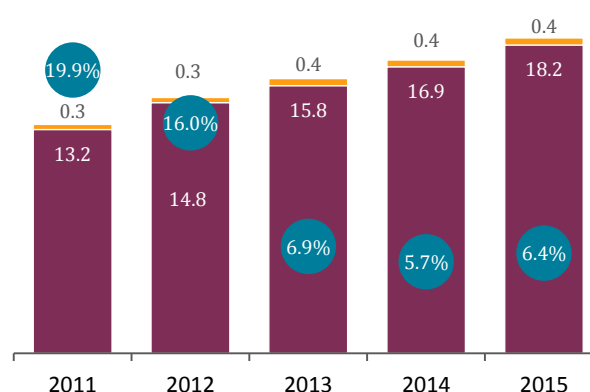


Chart 21 Retail Value RSP of Hot Drinks 2011-2015 (KSh billion): Fairtrade Certified vs Standard Hot Drinks; Fairtrade YOY % Growth

Source: Euromonitor International

Note: Value provided in local currency at retail sales price RSP; fixed exchange rate; historic current prices, forecast constant 2015 prices

Vava Coffee, for example, carved a niche in positioning its products as ethically-sourced, fresh, and ideal for coffee connoisseurs and targeting consumers who value sourcing and supply chains that benefit local communities. The company has developed eight brands with distinct tastes, packaged in vibrant, colourful bags sewn by women living in Nairobi's Kibera slum. For example, Sotik Espresso is said to be characterised by hints of tropical fruits and the company markets it as an ideal conclusion to the evening meal, whereas the Swahili Blend is said to be defined by a combination of citrus and floral flavours to be brewed in a French press. Vava Coffee collaborates with around 30,000 smallholder farmers in Kenya.

Despite the company's emphasis on sustainability, ingredient sourcing and corporate social responsibility concerns are not yet high on Kenya's consumer agenda. Vava Coffee's brands, for example, were not seen on supermarket shelves during store audits in Nairobi. Even though higher-income households, especially in urban areas, may provide a platform for growth and encourage innovation along the lines of ethical narratives, the majority of Kenyans remain price sensitive. This tendency will continue to influence demand, with a significant focus on affordable alternatives.

3.4 DRIVERS AND TRENDS FOR HOT DRINKS

A growing, youthful population by global standards is a marketing dream for hot beverages brands, particularly urban professionals with rising incomes

GDP and income growth drove sales of hot beverages in Kenya over 2011-2015, with good prospects for the next five years (Table 8). A young population, rapid urbanisation and changing lifestyles have also accelerated the adoption of packaged, branded hot beverages and out-of-home consumption.

Hot beverages in Kenya have adopted three strategies for growth: focusing on a small but growing urban, affluent demographic; creating new categories to convert consumers; and segmented, tiered pricing strategies to grow volume. Whilst high value, convenient fruit/herbal teas represent a good way for local and international brands to diversify their portfolio in Kenya and reach younger consumers, coffee is also showing signs of continued growth as an aspirational product in a nation of tea drinkers. Additionally, the country's demographic dynamics creates opportunities in flavoured, functional powdered hot beverages. Nevertheless, opportunities remain segmented according to income.

Table 8 Drivers and Trends for Hot Beverages in Kenya

Source: Euromonitor International

Market Drivers	Description
Income growth and urbanization	Growth in incomes, poverty reduction and a rising urban consumer class opens up access to packaged, added-value hot beverage products in Kenya.
Innovation and new product developments	Accelerating consumption of fruit/herbal tea is just as important, suggesting a core of Kenyan consumers seeking both an array of exotic flavours and blends as well as real medicinal benefits. As for coffee and powdered hot drinks, flavoured instant mixes constitute favourable ground to develop the existing offering.
The coffee shop revolution	Growth of a coffee shop culture in Kenya has positioned coffee as an aspirational item as coffee shops make experimentation easier for consumers.
Expansion of internal foodservice chains	With Kenyans eating out more often, new trendy restaurants and chained fast food outlets catering to a growing market are opening in Nairobi. 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.

3.4.1 KENYA'S FAVOURABLE DEMOGRAPHIC PROFILE

Kenya's demographic profile is a key driver for consumption as nearly two thirds of Kenyans are younger than 24 years and provide a growing consumer base for hot beverages

Kenya is in the midst of a prolonged population boom. 46.1 million people lived in the country in 2015 with 50 million expected by 2019. At 65.4 million in 2030 Kenya's population will be more than four times the size it was in 1980 (Euromonitor International, 2016a, September). Rapid population growth will be driven by strong increases in the female demographic between 15 and 49 years, the main childbearing population, as well as high, albeit declining, birth and fertility rates.

The country's population is young with a median age of just 18.9 years. This positions Kenya as one of the top five countries among the world's 85 major economies with the fastest-growing young populations (aged 15-24) over the 2015-2030 period (Euromonitor International, 2016a, September). A young population implies a large future consumer base for hot beverages, but may also lead to social problems if the economy does not offer sufficient economic opportunities.

While young people are important to growth for almost any packaged goods manufacturer, they are absolutely central in powdered hot beverages, and will remain so going forward. Unlike tea and coffee, powdered hot beverages claim to be able to supply nutritional needs and boost health among children. The centrality of youth consumption for this category will, however, demand careful attention to communicating specific benefits and proper segmentation in terms of price/package mix. Even low-income consumers are looking for added value, particularly for products marketed to children.

The importance of children to sales does not mean other consumers, particularly women, have been ignored. The British malt-based powdered beverage Horlicks, for instance, is seen as a popular sleep aid. Real, specific functional benefits, such as better sleeping, energy, added calcium, specific vitamins, helps to drive sales beyond the core children's market.

3.4.2 INCOME GROWTH AND INCREASED URBANISATION

Growth in incomes, poverty reduction and a rising urban consumer class opens up access to packaged, added-value hot beverage products in Kenya

Kenya's economy fared well again during 2015 as the country's inflation rate was significantly lower than during 2014, having declined from 6.9% in 2014 to 6.6% in 2015 (Euromonitor International, 2016a, September). The country's real GDP growth rate also increased from 5.3% in 2014 to 5.6% in 2015 (Euromonitor International, 2016a, September). These trends had a positive impact on income and consumer spending. Annual disposable income per capita totalled KSh108,200 (US\$1,103.7) in 2015 (Euromonitor International, 2016a, September). In real terms, the indicator is expected to rise by 9.9% in 2016. Moreover, levels of poverty have declined to 32% in 2015 from 34% in 2011 (Euromonitor International, 2016a, September). Nonetheless, high income inequality means that only a small proportion of the population is benefiting from a growth in personal disposable income.

Although Kenya is predominantly rural with nearly three quarters of the population living in rural areas in 2015, the share of urban residents is increasing by about one percent per year. In Nairobi alone, the population expanded by an average of 4% per year over 2011-2015 which made it one of the most rapidly growing metropolitan areas in Africa (Lagos: 2.9% average growth per annum over 2011-2015; Douala: 3.4%) (Euromonitor International, 2016, July). By 2030, half of Kenya's population will be living in urban centres (Euromonitor International, 2016a, September).

Nairobi is East Africa's most prominent city and Kenya's principal commercial and financial hub. Renowned multinational businesses and institutions, such as PwC, Coca-Cola, Standard Chartered Bank, Equity Bank, and the World Bank, already have offices in Upper Hill. In the national context, GDP per capita in Nairobi was 35% higher than in the rest of Kenya in 2015, largely due to the city's reliance on the tertiary sector and significant labour productivity advantage (Euromonitor International, 2016, July). Nairobi, however, struggles with staggering unemployment (Table 9). In 2015, 42% of the city's economically active population (people who are employed or looking for a job) was unemployed (Euromonitor International, 2016, July). This high figure reveals a substantial informal economy in Nairobi and Kenya at large and points to some of the challenges facing the country as urbanisation increases.

Kenya's sociodemographic profile and rising urbanisation are key drivers for the consumption of tea, coffee and powdered hot drinks. While Kenyan consumers remain in general very price-sensitive, better educated young adults, often working for multinationals and exposed to Western tastes, tend to be more aware of hot beverages and their health benefits and have the purchasing power to afford branded, packaged products in most forms.

Table 9 Key facts on Nairobi

Source: Euromonitor International from national statistics

	2011	2015
Real GDP Growth (%)	9.1%	7.1%
Population ('000)	3,396	3,970
Labour Force ('000)	2,030	2,368
Employed Population ('000)	1,077	1,375
Unemployment Rate (%)	47%	42%



Picture 5 Kericho Gold (top) and Kericho Gold Attitude Teas (bottom) ranges at Zucchini Greengrocers in Nairobi's The Village Market
Source: Euromonitor International

Whilst a large portion of existing consumption is still unpackaged or centred on low priced brands, both domestic and multinational brand leaders have succeeded in creating value opportunities in hot beverages in urban markets. In black tea, for example, demand for tea bags grew at a CAGR of 2.4% over 2011-2015, outperforming the retail volume CAGR of 1.9% for loose leaf tea (Euromonitor International, 2016, March). Accelerating consumption of fruit/herbal tea is just as important, suggesting a core of Kenyan consumers seeking both an array of exotic flavours and blends as well as real medicinal benefits. As far as coffee and powdered hot drinks are concerned, flavoured instant mixes constitute favourable ground to develop the existing offering.

Gold Crown Beverages Kenya (a subsidiary of the UK-based Global Tea & Commodities Ltd) represents a good example of a local producer that has successfully addressed changing consumer needs to increase sales. The company's flagship tea brand, Kericho Gold, is positioned in the high-end segment due to the high cost of herbs and fruit used to make infusions, while its relatively cheaper Baraka Chai brand targets lower-income consumers (Picture 5). To

capitalise on the growth of higher value tea categories and promote tea drinking among the younger generation, Gold Crown Beverages Kenya went one step further in 2016, introducing new blends under Kericho Gold Attitude Teas. The new range includes 11 varieties such as Rose Tea, Chocolate Tea, Pineapple and Mango Tea, Love Tea, Cardamom Tea and Green Tea Mint, amongst others. Recommended prices range from KSh145 (US\$1.48) to KSh275 (US\$2.80) for 75g packets (Umidha, 2016). Apart from

their availability in supermarkets, Kericho Gold Attitude Teas can be purchased online on the company's platform.

3.4.3 THE COFFEE SHOP REVOLUTION

The growth of a coffee shop culture in Kenya has positioned coffee as an increasingly aspirational item as coffee shops promise new experiences and make experimentation easier for consumers

Expansion of specialist coffee shops is one of the main drivers of demand for hot beverages in Kenya. In recent years, there has been an influx of specialist coffee shops and café establishments with plush seats and glass fronts in urban areas, which cater to a higher income demographic (Table 10). Some of these coffee establishments also roast and pack their own products and have focused on improving their barista skills, as showcased by decorative designs on the foam of cappuccinos at Nairobi Java House.

Table 10 The Specialist Coffee Shop Landscape in Kenya 2015

Source: Euromonitor International

Specialist Coffee Shops	Locations	Outlets
Nairobi Java House (Nairobi Java House Roastery, Kenya)	Kisumu, Mombasa, Nairobi, Nakuru, Naivasha	35
Artcaffé Coffee and Bakery (Artcaffé Coffee and Bakery Ltd, Kenya)	Nairobi	11
Café Deli (Nanjala Ltd, Kenya)	Nairobi	4
Savanna Coffee Lounge (Sasini Tea & Coffee Ltd, Kenya)	Nairobi	4
G-Café (GoldRock International Ent Co. (K) Ltd, Korea)	Malindi, Nairobi	4
Tin Roof Café (Privately owned, Kenya)	Nairobi	2
Vida e Caffé (Innsco Kenya Ltd, South Africa)	Nairobi	2
Pointzero Coffee (Privately owned, Kenya)	Nairobi	1
Gibsons Coffee House (Gibsons Coffee Ltd, Kenya)	Nairobi	1

Nairobi Java House opened 10 new branches in 2015, elevating the number of its operated coffee houses and restaurants across Kenya and Uganda's capital Kampala to 36 (Euromonitor International, 2016, March). Nairobi Java House looks to offer a family-oriented environment with free Wi-Fi and specifically trained staff (Manson, 2015a). In the same year, Nairobi Java House embarked in a KSh404-505 million (US\$4.1-5.1 million) plan to expand its reach in Nairobi's central business district, Eldoret, Thika, Nakuru and Nanyuki (Njanja, 2015). The company also diversified into the pizza and frozen yoghurt business.

More inventive, perhaps, was Nairobi Java House's recent partnership with Vivo Energy Kenya Ltd - the Shell licensee in the country (Mulupi, 2016). The new convenience retail strategy comprises the opening of small coffee shops at Shell service stations, thereby increasing Nairobi Java House specialist brand awareness and ultimately promoting coffee consumption.



Picture 6 Specialist coffee shop Urban Coffee (Lenana Place) in Nairobi

Source: Euromonitor International

Similarly, Café Deli announced its plans to invest KSh315 million (US\$3.2 million) in an expansion strategy to increase its branches to six by 2016. This came after opening one of the biggest specialist coffee shop in Nairobi's CBD with a seating capacity for 250 people. The new project has attracted extensive financing from a number of funders (Standard Digital, 2015).

Meanwhile, Artcaffé Coffee and Bakery – a chain of Kenyan restaurants and bakeries – acquired seven Dormans coffee shops

in 2014, increasing its outlets to 11 and giving it a presence in more shopping malls such as Yaya Centre, Karen and City Mall in Mombasa (Herbling, 2014a). In 2015, Artcafé Coffee and Bakery was the winner of People's Choice Taste Bar & Restaurant Awards.

By providing sophisticated environments, specialist coffee shops are increasingly used as meeting points for the young, businessmen and expatriates (Picture 6). Visit frequency is particularly high during the colder June to August season. The December holidays, when most companies close for the festive season, also constitutes a key visiting occasion (Otieno, 2014) (see Chapter 6). Along with a wide variety of hot and cold caffeinated beverages (e.g. espresso, mocha and cappuccino), their menus include juices, shakes, pastries, breakfast items as well as Kenyan or fast food dishes (Bailey, 2016).

"We're still a tea-based society but things are changing - coffee is now the trendy drink."

— Hotel Manager, Nairobi

Though fears of insecurity in shopping malls might drive consumers and business to alternative locations including Nairobi's CBD in the short-term, the market seems far from saturation as demonstrated by companies' expansion plans. Over the next five years, specialist coffee shops are expected to be a primary engine of consumer tastes in Kenya, particularly at the high end. In fact, these establishments are well-positioned to increase consumer awareness of choices between various roasts and blends of coffee and how to use coffee grinds to brew coffee at home.

3.4.4 EXPANSION OF INTERNATIONAL FOODSERVICE CHAINS

With Kenyans eating out more often, new trendy restaurants and chained fast food outlets catering for a growing market are opening in Nairobi. Coffee consumption, in particular, has benefitted from higher growth rates in foodservice than tea (6.1% CAGR vs 3.7% CAGR 2011-2015)

Consumer foodservice in Kenya is highly fragmented and limited research is available. Traditional outlets such as restaurants and canteens serving Kenyan staple foods, including maize meal and barbecued meat and chicken, dominate the foodservice scene. Nevertheless, consumers can also experience Indian, Italian, French, Chinese, Ethiopian, Japanese, American and Thai-style cuisine in restaurants in the major metropolitan areas.

Table 11 The Foodservice Landscape in Kenya 2015

Source: Euromonitor International

Chained Foodservice Outlets	Locations	Outlets
Pizza Inn (Innscor Kenya Ltd, South Africa)	Nairobi	25
Chicken Inn (Innscor Kenya Ltd, South Africa)	Nairobi	12
KFC (Kuku Foods East Africa Holdings Ltd, US)	Nairobi	10
Subway (Liberty Eagle Holdings, US)	Nairobi	10
Galito's (Innscor Kenya Ltd, South Africa)	Nairobi	9
Domino's Pizza (Om Nom Nom Ltd, US)	Mombasa, Nairobi	6
Steers (Hoggers Ltd, South Africa)	Nairobi	4
Pizza Hut (Feast Ltd, US)	Nairobi	4
Debonairs (Hoggers Ltd, South Africa)	Nairobi	3
Cold Stone Creamery (Om Nom Nom Ltd, US)	Nairobi	3
Ocean Basket (Hoggers Ltd, South Africa)	Nairobi	2
Teriyaki Japan (Toridoll Kenya Ltd, Japan)	Nairobi	2
Creamy Inn (Innscor Kenya Ltd, South Africa)	Nairobi	1

The country's growing mid-income group has relatively high levels of disposable income and is able to afford to eat out more frequently. This trend has attracted growing interest from international investors, with a number of leading global brands in consumer foodservice seeking a share of the pie, and making for a competitive market. Despite the failure of large foodservice projects in the past, brands such as Steers, Debonairs, Chicken Inn, Galito's, Pizza Inn, KFC, Subway, Domino's Pizza, Pizza Hut, Cold Stone Creamery and Creamy Inn are already present in Kenya (Table 11). South African-owned brand Ocean Basket and Japanese brand Teriyaki opened foodservice outlets in Kenya during October 2014 and March 2015, respectively. Moreover, 2016 has seen a further influx of new brands, including Burger King and Hardee's. On the other hand, Kenchic Inn announced the withdrawal of its brand from 30 franchise outlets across Kenya in March 2016 to focus on its core business, which will also see the company supply chicken to KFC. Although branches operated by multinational companies are generally considerably more expensive than outlets operated by local companies, Kenyans frequent them not only for the food but also the ambience they offer.

Chicken is one of the most popular fast foods in Kenya, followed by American-style burgers. Pizza trails in third place, but has the most potential for growth in the country (Guttman, 2015).

"About 60% of food deliveries are made to offices located in Nairobi and Mombasa."
— Marketing Director at Hellofood Kenya on KBC

Another recent development has been the expansion of home delivery services, underpinned by the emergence of online foodservice marketplaces. Early movers in this space,

such as online food ordering portals and mobile apps Yum, Hellofood Kenya and Jumia Food, have tapped into the demand for convenience arising from fast-paced urban lifestyles, tight company schedules and increasing traffic congestion in major cities. In 2015, Hellofood announced that the number of transactions grew by 300% in the year as local restaurants and international chains (including KFC, Ocean Basket, and Debonairs) continued to join the company's online marketplace platform (Wanja, 2016).

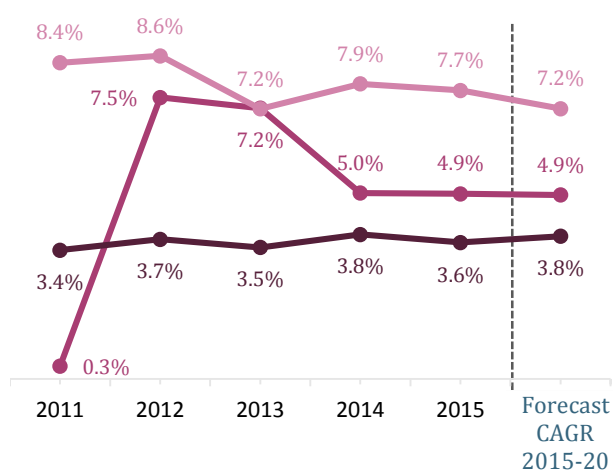


Chart 22 Foodservice year-on-year volume growth 2011-2015 for tea, coffee and powdered hot drinks in Kenya; CAGR 2015-2020

Source: Euromonitor International

The growth in the number of chained fast food outlets and restaurants as well as the rapidly developing delivery market has positively impacted sales of hot beverages. Over the 2011-2015 period, hot beverage volume sales through the foodservice channel grew at a CAGR of 4.1%, capturing 13% of the entire market (Euromonitor International, 2016, March). Coffee and powdered hot drinks were the fastest growing categories in foodservice volume terms in 2015 as global players have contributed to the popularisation of particularly coffee drinking in Kenya (Chart 22). The changing business culture in the country has boosted demand as meetings are more frequently conducted in restaurants or specialist coffee shops. A greater demand for

convenience among Kenya's middle-income consumers has boosted food delivery orders and on-the-go consumption. The consumer survey results also point to the greater popularity of take-aways for coffee rather than tea (see Chapter 5).

Despite these positive developments, growth in the consumer foodservice industry as a whole remains constrained as eating out is unaffordable for the majority of the Kenyan population. In addition, the growth recorded in the number of modern grocery retail outlets in the country, specifically those operated by chained players such as Quick Mart Ltd, Naivas Ltd and Tusker Mattresses Ltd, means that consumer foodservice outlets also face competition from the modern retail channel. Furthermore, many of these supermarket chains are now introducing new in-store fresh corners such as freshly made ready meals and bakery as well as cafeterias.

Euromonitor International estimates that per capita expenditure on consumer foodservice in Kenya will increase at a CAGR of 6.7% over 2015-2020 (Euromonitor International, 2016a, September). The positive outlook offers sustained growth opportunities for out-of-home consumption of hot beverages. From a supply perspective, hot beverages can help drive foot traffic throughout the day and appeal to customers during a range of potential eating occasions. Additionally, these products encourage incremental sales increases as a meal add-on, and their higher margins increase profitability even at lower price points. Price competition, menu variety, high-quality products and new services are set to constitute important differentiation strategies.

3.4.5 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

Kenyan and international entrepreneurs continue constructing new hotels and improving long-standing structures, signalling investors' confidence in Kenya's economic growth and the expansion of the middle class. Reportedly, Kenya had 646 licensed hotels as of 2015, with ratings from one-to-five stars (Table 12) (Euromonitor International, 2016b, September). Despite security threats from recent terrorist acts in the country, demand for hotel accommodation in key cities such as Nairobi continued to grow in 2015. This was predominantly driven by business tourists from new travel source markets, such as China. Nevertheless, the US, along with EU, continued to account for a majority of tourist arrivals into Kenya.

Table 12 The Hospitality Landscape in Kenya 2015

Source: Euromonitor International from company sources

Leading Hotel Brands	Locations	Outlets in Kenya
Serena Hotels (Serena Hotels Ltd)	Nairobi, Mombasa, safari lodges	9
Sarova Hotels (Sarova Hotels Ltd)	Nairobi, Mombasa, safari lodges	9
Kenya Comfort Hotel (Kenya Comfort Hotel Co)	Nairobi	3
Fairmont Hotels & Resorts (Kenya)	Nairobi, Masai Mara, Mt Kenya	3
Delta Hotels (Superior Hotels Kenya Co)	Nairobi	3
Alliance Hotels (Alliance Hotels & Resorts Group)	Mombasa	1
Hadassah Hotels (Superior Hotels Kenya Co)	Nairobi	1
Hilton Nairobi (Hilton Worldwide)	Nairobi	1
Intercontinental Hotel (InterContinental Hotels Group Plc)	Nairobi	1

Kenya is likely to see more global hotels brands entering major cities and towns such as Mombasa, Nairobi and Kisumu during the 2015-2020 period (Euromonitor International, 2016b, September). Many of these hotels will fall within the luxury category, with investors eager to cash in on the mounting demand for accommodation to suit business travel and with conference facilities. Examples of luxury

hotels in the pipeline include Park Inn by Carlson, Elewana Hotel, DustiD2, Radisson Blue and Rezidor Hilton Garden Inn from Hilton Worldwide. According to Euromonitor's estimates, hotel rooms in Kenya will increase from 12,400 in 2015 - with 60% of these in Nairobi alone - to 15,900 in 2020 (Euromonitor International, 2016b, September). In addition, plans by the Kenya National Tourism Board to diversify travel products such as cultural promotion and eco-tourism are also expected to sustain positive growth of the tourism industry.

Along with a growing foodservice sector, including specialised coffee shops, the growth of the hotel sector catering to demanding foreign tourists supports growth of consumption hot drinks in the region.

3.5 COMPETITIVE ENVIRONMENT IN KENYA

Competition for the Kenyan hot beverages market intensifies as new players make their move into categories like tea and coffee and modern grocery retailers become more dominant

Kenya's competitive landscape is concentrated with just about a dozen major players present across coffee, tea and powdered hot drinks. Despite that, the hot beverages market is showing signs of intensifying competition. The 2011-2015 period witnessed the entry of new players, such as Dormans Coffee Group and Tusker Mattresses into categories like tea and coffee, offering innovative and affordable products. Industry players continued to invest in increasing production output and launched marketing promotions to attract consumers. As a result, prices especially for coffee are anticipated to become increasingly affordable for low- and middle-income consumers, which in turn is expected to boost consumption volumes.

Additionally, the development of private label within hot beverages in Kenya promises to strengthen this trend. Although the concept is fairly new in the country, noticeable launches of private label were made by retailer Nakumatt Holdings Ltd during 2015 (Picture 7). The company invested around KSh200 million (US\$1.9 million) to venture into repackaging for smaller quantities of fast-moving consumer goods (Herbling, 2014b). In-house packaged and rebranded under the Nakumatt Blue Label, its own instant coffee, fresh coffee beans and fresh ground coffee products are geared towards providing consumers with a range of quality, value for money products. Packaged in fashionable and eye-catching pack sizes and designs, these products are promoted in more than 40 stores nationwide. Nakumatt Holdings have also started to allocate more shelf space to these private label products compared to other coffee brands in its outlets.

Innovation by local players, at the same time as maximising on trade relations to export their products, is expected to create a new pool of consumers. Fierce competition within the market is also foreseen to push local and international leaders, among them Nestlé Foods Kenya, to add value in packaging and tastes.



Picture 7 Nakumatt Blue Label Coffee on promotion in Nakumatt supermarket in Nairobi, November 2016

Source: Euromonitor International

3.5.1 TEA

Local manufacturers, such as Kenya Tea Packers, reign over the tea landscape

Most of the tea consumed in Kenya is locally produced (Chart 23). The competitive landscape is highly concentrated and dominated by local manufacturers, although a few international competitors are present in the market with brands imported from Europe (Euromonitor International, 2016, March).

Kenya Tea Packers is the undisputed leading player within the category, thanks to its long heritage, strong national reputation and affordability of its brands, especially Fahari ya Kenya and Ketepa. Its popularity is supported by fashionable packaging and strong marketing initiatives plus a wide distribution network countrywide.

Karirana Estates Ltd with Eden Tea followed in importance backed by strong branding initiatives and attractive pricing. Other local companies in this category include Sasini Tea & Coffee Ltd, owned by Sameer Group listed on Nairobi's stock exchange, and Gold Crown Beverages Kenya. In 2013, Dormans Coffee Group, largely identified by its green and roasted coffees, also joined Kenyan tea market with its recently developed Dormans Tea brand.

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

- Kenya Tea Packers
- Karirana Estates
- Gold Crown Beverages
- Sasini Tea & Coffee
- Pure Health Products
- Meru Herbs
- Others

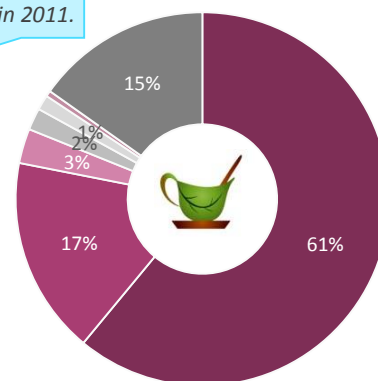


Chart 23 Tea Market Retail Value Share % by Company 2015
Source: Euromonitor International

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 with fever or digestion problems. These developments are expected to perform positively in the short term and might compel price leaders such as Kenya Tea Packers to revise their prices and flavours to keep up.

3.5.2 COFFEE

Nestlé is the overwhelming leader within coffee in Kenya, with its instant coffee brand Nescafé, but locally focused brands have been proliferating

Unlike in the tea market, sales performance of domestic against international companies is relatively low as top players such as Nestlé Foods Kenya run continuous marketing campaigns (Euromonitor International, 2016, March). The vast majority of global coffee brands, particularly for instant coffee, are sourced from Brazil, Singapore, India and the United Kingdom, where they have been manufactured.

Nestlé's leading position is supported by a broad distribution network countrywide,

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

- Nestlé Foods Kenya
- Dormans Coffee Group
- Sasini Tea & Coffee
- Afri Tea & Coffee
- Nairobi Java House Roastery
- Gibsons Coffee
- Chandaria Industries
- Cacique de Café Solúvel
- Others

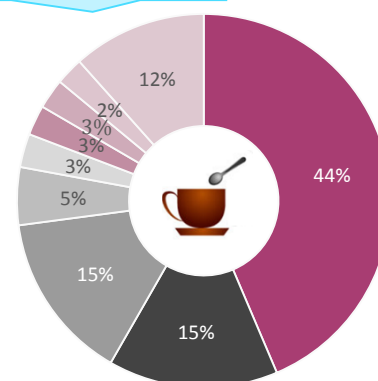


Chart 24 Coffee Market Retail Value Share % by Company 2015
Source: Euromonitor International

intensive promotional activities and strong recognition in Kenya, owing to the strong local and international branding of its Nescafé instant coffee. The importance of this brand to instant coffee cannot be overstated, due to its importance to the consumer experience.

In 2015, the company invested KSh40 million (US\$0.4 million) in 2015 in the launch of the second phase of the Nescafé Plan programme to offer training and technical support to about 41,000 coffee farmers for the next three years, promote the inclusion of women and youth in coffee farming and thus boost production in the country (Ochieng', 2015). Nestlé Foods Kenya has reportedly recently partnered with AutoXpress, a major retailer of auto parts and accessories, to install hot beverages vending machines for customers to use at no apparent point-of-consumption costs.

"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

Although Nescafé's dominance is nowhere near endangered, competition is increasing (Chart 24). To counter the dominance of foreign brands, domestic players such as Sasini Tea & Coffee are leveraging on offering a wide range of products from fresh to instant coffee at more affordable prices. Other local

companies like Dormans Coffee Group, meanwhile, strongly benefit from supplying coffee to homes and institutional channels and conducting promotional activities both in and out of stores. Dormans Coffee Group is the preferred caterer for companies such as Standard Chartered Bank, Barclays Bank, KPMG and Nairobi Airport Services (The African Business Journal, n.d.).

3.5.3 POWDERED HOT BEVERAGES

A few multinationals monopolise powdered hot beverages in Kenya

Nestlé Foods Kenya is also the dominant player within powdered hot beverages (Chart 25). The company's proactive campaigns to understand its customers' evolving needs, largely driven by increasingly busy lifestyles, is a key driver behind the success of its Milo brand in Kenya and beyond. In 2015, sponsorship of children's sports and an annual children's festival helped to reinforce its wider presence in the market.

Nestlé's competitors include Cadbury Kenya Ltd and Excel Chemicals. The former, through its Cadbury Drinking Chocolate brand, is regarded by some consumers as synonymous with high quality. In 2015, Cadbury Kenya optimised its performance with appealing TV and billboard advertisements which depict its chocolate-based flavoured powdered hot beverages as family drinks that can be consumed at any time.

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

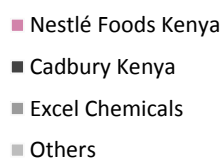


Chart 25 Powdered Hot Beverages Market Retail Value Share % by Company 2015

Source: Euromonitor International

The threat of new entrants, however, has been increasing, fuelled by the consolidation and growing acceptance of modern retailing in the country. As an example, GlaxoSmithKline's flagship brand Horlicks saw the introduction of larger packaging containers and smaller pack sizes at affordable prices in 2013, challenging the leadership of Milo and Cadbury brands. Horlicks' branding and promotional activities via TV and radio advertisements increasingly enhanced sales and visibility of the company for its consumers in retail stores nationwide. Similarly, Promasidor Kenya Ltd launched Miksi 3-in-1 flavoured milk powder

brand in three main flavours: chocolate, mocha and coffee, compounded with aggressive marketing of its products mainly to university students.

3.6 RETAIL DISTRIBUTION IN KENYA

Despite the importance of traditional channels, expansion of modern retailing to 30% of total grocery value sales contributes to an increasing amount and variety of hot beverages available in the market

Kenya prides itself on having one of the most developed formal retail shopping system on the continent outside of South Africa, but modern retail and traditional channels still sit side by side. In 2015, modern retail in Kenya generated an estimated 30% of total grocery retailing value sales (Euromonitor International, 2016a, January). The dominance of traditional retail across Kenya can be partly attributed to the wider footprint of neighbourhood kiosks, market stalls and independent small grocers and includes both formal and informal stores.

Changes in consumer profile and demographics, increasing urbanization, improvements in infrastructure, and an increase in the number of international brands available in the Kenyan market continued driving rapid developments of the retailing landscape. The ongoing property boom also allowed modern grocery retailers to take up prime locations near residential areas offering greater spatial convenience to customers. Services have devolved to rural areas, encouraging the footprint expansion of modern retail outlets nationwide.

As a result, retailing value sales for grocery as a whole in modern retail advanced at a CAGR of 19.7% between 2011 and 2015. Value sales through traditional channels also grew positively, but a slower CAGR of 8.1% during the same period (Euromonitor International, 2016a, January). This translated into increasing volumes of coffee and powdered hot beverages sold in both supermarkets, hypermarkets and forecourt retailers as well as in the traditional channel in Kenya over 2011-2015 (Chart 26).

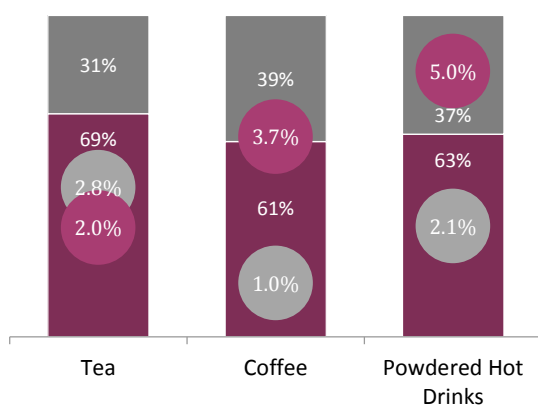


Chart 26 Volume Sales of Hot Beverages through Modern vs Traditional Retailing Channels 2015, and CAGR 2011-2015

Source: Euromonitor International

Increased trade through modern grocery retailers is expected to offer consumers broader product choices in a single outlet, more structured pricing and promotional activities, as well as exposure to loyalty schemes and e-commerce. However, the government's move to increase excise taxes in 2016 on specific products (including fruit juices, bottled water, tobacco, alcoholic drinks and oil products), combined with the depreciation of the local currency which renders imports more expensive, constitute major threats to modern grocery retailing's growth potential. From August 2014 to August 2015, Kenya's shilling devalued by around 22% against the US Dollar, posing a challenge in particular for those retailers offering

international hot beverages brands (Oxford Business Group, n.d.). At the least in the short term, these measures are likely to have a negative impact either on retailers' profit margins or consumers' affordability.

3.6.1 TRADITIONAL RETAIL CHANNELS

Even with convenient supermarkets opening up across urban areas over the last years, traditional grocery retail outlets remain highly popular amongst middle- and low-income consumers in Kenya

Traditional retail remains key and popular, especially among middle- and low-income consumers who constitute the largest population group in Kenya. Half the consumers polled in the survey discussed in Chapter 5 indicated they regularly purchased hot beverages in traditional convenience stores and 15% indicated they buy from open markets, reflecting their urban and better-off status. While traditional retail recorded a growth rate lower than that of modern grocery retail during the 2011-2015 period, sales of the former were driven by higher volumes as opposed to the medium- and high-priced items offered by modern grocery retailers.

Even with convenient supermarkets opening up across urban areas over the last years, many consumers still feel more comfortable shopping in small grocers, kiosks and market stalls due to their personalised customer relationship, credit facilities, longer opening hours, proximity and their ability to offer small units of products at lower prices (including unpackaged tea and single-serving sachets of instant coffee).

Multinational manufacturers have come up with strategies to attract the informal market customer. Nestlé Foods Kenya, for example, launched the My Own Business (MYOWBU) model initially developed in West Africa, using entrepreneurial young people to supply its drinks in high density markets like open markets, stadiums and bus stops, thus increasing consumer awareness about its Nescafé instant sachets. Early morning and late evenings are peak times, particularly during the cold season. The model has proven successful and the company has plans to recruit another 500 people, including university students, by 2016 (Nestlé East Africa, 2014).

Kenya's traditional grocery retail outlets are expected to continue to lose share to modern grocery retailers, given changing consumer shopping habits and a growing preference for branded products. Traditional grocery retailers are anticipated to witness a value CAGR of 7.7% at constant 2015 prices over the next five years, which compares to an estimated CAGR of 13.4% for modern grocery retailers (Euromonitor International, 2016a, January). Lack of space and limited resources mean traditional grocery retail outlets usually offer a reduced range of packaged hot beverages, limiting consumers' choice. Moreover, increased competition among modern grocery retailers is expected to lead to more affordable product pricing than can be offered by small traditional grocers, appealing to a wider target audience.

3.6.2 MODERN GROCERY RETAILING

Prospective retail space expansion of modern grocery outlets allows room for growth of the hot beverages market as a greater range becomes readily available in supermarkets

Increasing urbanisation has led to a proliferation of modern grocery retail outlets in urban centres across Kenya. Modern grocery retailers fiercely compete for strategic locations and customers, supported by rising disposable income and growing infrastructural development in Kenya. 95%, the overwhelming majority of respondents in the consumer survey, indicated they buy at supermarkets.

Nakumatt Holdings, for example, started rewarding customers with a loyalty points scheme in 2015, and also increased its private label range to include coffee products making these more affordable. In addition, store spaces are well segmented, with different product categories placed in attractive displays

as well as taking up huge floor spaces with numerous products to provide customers a better shopping experience and wider selection.

Supermarkets are the leading channel under modern retailing, with 27% of total retailing value sales in 2015 (Euromonitor International, 2016a, January). Supermarket sales were driven by an increasing preference for a one-stop shopping experience amongst mid- and high-income consumers, as well as the adoption of mobile payment systems allowing ease of payment. Furthermore, supermarkets such as Uchumi provide payment points for various utility services, including electricity and water (Picture 8). In addition, their convenient locations in residential areas, and the uptake of fresh pasteurised milk dispensers and fresh food counters has contributed to higher foot traffic and growth than for traditional grocery retailers.



Picture 8 Uchumi supermarket in Nairobi
Source: Euromonitor International

Kenyan retail companies dominate in modern grocery retail but the last decade's economic growth has attracted international retailers to the country

Local companies dominate in modern grocery retailing, with three top companies accounting for a network of 135 outlets and value share of 20%, those being Nakumatt Holdings, Naivas and Tusker Mattresses Ltd (Table 13) (Euromonitor International, 2016a, January). Nonetheless, in recent years, an increasing number of international brands have set up outlets in Kenya to tap into the growing middle-income segment. For instance, Botswana's leading supermarket, Choppies, entered the Kenyan market at the end of 2015 after its successful buyout of family-owned Ukwala Supermarkets' 10 stores for KSh1 billion (US\$10.2 million), through a joint-venture with its local partner, Export Trading Group. In the meantime, French retailer Carrefour opened its first branch in a suburb of Nairobi in mid-2016.

Although many supermarkets and hypermarkets are still targeted at wealthier Kenyans and the expat community, modern grocery stores are becoming the preferred format for purchases of especially coffee. Indeed, volume sales of coffee in supermarkets, hypermarkets and forecourt retail outlets advanced at a CAGR of 3.7% during the period under review, which compared to a CAGR of 1.0% recorded by traditional grocery retail outlets

Table 13 The Modern Grocery Retailing Landscape in Kenya 2015

Source: Euromonitor International

Players	Outlets	Selling Space ('000 m ²)
Nakumatt (Nakumatt Holdings, Kenya)	42	156.0
Uchumi (Uchumi Supermarkets, Kenya)	42	81.0
Tuskys (Tusker Mattresses, Kenya)	53	64.8
Naivas (Naivas, Kenya)	40	55.0
Chandarana Food Plus (Chandarana Supermarket Ltd, Kenya)	10	15.0
Ukwala (Ukwala Supermarkets Ltd, Botswana)	10	13.0
Eastmatt Supermarket (Eastmatt Supermarket, Kenya)	11	12.0
Bonjour Shop (Total SA, France)	25	4.1
Shell Select (Royal Dutch Shell Group, The Netherlands)	21	2.4
My Shop (Libya Oil Holdings Ltd, Libya)	17	1.5

(Euromonitor International, 2016a, January). Sales were underpinned by the greater choice of branded coffee and superior quality standards, which are highly appreciated by more affluent consumers. This helped to increase exposure and demand for local and imported coffee brands and contributed towards reducing high prices observed in the market; all with positive implications for the final consumer.

As the economy expands and the middle class increases with busy urban consumers having less time to haggle in market places, the transparency and efficiency of shopping in retail outlets is expected to become more attractive. Increased international interest in the Kenyan market, through direct investment by players, such as Walmart Game, Carrefour and Choppies, are also set to play a key role in promoting consumer confidence and spending on hot beverages through modern grocery retail outlets in the future.

3.6.3 INTERNET GROCERY RETAILING

Internet grocery retailing remains limited in Kenya for all types of groceries, including hot beverages

Sales of hot beverages through internet grocery retailing in Kenya remains negligible, amidst the increase in internet and mobile penetration, and only 2% of respondents in the consumer survey indicated they use this channel. The main challenge to internet grocery retailing are the high costs of internet access, as well as a lack of secure payment platforms, which erodes consumer confidence. In addition, the lack of a physical address system for product deliveries to consumers has been a major hurdle for companies.

Consumer confidence in internet retailing will take time to build as retailers and the government put in place secure platforms to allow online customer purchases. Nevertheless, the channel is set to grow in the medium-term, with modern grocery retailers such as Chandarana Supermarket and Uchumi Supermarkets taking a multi-channel approach and launching online sales platforms, encouraging consumers to shop online with price discount offers and home delivery services for specified locations. For instance, Uchumi Supermarkets launched an online store early in 2014 which sells groceries including hot beverages, as well as consumer electronics, and various basic commodities, aimed at increasing sales volumes.

4. OVERVIEW OF KENYAN RETAIL SHELVES

4.1 KNOWING WHAT'S ON RETAIL SHELVES IN KENYA

19 stores were visited in Nairobi; most of them classified as modern grocery retail, particularly supermarkets and hypermarkets

Euromonitor International working with an in-country analyst based in Nairobi meticulously kept track of hot beverages product ranges on retail shelves of 19 outlets in Kenya over four weeks during November 2016 (Figure 10). Stores were selected from the CBD and higher income residential areas.

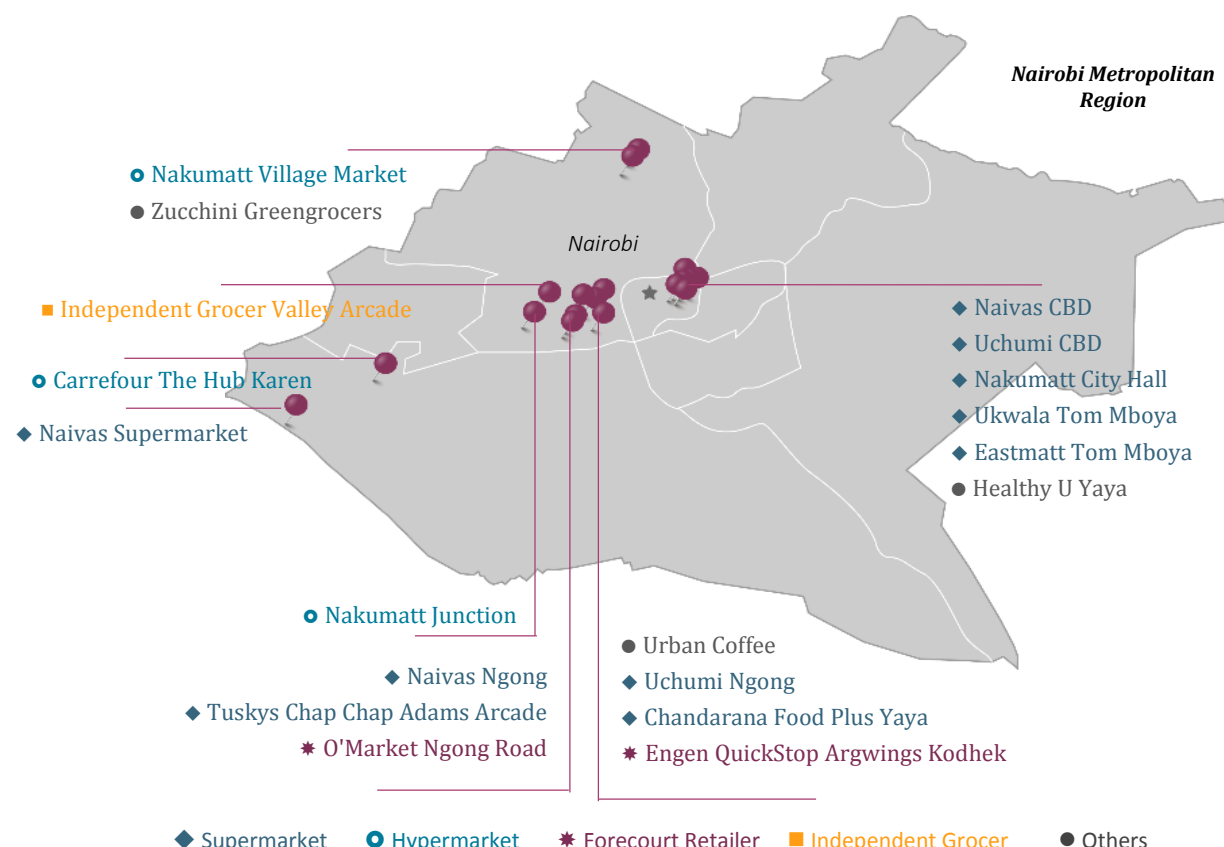


Figure 10 Stores Audited in Nairobi, Kenya

Source: Euromonitor International

Note: Nairobi Metropolitan Region with division boundaries shown

Focusing on the top five leading brands in tea and coffee, and top three brands within powdered hot beverages as well as all Fairtrade certified brands available, the results facilitated an assessment of the level of in-store product assortments, pricing trends, shelf space and promotions (see Appendix I.). The audits also provided broader retail qualitative insights such as the level of penetration of certified brands across modern grocery retail.

4.2 REPRESENTATION OF TOP BRANDS IN GROCERY RETAIL IN KENYA

Tea offer is wider in terms of assortment and shelf-space while leading players adopt their offer depending on store location and the socio-economic profile of its target customers. Smaller stores such as forecourt retailer and traditional grocery have a smaller assortment of tea, coffee and powdered drinks

Little variation in the leading tea brands sold in Kenya's grocery retailers was found although their shelf space is considerably different from store to store. Fahari ya Kenya, produced by Kenya Tea Packers, was better represented in grocery outlets situated in lower income area, whereas Kericho Gold (Gold Crown Beverages Kenya) was more prevalent in middle-upper class stores.

Table 14 Retail Value RSP Market Share (%) 2015 and Presence of Leading Players within Tea Categories

Source: Euromonitor International (2016) and In-store Audits November 2016



Company Name	Brand	Market Share (Retail Value RSP)	Stores (out of 19)	Black Loose Tea	Black Tea Bags	Herbal/Fruit Tea	Other Tea
Kenya Tea Packers	Fahari ya Kenya	60.4%	7	✓	✓	✓	
Karirana Estates	Eden	17.1%	2	✓			
Sasini Tea & Coffee	Sasini	1.9%	2	✓			✓
Gold Crown Beverages Kenya	Kericho Gold	1.6%	16	✓	✓		✓

Black tea dominates across retail stores and is available in both loose format and tea bags, with the latter enjoying a somewhat more premium positioning in the market. Four of the top players within tea are Kenya-based companies, and all of them offer loose black tea, addressing the demand of low to medium income earners (Table 14). The leading brand, Fahari ya Kenya, had the widest range of products in retail shelves, suggesting greater sales volumes than other brands and confirming its brand ranking. Its portfolio includes both black and herbal/fruit teas in loose and tea bag formats.

In the store sample, only the two leading players, Kenya Tea Packers and Karirana Estates, offer black tea in bags under the Fahari ya Kenya and Eden brands, respectively (Picture 9). Herbal/fruit and specialty black teas are also available but product ranges are much narrower in comparison to black standard tea among the top tea manufacturers. For instance, typically just one or two brands of specialty black tea, namely Kericho Gold Attitude Teas (Gold Crown Beverages Kenya) or Twinings Infusions (Associated British Foods Plc) brands, were encountered. Herbal/fruit teas, in turn, were found to be exclusively offered under the Fahari ya Kenya brand in the stores visited.

**Picture 9 Ketepa, Eden, and All Time tea at Uchumi Ngong**

Source: Euromonitor International

Instant coffee dominates facings for coffee, although coffee's prominence on retail shelves is lower than for tea, as is expected given Kenyan consumption habits and preferences for tea

**Picture 10 Coffee pods at Chandarana Food Plus Yaya in Nairobi**

Source: Euromonitor International

As local consumers generally favour tea over coffee, the shelf space dedicated to coffee is significantly lower than for tea, with many stores offering more than double the assortment of tea than coffee. Instant coffee clearly dominates on retail shelves, with the top brand, Nescafé, offered only in instant format. Sasini (Sasini Tea & Coffee) and Gibsons (Gibsons Coffee Ltd) are also only available in instant format. However, the second leading coffee brand, Dormans (Dormans Coffee Group) offers a wide selection of coffee products within both instant and fresh coffee as well as coffee pods (Table 15). In fact, Dormans, Safari Lounge and René were the only coffee pods seen in the market, but only a Dormans branded pod machines was seen (Picture 10). Africafe brand (Afri Tea & Coffee Blenders) is also available in fresh and instant formats but is less commonly found in stores.

Table 15 Retail Value RSP Market Share (%) 2015 and Presence of Leading Players within Coffee Categories

Source: Euromonitor International and In-store Audits November 2016



Company Name	Brand	Market Share (Retail Value RSP)	Stores (out of 19)	Instant Coffee	Fresh Coffee	Coffee Pods
Nestlé Foods Kenya	Nescafé	43.6%	7	✓		
Dormans Coffee Group	Dormans	14.7%	12	✓	✓	✓
Sasini Tea & Coffee	Sasini	14.6%	3	✓		
Afri Tea & Coffee Blenders	Africafe	5.0%	3	✓	✓	
Gibsons Coffee	Gibsons	2.6%	1	✓		

Although most of the five top coffee brands are locally produced, the market leader Nescafé is sourced from Brazil. Other imported instant coffee products are offered mainly by smaller brands, e.g. MacCoffee (Future Enterprises) shipped from Singapore and India.

Retailers in Kenya stock a wide variety of chocolate-based drinks outside market leaders Nestlé and Cadbury

The assortment and representation of powdered hot beverages is narrower in comparison to tea and coffee. The split between chocolate-based flavoured, malt-based and other powdered hot drinks varies per store, with supermarkets and hypermarkets including Nakumatt, Uchumi and Tuskys dedicating more shelf space to these products. As cocoa-based products are more expensive than soya-based drinks, these are more often encountered in well-off neighbourhoods. Although Milo, Cadbury and Raha are the most popular powdered hot drinks (Table 16), the variety of brands available indicates a notable consumer demand for these products.

Table 16 Retail Value RSP Market Share (%) 2015 and Presence of Leading Players within Powdered Hot Beverages Categories

Source: Euromonitor International and In-store Audits November 2016



Company Name	Brand	Market Share (Retail Value RSP)	Stores (out of 19)	Chocolate-based	Malt-based
Nestlé Foods Kenya	Milo	47.9%	10	✓	✓
Cadbury Kenya	Cadbury	32.1%	13	✓	✓
Excel Chemicals	Raha	9.1%	13	✓	

4.3 PORTFOLIO ACROSS GROCERY RETAIL CHANNELS

Stores located in upper neighbourhoods offer a more sophisticated choice of hot beverages especially for tea and coffee

Tea is a mainstay in all stores, although the variety and format of teas differs substantially across the stores visited depending on their consumer segmentation in terms of purchasing power. In lower income retail outlets, such as Ukwala and Tuskys supermarkets, loose tea varieties are more commonly found than tea bags, which are sold at a higher price. Prominent brands offering loose tea include All Time (Kenya-based Trade Circles Ltd) and Ketepa's Fahari ya Kenya (Picture 11). However, Ketepa bagged black tea was also consistently available with significant shelf space.



Picture 11 Fahari ya Kenya displayed at the lower shelves alongside a variety of local brands at Nakumatt Village Market hypermarket

Source: Euromonitor International

In stores serving higher income consumers, black tea gives up facings share to a larger variety of specialty teas and imports, for example Dr Stuart's Extraordinarily Good Teas (Dr Stuart's Ltd) and Twinings, both imported from the United Kingdom. Kericho Gold tea varieties are widely available but more prominent in stores serving upper income areas, and with greater variety including a large range of flavoured teas, and the recently launched Kericho Gold Attitude Teas.

Similarly, the shelf space dedicated to the coffee assortment tends to be larger in grocery stores catering to middle and upper class consumers as well as expatriates. In stores targeting low-income Kenyans, the coffee offer is mainly limited to instant and single use sachets, whereas retailers addressing more affluent consumers also tend to sell premium instant coffee, fresh ground coffee and even coffee pods. The share of imported coffee brands is also higher in these stores. Nescafé enjoys high share of shelf across most stores, although fewer facings are evident in stores located in lower income areas.

For powdered hot beverages, the main brands in most stores are Nestlé Milo, Cadbury and Raha (Picture 12), and in some stores a new entry to the market, Enerquik Drinking Chocolate (Trade Services Ltd), also held significant share of shelf space. Other chocolate-based and malt-based powdered beverages brands well represented in retail are Ovaltine Drinking Chocolate (Associated British Foods Plc, China) and Horlicks (GlaxoSmithKline), imported opportunistically from various markets including Pakistan, India and the United Kingdom. Other powdered hot beverages, mainly locally produced soya-based products, are less expensive than chocolate-based powdered drinks. Thus, in retail outlets located in lower income neighbourhoods, soya-based powdered drinks, such as Supasoya (South Africa-based Supa Foods) or Supameal Tangawizi Soya Drink (Supacosc Products Ltd) are given more shelf space.



Picture 12 A variety of powdered hot drinks and Nescafé displayed amongst coffee at Nakumatt City Hall supermarket

Source: Euromonitor International

4.4 PRICING ASSESSMENT

Forecourt retailers charge extra for convenience while price differences are negligible among outlets serving lower versus upper class consumers

Grocery stores serving lower and middle income consumers are positioned as more affordable than outlets oriented towards upper-income Kenyans. For example, Tuskys supermarkets catering to consumers with lower incomes charged KSh99 (US\$1.01) for a 50 bag-pack of Kericho Gold while the same product was sold at KSh110 (US\$1.12) in O'Market Ngong Road forecourt retailer targeted at more affluent consumers as well as charging extra for convenience. Brand owners hold control over pricing, with price variation mainly stemming from the retail channel. Note that pricing assessments discussed below are made on a standardised basis using 1kg to facilitate comparison.

Loose tea is notably more affordable than tea bags on average

Within loose tea, herbal/fruit teas are slightly less expensive than black loose tea, the largest tea variety (Chart 27). Fahari Ya Kenya is the most common loose black tea brand with an average price of KSh1,237 (US\$12.60) per kg. The two cheapest loose black tea brands were found to be Baraka Chai (Gold Crown Beverages Kenya) and Eden (Table 17). Flexible packaging is by far the largest packaging format in loose tea as a whole with the 250g size proving the most popular, although the 100g size also made headway.

The former retailed for between KSh400 (US\$4.07) per kg of Kericho Gold to KSh1,596 (US\$16.26) per kg of Sky Loose Tea (Sky Tea Ltd).

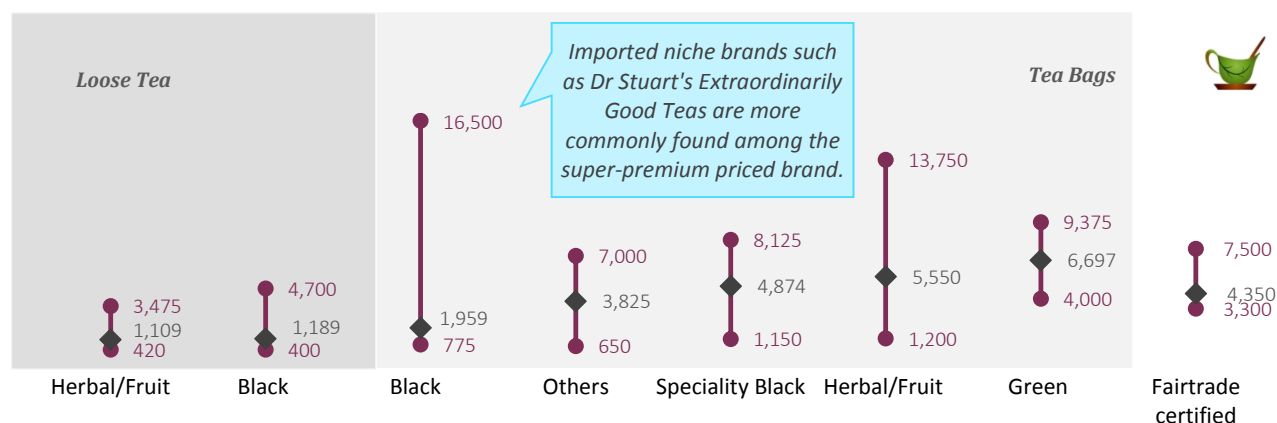


Chart 27 Retail Prices (Max, Average and Min measured at KSh/kg) of Tea by Category

Source: Euromonitor International from In-store Audits November 2016

Table 17 Average price (KSh) and Packaging Positioning Strategies per Loose Tea Brand

Source: Euromonitor International and In-store Audits November 2016

Note: ★ Most expensive product by weight

Brand	50g	100g	250g	500g	1000g	Average/kg
All Time	×	×	KSh120	×	×	KSh480
Baraka Chai	×	×	KSh120	×	×	KSh480
Eden	×	KSh45	×	×	×	KSh450
Fahari Ya Kenya	KSh130	KSh111	KSh155	×	×	KSh1,237
Kericho Gold	×	KSh399	KSh138	KSh315	×	KSh1,270
Safari	×	×	×	KSh356	KSh732	KSh717
Sasini	×	×	×	KSh310	×	KSh620
Sky	×	×	KSh399	×	×	KSh1,596 ★

Table 18 Average price (KSh) and Packaging Positioning Strategies per Tea Bag Brand

Source: Euromonitor International and In-store Audits November 2016

Note: ★ Most expensive product by weight

Brand	10 bags	20 bags	25 bags	50 bags	100 bags	Average/kg
Aberdare	×	×	KSh50	KSh85	×	KSh925
African Organic Green Tea	×	×	KSh210	×	×	KSh4,200
Baraka Chai	×	×	×	×	KSh175	KSh875
Dr Stuart's Extraordinarily Good Teas	KSh495	×	×	×	×	KSh16,500 ★
Eden	×	×	×	×	KSh155	KSh775
H&H Organic Green Tea	×	KSh375	×	×	×	KSh9,375
Kate's Organic Everyday Detox Tea	×	×	KSh250	×	×	KSh5,000
Kericho Gold	×	×	KSh165	KSh103	KSh219	KSh1,562
Ketepa	×	×	KSh59	KSh110	KSh228	KSh1,742
Rene Green Tea	×	KSh295	×	×	×	KSh7,375
Winnie's Pure Health Nettle Tea	×	×	KSh200	×	×	KSh4,000

For tea bags, green tea is most expensive on average but is also not well represented in stores visited (Table 18). Local manufacturers charge a premium for specialty black bagged tea brands as illustrated by

Kericho Gold in tea bags at KSh6,342 (US\$64.59) per kg. The cheapest local brands in tea bags were Eden and Sasini with an average price per kg at KSh775 (US\$7.89) and KSh650 (US\$6.62), respectively. Meanwhile, folding cartons of 20 to 25 units are the most popular packaging format for tea bags.

The variability in the price of instant coffee is high in Kenya, as consumers seem willing to pay more in search of convenience, whereas on average fresh coffee is cheaper. The price of coffee pods reflects their exclusivity

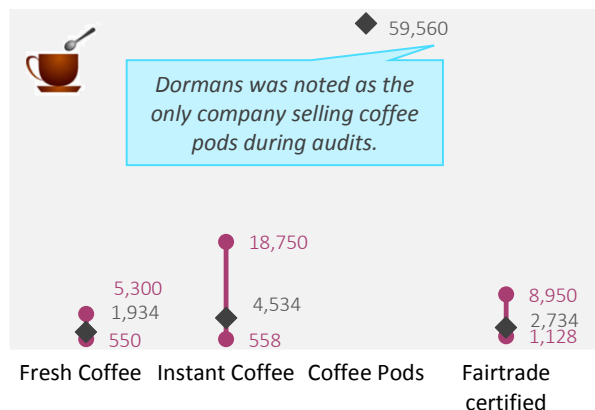


Chart 28 Retail Prices (Max, Average and Min measured at KSh/kg) of Coffee by Category

Source: Euromonitor International from In-store Audits November 2016

In coffee, product and packaging types also have an impact on prices (Chart 28). The most expensive instant coffee was found in 18g single-serve sachets at around KSh158 (US\$1.60) with MacCoffee charging a premium for its new 3-in-1 coffee mixers. No price difference was encountered between instant coffee in glass jars and metal tins – both were around KSh4,000 (US\$41.00) per kg. Metal tins are the most widely used packaging type within instant coffee. Instant coffee in plastic jars, such as Miksi Coffee Milk Drink by Promasidor Kenya, were more affordable at KSh740 (US\$7.54) per kg (Picture 13).

Conversely, flexible packaging leads in fresh coffee. In contrast to instant coffee, metal tins for fresh coffee denote a premium brand. Only two brands are found in metal tins, namely Africafé charging a premium at KSh5,300 (US\$53.98) per kg and Out of Africa Premium Dark Coffee (Kenya Nut Co) at KSh1,810 (US\$18.44) per kg. The average price for fresh coffee in flexible packaging was found to be KSh1,826 (US\$18.60) per kg. The cheapest product was Dormans 3K Kahawa, which could be purchased at only KSh794 (US\$9.92) per kg.

The Africafé brand from Tanzania has targeted the Kenyan market for further growth and offers the most expensive product range. At KSh5,300 (US\$53.98) per kg and KSh18,750 (US\$190.98) per kg on average for fresh and instant coffees, respectively, Africafé is positioned on the high end of the spectrum (Table 19). Dormans' products are significantly more affordable, at KSh1,563 (US\$15.92) per kg in fresh and KSh3,898 (US\$39.70) per kg in instant coffee assortment (Table 20). The average retail price of the leading brand, Nescafé instant coffee, was KSh4,388 (US\$44.70) per kg.

The variability in the price of instant coffee is high with a number of different package sizes available, suggesting that consumers are willing to pay more for impulse purchases or in search of convenience. For package sizes less than or equal to 50g range from a comparatively cheap KSh5 (US\$0.05) for single-serve sachets of Nescafé, Dormans and PanCaffee to KSh315 (US\$3.41) for 50g of MacCoffee. 100g is the most popular package size and retails for between KSh290 (US\$2.95) for Café Bora sourced from Tanzania to KSh895 (US\$9.12) for Percol shipped from the United Kingdom. Given the price sensitivity of Kenyan consumers, the popular 100g package size allows brands to maintain affordable unit prices despite the high price per kilogram.



Picture 13 A variety of instant coffee brands at Nakumatt Village
Source: Euromonitor International

Table 19 Average price (KSh) and Packaging Positioning Strategies per Instant Coffee Brand

Source: Euromonitor International and In-store Audits November 2016

Note: ★ Most expensive product by weight

Brand	2g	18g	50g	100g	200-250g	500g	Average/kg
Africafe	KSh30	×	KSh290	KSh790	×	×	KSh18,750 ★
Café Bora	×	×	×	KSh290	×	×	KSh2,900
Café Pele	×	×	×	KSh400	×	×	KSh3,650
Dormans	KSh5	×	KSh220	KSh402	×	×	KSh3,898
Gibsons	×	×	×	KSh310	×	×	KSh3,100
Kenya Highlands	×	×	KSh200	×	×	×	KSh4,000
MacCoffee 3-in-1	×	KSh158	×	×	×	×	KSh8,750
MacCoffee	×	×	KSh315	KSh405	×	KSh445	KSh8,400
Milsiki 3-in-1	×	KSh25	×	×	×	KSh325	KSh896
Nescafé	KSh5	×	KSh250	KSh469	KSh900	×	KSh4,388
PanCaffee	KSh5	×	×	×	KSh693	×	KSh2,888
Percol	×	×	×	KSh895	×	×	KSh8,950
Nakumatt Gold (Private label)	×	×	×	KSh420	×	×	KSh4,200
Sasini	×	×	×	KSh325	KSh560	×	KSh2,913

Table 20 Average price (KSh) and Packaging Positioning Strategies per Fresh Coffee Brand

Source: Euromonitor International and In-store Audits November 2016

Note: ★ Most expensive product by weight

Brand	50g	100g	200-250g	340-375g	475-500g	Average / kg
Africafe	KSh265	×	×	×	×	KSh5,300 ★
Blend Africa Espresso	×	×	KSh530	×	×	KSh2,120
Dormans	×	KSh55	KSh295	KSh249	KSh914	KSh1,563
Java Coffee Kenya AA Beans	×	×	×	KSh880	KSh900	KSh2,120
Java Fresh Ground	×	×	×	×	KSh850	KSh1,700
Out of Africa Premium Dark	×	×	KSh500	×	KSh905	KSh1,905
Percol Colombia Ground	×	KSh795	×	×	×	KSh3,975
Pete's Connected	×	×	KSh694	×	×	KSh2,776
Safari	×	×	KSh565	×	KSh1,250	KSh2,340
Shiriki Lifestyle	×	KSh70	KSh530	×	×	KSh1,410

There is a clear price differential between cheaper local and premium imported powdered hot beverages

In powdered hot beverages, Cadbury's Drinking Chocolate is the most widely distributed product in Kenya, with an average price of KSh1,258 (US\$12.81) per kg. The second most noted brand across stores audited was Nestlé's Milo Drinking Chocolate, priced at KSh1,898 (US\$19.33) per kg on average. Cadbury Cocoa was priced on average at KSh1,567 (US\$15.96) per kg while local brand Raha Cocoa, which seems to mimic international brands in look, can be bought more cheaply at KSh1,001 (US\$10.19) per kg. Nonetheless, the lowest price tags were carried by locally produced soya-based powdered drinks, with the least expensive product, Wamimu Tasty Soya Drink by Wamimu Soya Pack Ltd available at as low as KSh367 (US\$3.73) per kg (Chart 29).

Per packet, the most expensive chocolate-based products observed were Green and Blacks's 300g Organic Hot Chocolate pack at KSh1,295 (US\$13.10) and GlaxoSmithKline's 500g Horlicks pack at KSh900 (US\$9.20). Conversely, sachets of Nestlé's 15g Milo are sold individually in small grocery stores at approximately KSh18 (US\$0.18). Local chocolate-based drinks are also cheaper per package. A 200g plastic jar of Raha Cocoa costs approximately KSh225 (US\$2.30) in Kenya, while a similar pack for Cadbury Cocoa carries is sold at around RSh301 (US\$3.10) on average.

A marked pack type polarisation in powdered hot beverages is evident as purchasing decisions by low income consumers are shaped by constrained budgets (Table 21). Bulk metal tins of 250g and 300g are considered premium packaging in chocolate-based drinks, offered only by imported brands, such as Green and Blacks Organic Hot Chocolate (Green and Blacks Ltd, United Kingdom) and Cacao a la Taza (Laboratorios Almond SL, Spain). The average price per kg for Milo Drinking Chocolate's standard 200g metal tin of KSh1,955 (US\$19.91) was also more than double the average price per kg for the 200g plastic jar of Raha Drinking Chocolate at KSh931 (US\$9.49). Flexible packaging is the cheapest, mainly found for 50g and 100g Raha products.

Table 21 Average price (KSh) and Packaging Positioning Strategies per Chocolate-based Hot Beverages Brand

Source: Euromonitor International and In-store Audits November 2016

Note: ★ Most expensive product by weight

Brand	15g	50g	100-150g	200-250g	300-400g	450-500g	Average/kg
Cacao a la Taza	×	×	×	KSh694	×	×	KSh2,776
Cadbury Bournvita	×	×	×	×	×	KSh670	KSh1,340
Cadbury's Cocoa	×	×	×	KSh301	KSh600	×	KSh1,567
Cadbury's Drinking Chocolate	×	×	KSh205	KSh248	×	KSh435	KSh1,257
Choco Primo	×	×	×	×	KSh315	×	KSh788
Clovers Cocoa	×	×	×	KSh210	×	×	KSh1,050
Enerquick	×	×	KSh130	KSh230	×	KSh410	KSh991
Green & Blacks Organic Hot Chocolate	×	×	×	×	KSh1,295	×	KSh4,316 ★
Horlicks	×	×	×	KSh300	×	KSh646	KSh1,438
Milo	KSh18	×	KSh200	KSh391	×	×	KSh1,898
Ovaltine	×	×	KSh275	×	KSh585	×	KSh1,768
Raha Cocoa	×	×	KSh55	KSh225	KSh395	×	KSh1,001
Raha Drinking Chocolate	×	KSh33	KSh55	KSh186	×	×	KSh768
Rapras Cocoa	×	KSh70	×	KSh230	×	×	KSh1,233

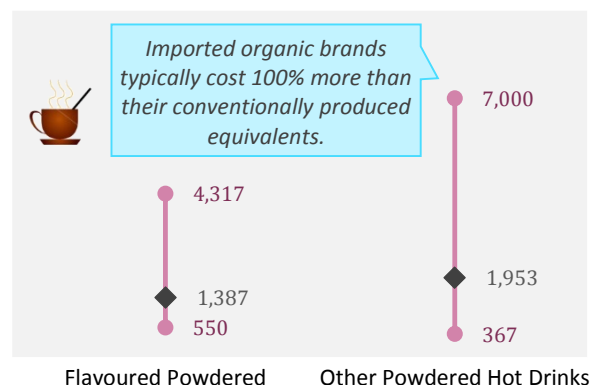


Chart 29 Retail Prices (Max, Average and Min measured at KSh/kg) of Powdered Hot Beverages by Category

Source: Euromonitor International from In-store Audits November 2016

Glass jars of 100g have a premium positioning within malt-based and other powdered hot drinks, with glass renowned for conferring a more sophisticated image. Moreover, consumers often like to see the contents of the products they purchase, which gives glass an advantage over other packaging formats. In this regard, Barley Cup with Dandelion by Community Foods Ltd from Poland and Biona Organic Biomalt

(UK-based Windmill Organics Ltd) were sold at KSh7,000 (US\$71.30) per kg and KSh6,940 (US\$70.69) per kg respectively (Table 22). Plastic jars, in turn, are the most common and also the cheapest packaging type in other powdered hot drinks, with prices as low as KSh367 (US\$3.73) per kg for the above mentioned Wamimu Tasty Soya Drink of 300g.

Table 22 Average price (KSh) and Packaging Positioning Strategies per Other Hot Beverages Brand

Source: Euromonitor International and In-store Audits November 2016

Note: ★ Most expensive product by weight

Brand	100g	125g	200g	250g	300g	500g	Average/kg
Barley Cup with Dandelion	KSh700	×	×	×	×	×	KSh7,000 ★
Biona Organic Biomalt	KSh694	×	×	×	×	×	KSh6,940
Nequik Strawberry	×	×	×	×	×	KSh690	KSh1,380
Sue's Naturals Soya Cinnamon Drink	×	×	KSh160	×	×	×	KSh800
Supameal Tangawizi Soya	×	KSh77	×	KSh127	×	×	KSh562
Supasoya	KSh64	×	×	×	×	×	KSh640
Wamimu Tasty Soya	×	×	×	×	KSh110	×	KSh367

4.5 LOCALLY PRODUCED VS IMPORTED BRANDS

Domestic players dominate across all hot beverages categories, with local brands significantly more affordable

Imported teas are not well represented on Kenyan grocery retail shelves – these are mainly imports from the United Kingdom including Dr Stuart's, Higher Living Teas, H&H and Twinning. Locally produced tea is, not unexpectedly, significantly cheaper than imported brands (average price of KSh2,160 (US\$22.00) per kg vs around KSh8,580 (US\$87.39) per kg respectively). The price gap is particularly pronounced for tea bags.

Domestic players also enjoy a dominant position within coffee, as imported products are almost completely absent in lower income stores. Notable exceptions are dominant global brands like Nescafé, sourced from Brazil, which appeared in even the lowest income stores. Other coffee brands imported to Kenya include MacCoffee (from India and Singapore), Percol (Percol Coffee Co from the United Kingdom), Café Bora (Tanganyika Instant Coffee Ltd from Tanzania). Tanzanian coffee was sold at KSh2,900 (US\$29.54) per kg on average, the cheapest in the market. Alicafe Sachet, an exclusive coffee brand by Power Root Ltd from Dubai, was also found at up to KSh18,750 (US\$190.98) per kg.



Picture 14 Cadbury Drinking Chocolate (right) alongside with locally produced soya-based powdered hot beverages (left) at Uchumi Ngong supermarket
Source: Euromonitor International

Local brands take the lead on store shelves within powdered hot beverages (Picture 14). The significantly lower price of local cocoa-based products with an average price of KSh1,269 (US\$12.92) per kg explains limited penetration of global players into the market. In other powdered hot drinks, the United Kingdom is once again the main source of origin. As an example, Nesquik Strawberry Powdered Drink (by Nestlé Foods Kenya) was priced at KSh1,380 (US\$14.06) per kg, while the cheapest local product, Wamimu Tasty Soya Drink, was available at only KSh367 (US\$3.73) per kg.

4.6 SHELF POSITIONING

Tea enjoys greater representation in terms of dedicated shelf space than coffee and powdered hot beverages reflecting Kenyan's preference for tea

Tea has the largest dedicated shelf space across grocery retailers (Chart 31). The total number of tea facings reached up to 500-600 items in hypermarkets (and almost 900 facings were observed in Carrefour). However, tea representation in forecourt retailers is rather weak, with less than 10 facings due to the lack of space available, but then forecourt retailers tend to few facings of all hot drinks (Chart 30).

"Most supermarkets have long aisles saturated with so many brands of the same product, e.g. black tea, it's the same variety across all brands' portfolio, and thus the packaging and branding is what matters."

– Marketing Manager at a Fairtrade social enterprise, Nairobi

Interestingly, no single company dominates shelf space, although Kenya Tea Packers is strongly represented in loose black tea with its Fahari Ya Kenya brand and the Ketepa brand in teabags. Safari (Kenya Tea Packers)

and Kericho Gold are other prominent tea brands given visual and eye-catching shelf space.

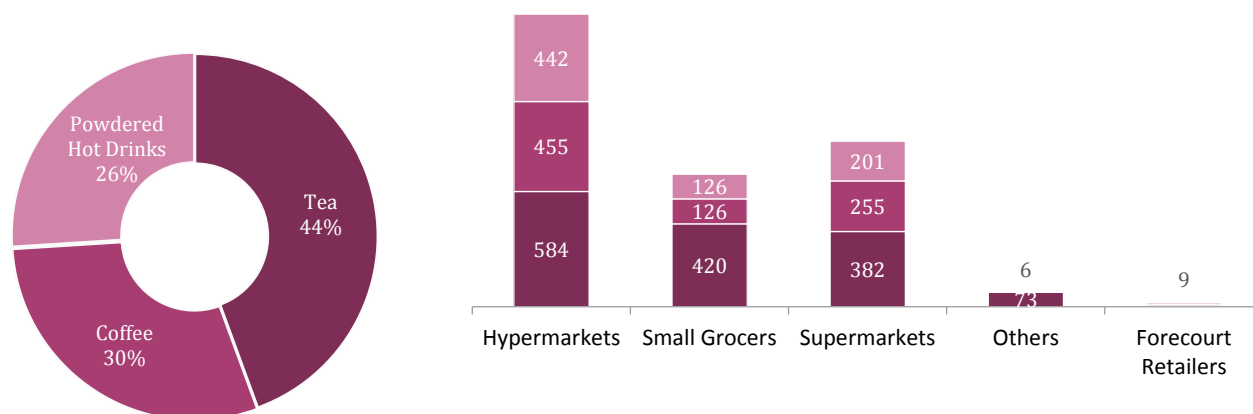


Chart 31 Shelf-space Split within Hot Beverages in Kenya

Source: Euromonitor International from In-store Audits November 2016

Chart 30 Average Number of Facings per Category (Tea, Coffee & Powdered Hot Beverages) and Store Format

Source: Euromonitor International from In-store Audits November 2016

Nescafé is the best displayed instant coffee brand in terms of visibility and shelf-space in most stores with smaller pack sizes usual in lower income areas to attract price-sensitive consumers, and bigger pack sizes dominating in upper income stores. Dormans brand products are also well represented in both instant and fresh coffee types. Dormans Instant was the second most visible instant coffee brand, whereas in fresh coffee Dormans Roasted Coffee and Dormans 3K Kahawa led in terms of visibility. It was also noted that the shelf share of Dormans Instant is fairly consistent across different stores serving all types of consumers, although the product had a slightly more prominent placing in stores located in lower income areas.

Other locally produced coffee brands with a more premium positioning are better represented in stores catering to consumers with higher incomes. For example, Java House brand (Nairobi Java House Roastery) was hardly found in lower income neighbourhoods while it enjoyed a decent shelf space share and variety in upper income areas.

In powdered hot beverages, Cadbury Kenya dominates with Cadbury's Drinking Chocolate the leading brand product in terms of shelf space across most stores. Even with the advantage of brand leadership in value terms, Milo Drinking Chocolate is the second most visible brand, followed by Raha Drinking

Chocolate and Raha Cocoa. The share of shelf space dedicated to Raha brand products tends to increase in lower income stores due to its lower price, when Raha packaging at the same time shifts from jars to less expensive sachets.

4.7 IN-STORE PROMOTIONAL ACTIVITIES

Hot beverages manufacturers strongly beat on gift with purchase marketing

In-store promotions in the form of price discounts do not appear to be common for hot beverages in Kenya. A price reduction of 25% for Sasini instant coffee in Carrefour hypermarket was one of the only discounts observed during audits.

Hot beverage manufacturers rely instead on gift with purchase marketing strategies to entice consumers and drive sales. As an example, Nestlé Foods Kenya ran a promotional campaign for its Nescafé brand by rewarding consumers with a free red mug for purchase of every 200g pack of instant coffee in Eastmatt Tom Mboya and Naivas CBD supermarkets. A similar campaign was carried out by GlaxoSmithKline with the offering of a customised mug with the purchase of 500g Horlicks chocolate-based flavoured powder drink (Picture 15). In addition, Future Enterprises had in-store activities promoting its new MacCoffee 3-in-1 sachets. In two Nakumatt stores visited, merchandising staff provided information on the product, but no taste testing or sampling was available.



Picture 15 Horlicks mug promo
Source: Euromonitor International

4.8 PENETRATION OF CERTIFIED BRANDS IN KENYA

Third-party certifications are not the norm on Kenyan retail shelves

The presence of tea or coffee brands featuring ethical labels was found to be negligible on Kenyan retail shelves. Indeed, products featuring UTZ were not recorded during audits but Percol coffee did display a Rainforest Alliance label. Store interviews indicated that more sophisticated consumers are more likely to seek health and wellness benefits rather than paying attention to ethical labelling.

4.8.1 AVAILABILITY OF FAIRTRADE CERTIFIED BRANDS

Only two local manufacturers feature the Fairtrade mark in tea and coffee making this ethical certification not very prominent on Kenyan retail shelves

Table 23 Facings of Fairtrade Certified Tea, Coffee and Powdered Hot Drinks Brands

Source: Euromonitor International and In-store Audits November 2016

Audited stores offering Fairtrade certified brands	Fairtrade facings	Proportion Fairtrade
Carrefour The Hub Karen, Hypermarket	31	2%
Nakumatt Village Market, Hypermarket	21	2%
Nakumatt Junction, Hypermarket	17	1%
Urban Coffee, Specialist coffee shop	13	100%
Healthy U Yaya, Health food specialist	12	7%
Zucchini Greengrocers, Small grocer	8	13%
Tuskys Chap Chap Adams Arcade, Supermarket	6	1%
Ukwala Tom Mboya, Supermarket	2	1%

The presence of Fairtrade certified hot beverage products was very limited across all stores visited during the audits. None were present in forecourt retailers. Hypermarkets and other grocery retailers, such as health food specialist and specialist coffee shops, offer the greatest choice of Fairtrade certified hot beverages brands. The total number of Fairtrade certified brands facings reached up to 38 items (out of more than 1,000 hot drinks facings) in

hypermarkets operated by Nakumatt Holdings, with other grocery retailers close behind with similar proportions.

Conversely, the representation of Fairtrade certified brands representation in supermarkets was poorer, with fewer than 10 facings (Table 23). During store audits, Fairtrade certified hot beverage products were encountered in only two out of nine supermarkets visited in Nairobi. The placement of Fairtrade certified brands was similar across all retailing outlets, with these found between the top shelf and “bull’s-eye zone” (front and centre, right in consumers’ sight line).

Urban Coffee is an exception. In this specialist coffee shop, a product stand emphasised Fairtrade certified products (Picture 16). However, only few brands actually featured the Fairtrade mark. The mix consisted mainly of Kericho Gold flavoured teas and Dormans fresh coffee. The products and the stand itself seemed to look rather outdated and unused, suggesting that the displayed Fairtrade certified products are not moving quickly indicating low demand.

Besides that, only three brands were noted in stores as carrying the Fairtrade label – local tea brand Kericho Gold, including Kericho Gold Attitude Teas, local coffee brand Dormans and the imported coffee brand Percol (Picture 17). While Fairtrade certified Kericho Gold brand is sold through hypermarkets, supermarkets and other grocery retailers, Dormans certified coffee was found to be better represented at other grocery retailers. Fairtrade certified coffee brand Percol, in turn, was encountered only at hypermarkets Carrefour and Nakumatt Village Market.

Most fresh coffee products by Dormans are positioned within the medium and lower price segment, with Dormans Suprema Fine Coffee costing KSh1,803 (US\$18.36) per kg and Dormans 3K Kahawa KSh974 (US\$9.92) per kg on average. In instant coffee, the average retail prices for Dormans and Percol brands are at the level of the average category price (Table 24, Table 25).



Picture 16 Fairtrade stand (left) and price list (right) at Urban Coffee in Nairobi

Source: Euromonitor International



Picture 17 Kericho Gold (left) and Percol Fresh Ground Coffee (right) with prominent Fairtrade logo at Nakumatt Village

Source: Euromonitor International

Based on in-store observations, price remains a more important purchase driver for local consumers, with most consumers limited in their budgets. This was also confirmed during store interviews where most respondents professed ignorance of Fairtrade or similar certification schemes (see Chapter 5). Thus, local brands appear to compete mainly on price by also using less expensive packaging, rather

than investing in ethical certifications. Nonetheless, prices charged by Fairtrade certified teas and coffees do come at a premium when compared to the category average.

Table 24 Average price (KSh) and Packaging Positioning Strategies per Fairtrade Certified Tea Brand

Source: Euromonitor International and In-store Audits November 2016

Note: ★ Price of Fairtrade certified brands exceeds that of the whole tea category on average at a per kg level

Brand	Category	20 bags	25 bags	Average/kg	Category Average/kg
Kericho Gold Flavoured Tea Bags	Tea bags	KSh254	★	KSh6,342 ★	KSh3,922
Kericho Gold Attitude Teas	Tea bags	★	KSh186	KSh7,500 ★	KSh3,922

Table 25 Average price (KSh) and Packaging Positioning Strategies per Fairtrade Certified Coffee Brand

Source: Euromonitor International and In-store Audits November 2016

Note: ★ Price of Fairtrade certified brands exceeds that of the whole fresh and instant coffee categories on average at a per kg level

Brand	Category	100g	200-250g	475-500g	Average/kg	Category Average/kg
Dormans 3K Kahawa	Fresh coffee	★	★	KSh1,031	KSh2,062 ★	KSh1,934
Dormans AA Blue Mountain	Fresh coffee	★	★	KSh1,329	KSh2,658 ★	KSh1,934
Dormans Breakfast Blend	Fresh coffee	★	★	KSh918	KSh1,836	KSh1,934
Dormans Coffee House Blend	Fresh coffee	★	★	KSh564	KSh1,128	KSh1,934
Dormans Household Blend	Fresh coffee	★	★	KSh703	KSh1,406	KSh1,934
Dormans Roasted Coffee	Fresh coffee	★	★	KSh670	KSh1,340	KSh1,934
Dormans Suprema Fine Coffee	Fresh coffee	★	★	KSh750	KSh1,500	KSh1,934
Percol	Instant coffee	KSh895	★	★	KSh8,950 ★	KSh4,534
Percol Colombia Ground	Fresh coffee	★	KSh795	★	KSh3,975 ★	KSh1,934
Safari Lounge Espresso	Fresh coffee	★	KSh680	KSh1,250	KSh2,610 ★	KSh1,934

4.8.2 OTHER CONCURRENT/COMPLEMENTARY LABELS

Origin-specific claims rather than ethical labelling was found to be prominent during store visits

“In Kenya, producers can easily put a label in the packaging showing that the product is certified, especially for those sold locally. Even KEBS and Kenya Revenue Authority’s (KRA) logos are easily forged in the black market”

– Marketing Manager at a Fairtrade social enterprise, Nairobi

“Made in Kenya” claims are quite prominent in the front of several tea and coffee packages (Picture 18). However, the absence of a standard label for claims on provenance across locally produced brands suggests it is

not a major factor for brand differentiation used by manufacturers. This seems to be borne out by the consumer survey where only a third of the sample indicated their agreement that buying Kenyan is important, and around 40% voiced no opinion. Store interviews reflect an equally ambiguous view.



Picture 18 Illustrative examples of ‘Pure Kenya Tea’ claims at Uchumi Ngong supermarket

Source: Euromonitor International

The only exception might be “Coffee Kenya”, a trademark for Kenya Arabica coffee registered by the Coffee Directorate at the Kenya Intellectual Property Institute and the Madrid System with the aim of giving it a unique identity in the world and to differentiate it from lower quality varieties. The logo, which depicts the silhouette of Mount Kenya along with the tagline “So Rich, So Kenyan”, was identified in Java House Kenya AA Roasted Coffee during audits (Picture 19).

Within imported teas, Higher Living Tea with the Organic Soil Association approved label was the only brand seen during store audits. As such, no conclusions are possible to make about the price differentiation between certified versus standard tea products as imported teas are more expensively priced in any case.

As far as powdered hot beverages are concerned, the only claim relates to organic products as well as suitability for vegetarian consumers. However, most of these products were found in a health food specialist, Healthy U Yaya, rather than in mainstream modern retailers. Clovers Cocoa (Excel Chemicals) and Ovaltine Drinking Chocolate are both marked as products suitable for vegetarians (Picture 20). Other imported brands with ethical labels include Green and Blacks Organic Hot Chocolate carrying the “Certified GB-ORG-5” label, Biona Organic Biomalt labelled as “Certified Organic by Organic Food Federation”. The Spanish brand Cacao a la Taza also claims to be organically produced. Imported products displaying organic labels usually carry a higher price tag.



Picture 19 Java House Kenya AA Roasted Coffee featuring “Coffee Kenya” trademark at Nakumatt Junction

Source: Euromonitor International



Picture 20 Clovers Cocoa presented as suitable for vegetarians at Nakumatt Village

Source: Euromonitor International

5. CONSUMER PREFERENCES AND SHOPPING BEHAVIOUR

5.1 GETTING TO KNOW THE URBAN KENYAN CONSUMER

With higher discretionary spending power than in the rest of the country, consumers in Nairobi spend more on recreation as well as eating out at restaurants and hotels

Nairobi, a hotspot of human capital and commercial services in Kenya, is the most populous metropolitan region in the country, followed by Mombasa. Nairobi's four million inhabitants accounted for nearly 9% of the country's population in 2015 (Euromonitor International, 2016, July). The population aged 15-64 comprised 69% of Nairobi's total which is more than twice as large as the combined share of the city's dependent population of children and the elderly (Chart 32) (Euromonitor International, 2016, July). Citizens of Nairobi are also better educated with 57% having completed secondary education compared to 25% in the rest of the country (Euromonitor International, 2016, July).

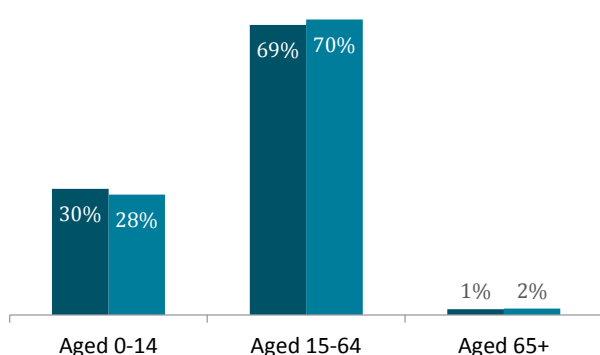


Chart 32 Population by Age 2015 and 2020 in Nairobi
Source: Euromonitor International

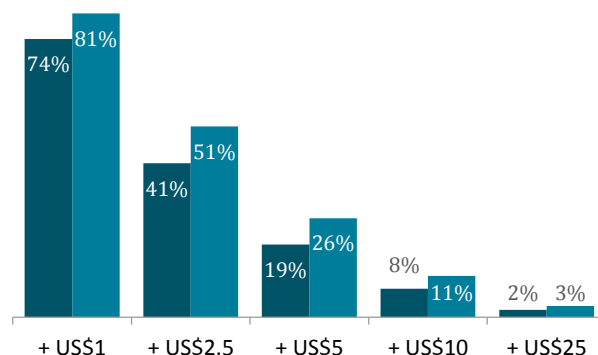


Chart 33 Household Distribution by Income ('000) in Nairobi 2015 and 2020
Source: Euromonitor International

The average disposable household income in Nairobi was KSh412,440 (US\$4,200) in 2015, lower than comparable cities such as Johannesburg (US\$21,500), Lagos (US\$15,300) and Douala (US\$6,400) (Euromonitor International, 2016, July). Although the household income in Kenya's capital is also lower when compared to the rest of Kenya, in part because of smaller household sizes, and higher levels of unemployment, consumers as a whole in Nairobi have higher per capita discretionary spending power (Chart 33).

Spending on recreation and culture show the greatest differential in spending with the rest of Kenya – wealthy and middle class people in Nairobi can afford outings. Among city dwellers, given the general increase in employment and disposable income, dining out as a form of entertainment is becoming more prevalent. Visits to leisure malls, high-end hotels and parks on the outskirts of urban centres are also frequent. In absolute terms, households in Nairobi outspent their counterparts elsewhere in Kenya by

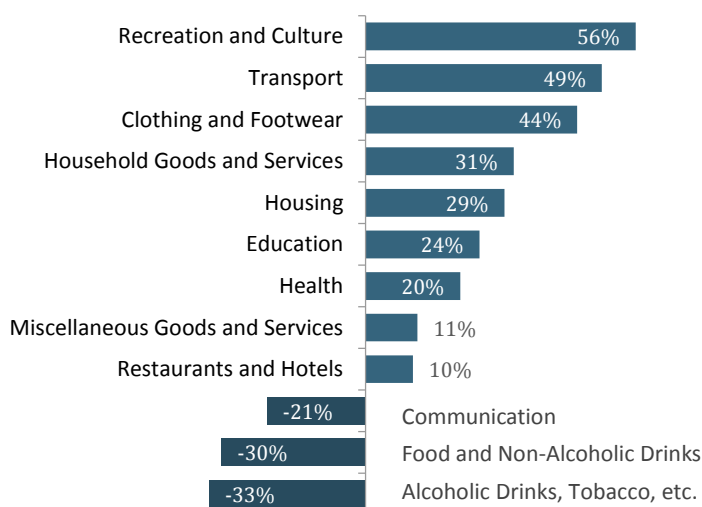


Chart 34 Comparison of Household Expenditure in Nairobi and Kenya 2015
Source: Euromonitor International

56% for recreation and culture, and 10% for restaurants and hotels in 2015 (Chart 34) (Euromonitor International, 2016, July). On the other hand, expenditure on alcoholic beverages, food and non-alcoholic drinks and communications recorded 33%, 30% and 21% lower spending in Nairobi compared to the rest of the country in 2015 (Euromonitor International, 2016, July).

Shopping is also considered a leisure activity, especially among people with middle incomes. Kenyans' attitude towards shopping has changed significantly as the middle class has grown. In addition, with rapid urbanisation Western consumerist ways are being incorporated into local culture. Many young Kenyans, especially among women, enjoy window shopping as a leisure activity and to see new products. The emergence of high streets and fancy malls has also whetted the appetite for shopping in urban areas.

Shopping habits are closely linked to household income and depend on the nature of the products. Households that possess refrigerators tend to purchase groceries once a week and, therefore, shop at the weekend. As for non-perishables, most households prefer buying non-perishables, such as tea, cereals and spices, in large quantities to last until the next paycheque. In Nairobi, supermarkets are the preferred option for primary shopping. Nonetheless, consumers still shop for small items and daily food items from small kiosks due to proximity and convenience.

5.2 CONSUMER SURVEY PROFILE AND DRINKING PATTERNS IN KENYA

Survey sample was mostly formed by middle aged employed consumers from large households

A total of 501 individuals were selected to participate in Euromonitor's online consumer survey aimed at better understanding current trends and preferences towards hot beverages consumption in Kenya. The sample was not designed to be representative, but required respondents from urban areas to be regular drinkers of tea, coffee and/or cocoa/hot chocolate, to meet lower limits for monthly grocery spending and be involved in making purchasing decisions for hot drinks. More details about exclusions from the consumer sample can be found in Appendix I.

The consumer sample was young with 67% of total respondents between 18 and 34 years of age and only 3% above 50 (Chart 35). 42% of the total respondents were female and the remaining 58% male, based on the random choice, likely reflecting gendered levels of access to the internet in Kenya. 76% of respondents live in a large urban area such as Nairobi or its outskirts with the remainder living in a major town. Rural households were excluded from the survey.

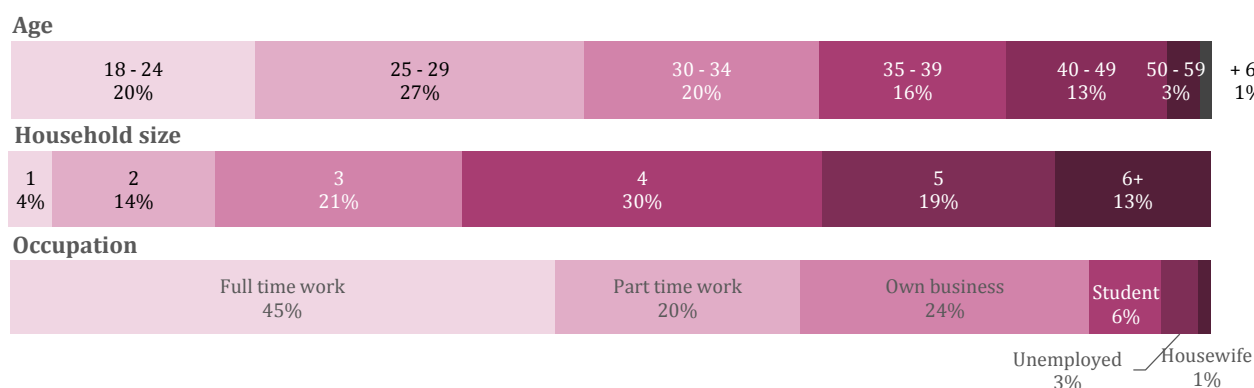


Chart 35 Age, Household Size and Occupational Status Composition of the Survey Sample

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

Kenya boasts large average households, and this is reflected in the survey responses. Most households surveyed consisted of three to five members. 30% of respondents live in households with four members, the most common size in the sample. Around 65% of respondents stated they are with full- or part-time employed and another 24% declared themselves to have their own business. Only 3% of respondents reported being unemployed and 6% were students. Housewives added up to only 1% to the survey sample.

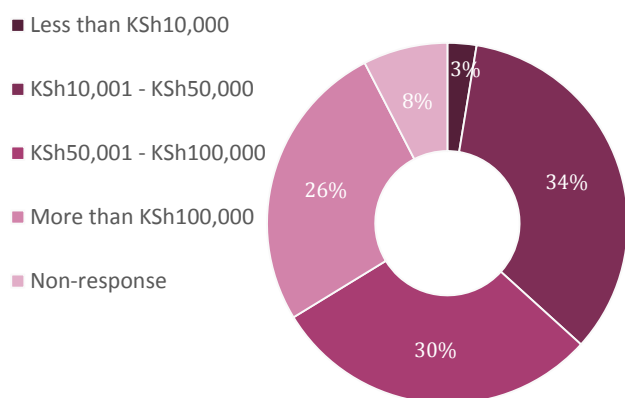


Chart 36 Segmentation of Respondents by Monthly Household Income

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

92% of respondents were comfortable revealing their income brackets. Slightly over one third of households earn KSh10,000 (US\$100) to KSh50,000 (US\$500) per month making this the largest income group in the sample (Chart 36). At the same time, the poorest households earning less than KSh10,000 (US\$100) per month constituted only 3% of interviewees. From the total sample of 501 respondents, only 7% of households spend more than KSh5,000 (US\$48) per week, or KSh25,000 (US\$240) per month, on groceries. The vast majority of households usually spend KSh1,000 (US\$10) to KSh5,000 (US\$48) per week on grocery

shopping, with KSh1,000 also the cut-off for this survey.

Tea is by far the most consumed beverage by households in the sample, beating water and dairy, with no significant discrepancies in preferences among genders

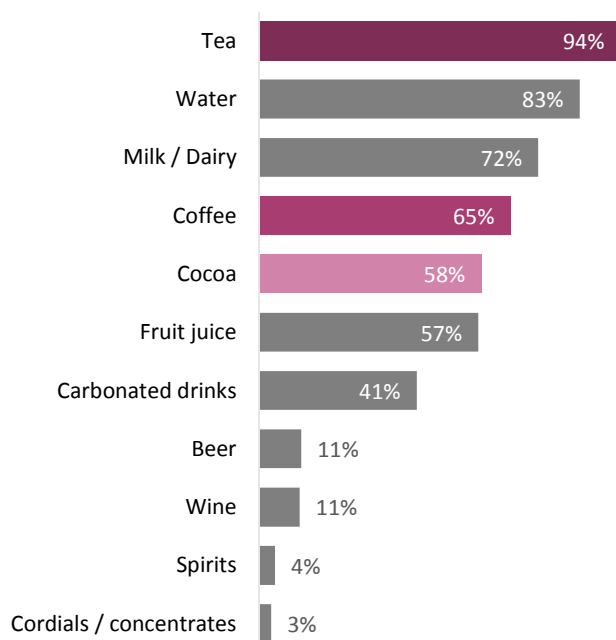


Chart 37 Most Popular Beverages amongst Kenyans

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

The consumer survey confirms the preference for tea in Kenya over any other drink. Among all drinks surveyed, tea is consumed daily in 94% of Kenyan households, followed by water in 83% and milk / dairy in 72%. Coffee and cocoa are the 4th and 5th most reported drinks with around 65% and 58% of households, respectively, followed by fruit juice and carbonates (Chart 37).

Regarding water consumption, a higher percentage of women in the survey reported drinking water than men, 88% versus 80%, respectively, suggesting that women may be more aware of its health benefits. However, when it comes to beer and carbonates, men are more likely to drink these, with only 4% of women

drinking beer versus 16% of male respondents. The same is true for carbonated soft drinks with 32% for female and 47% of male respondents.

In addition to gender, income level appears to play an important role in the consumption of drinks other than tea, coffee or cocoa, as the proportion of households drinking fruit juice, beer, wine and spirits is higher among the households with higher incomes, as affordability is key for majority of Kenyan consumers. This trend also extends to water, although the survey did not specify bottled or tap water, suggesting that households with lower incomes have poorer access to potable water.

Although the popularity of coffee and cocoa shows some relationship to age, tea is consistently the most favoured, with some variation by age (Chart 38). Older consumers tend to favour tea the most with all

“Tea is seen as an old-fashioned beverage targeting older consumers. Coffee, in turn, is a status-driven, aspirational beverage amongst young people especially in urban areas.”

— Market Researcher at a Processing Company, Kenya

respondents over 50 years old reporting they consume tea on a daily basis. On the other hand, coffee consumers are younger, as the highest percentage of daily coffee drinkers lies within 18-34 year olds. The difference between age groups for tea versus coffee consumption might reflect a greater traditionalism whereas younger consumers often consume coffee to boost their energy to go through the busy day.

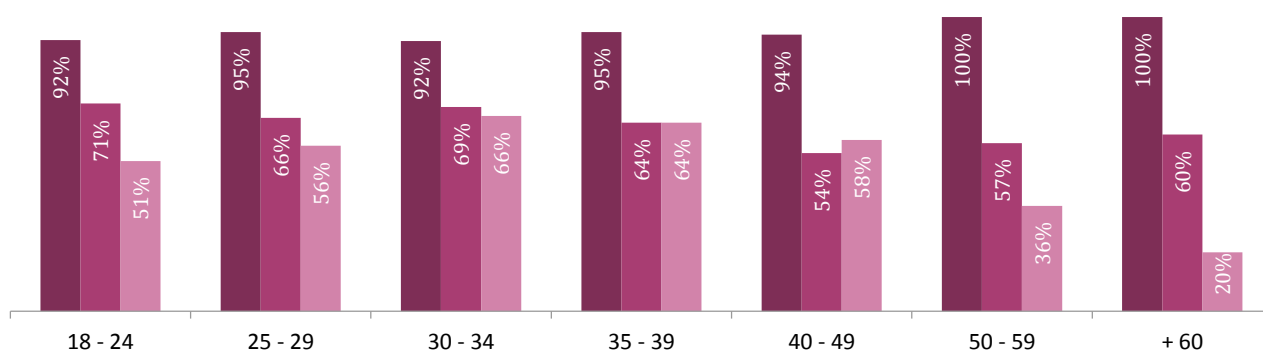


Chart 38 Consumer preferences of Hot Beverages (tea, coffee and chocolate-based hot beverages) by Age

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

While no significant difference in tea preference was found among genders, a slightly higher proportion of men typically drinks coffee whereas more women appear to prefer cocoa/hot chocolate. Cocoa and hot chocolate tend to be preferred by consumers within the 30-39 age bracket, which may also reflect their family situations with young children in the house.

73% of Kenyans drink at least three cups of tea a day with 4.6 cups per day the average from the survey

According to survey results, over half of Kenyan respondents consume three to five cups of tea on a daily basis while just 15% may be considered heavy drinkers with six or more cups of tea per day (Chart 39). Meanwhile, a majority of respondents drink only one to three cups of coffee on an average day (52%). A

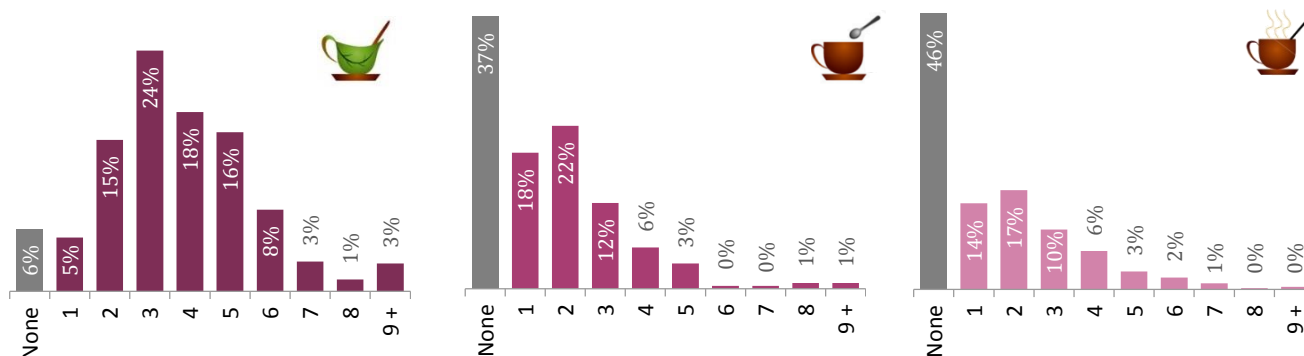


Chart 39 Daily Tea, Coffee and Chocolate-based Hot Beverages Drinking Patterns (Number of Cups per Day)

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

significant proportion, or 37%, drinks no coffee at all. Similarly, 46% of respondents do not drink cocoa/hot chocolate on a daily basis or ever. Only approximately one third reported that they consume one or two cups of cocoa/hot chocolate in a single day and one fifth three or more cups per day.

5.2.1 TEA CONSUMPTION PATTERNS

Most tea drinkers consume from one to two cups of tea in the morning, but almost two thirds of tea consumers prefer other drinks, including water, soft drinks and others, at lunch time

Tea is typically consumed at home and at work with 90% of respondents drinking tea at home on a daily basis (Chart 40). Almost three quarters of respondents also drink tea at the workplace on daily basis. Survey results confirmed that Kenyans are heavy tea drinkers, while for coffee, the number of occasional drinkers (drinking coffee once or twice a month or less often) is significantly higher.

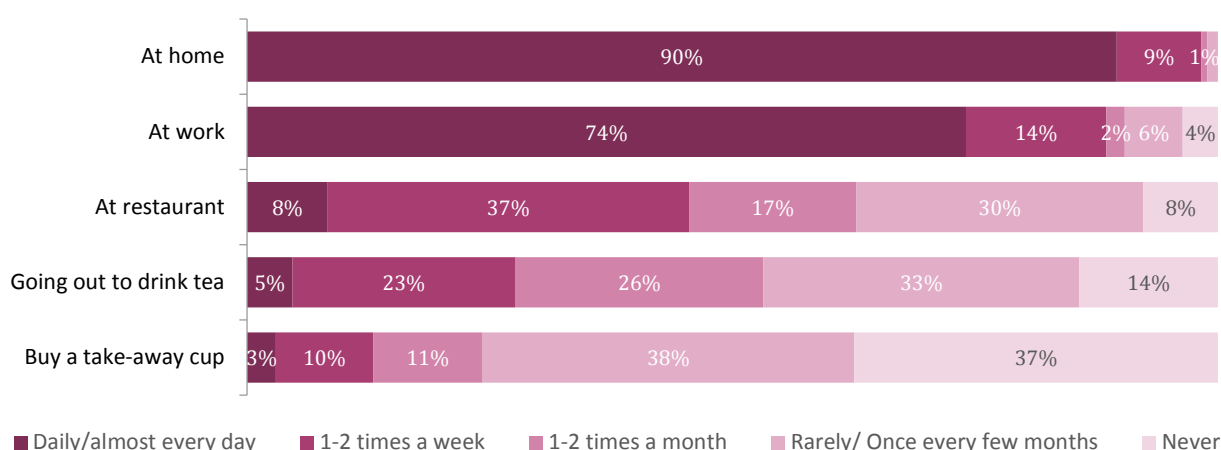


Chart 40 Tea Consumption Occasions and Frequency

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

However, when going out, the consumption patterns of tea and coffee drinkers are rather similar although typically higher for tea, with around 50% of consumers drinking tea and coffee in a restaurant with or after a meal or going out specifically to drink tea or coffee a couple of times a week up to few times a months. This pattern suggests that consumers tend to switch between tea and coffee depending on their mood, restaurant, planned activities or other factors, rather than showing a strong preference for one of the these two drinks outside home.

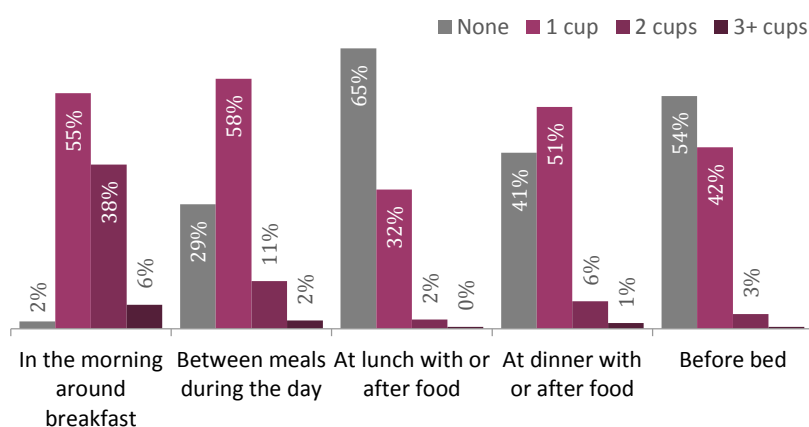


Chart 41 Daily Tea Drinking Patterns

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

The survey revealed that 24% of respondents drink fewer than three cups of tea per day and 58% between three to five cups of tea per day. Tea is commonly drunk in the morning and between meals during the day, with over half of respondents drinking at least one cup of tea at these times (Chart 41). 38% of tea drinkers indulge themselves with two cups of tea around breakfast, while coffee drinkers typically drink only one

cup of coffee. Nonetheless, nearly two thirds of tea drinkers prefer other beverages rather than tea at lunch with or after food, and up to 54% avoid drinking tea before going to sleep. At the same time, consumers show a similar pattern of consuming tea and cocoa before going to bed, with 42% and 45% of respondents drinking a cup of tea or cocoa, respectively.

5.2.2 COFFEE CONSUMPTION PATTERNS

Many Kenyan consumers switch between different types of hot beverages in the morning around breakfast

Results indicated that coffee consumption, similar to tea, takes place primarily at home and in the workplace (Chart 42). However, while tea is drunk daily, coffee is predominantly drunk once or twice a week by the survey sample. Only around one third of respondents confirmed daily consumption of at least one cup of coffee. However, if considering results of the respondents who self-identified as daily coffee drinkers, close to 70% of them consume coffee daily/almost every day both at home and at work.

Take-away solutions are more popular for coffee than for tea or chocolate-based hot beverages. About 34% of respondents purchase a cup of coffee to drink on-the-go at least once a month, while this percentage represents only 24% for tea and 19% for chocolate-based hot beverages. This also reflects greater availability of coffee shops in major urban areas.

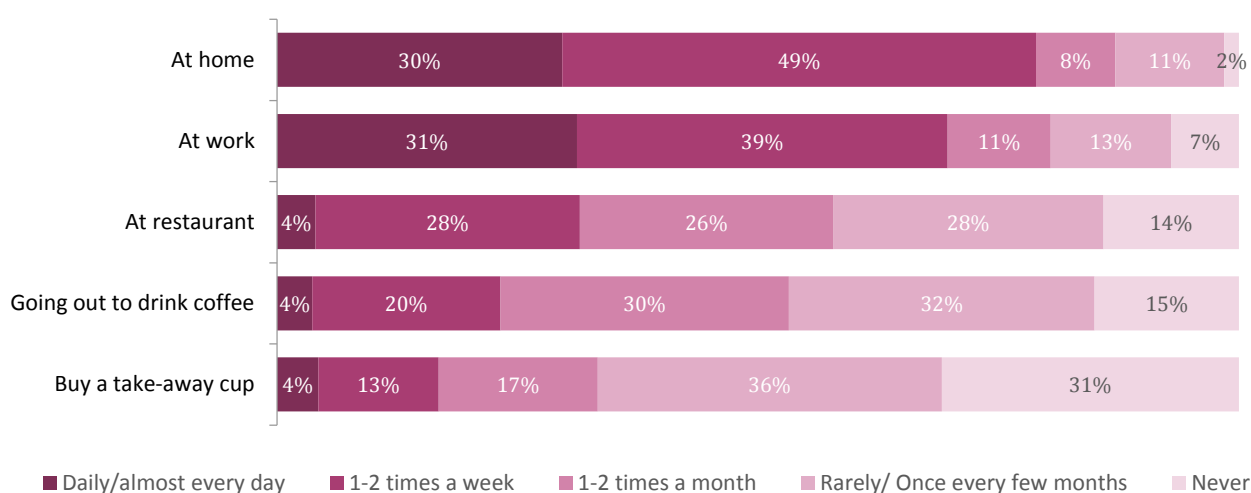


Chart 42 Coffee Consumption Occasions and Frequency

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

Not surprisingly, one cup of coffee is a relatively popular choice among Kenyan consumers, with 69% of

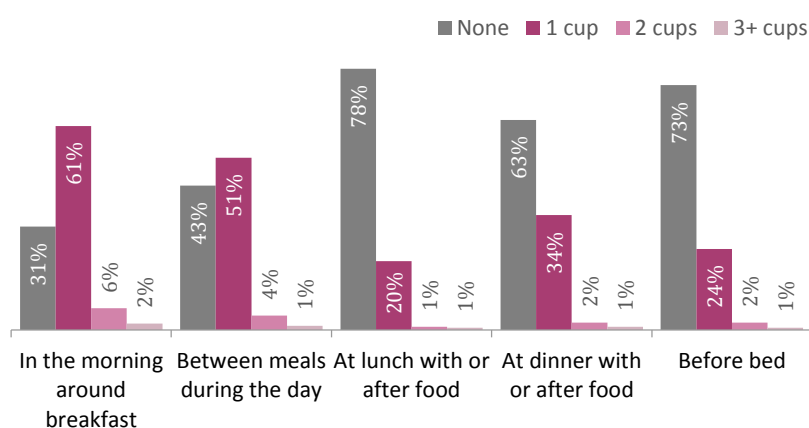


Chart 43 Daily Coffee Drinking Patterns

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

respondents indicating they drink at least one cup of coffee around breakfast, compared to 98% for tea and 66% choosing a chocolate-based hot beverage (Chart 43). Among the dedicated coffee drinkers, two thirds enjoy one cup of coffee in the morning (versus 61% within the total survey sample) and over one fifth drink a cup of coffee at lunch (against 20% in the total sample).

Whilst tea is commonly consumed at dinner and before going to bed, almost two thirds of respondents avoid coffee at dinner and only one quarter of respondents drink a cup of coffee before going to bed. Tea and other powdered hot beverages are consumed by more than 40% of consumers each at this time of the day.

5.2.3 COCOA CONSUMPTION PATTERNS

Chocolate-based hot beverages are mainly consumed in the morning around breakfast time at home and, to a less extent, at the workplace

Consumption of chocolate-based powdered hot beverages outside home or the workplace are a rare occurrence (Chart 44). Close to 40% of total respondents said they rarely drink these products at a restaurant or when going out. Buying a take-away cup of a chocolate-based powdered hot beverage is also uncommon, with almost half of interviewed consumers saying they never do it.

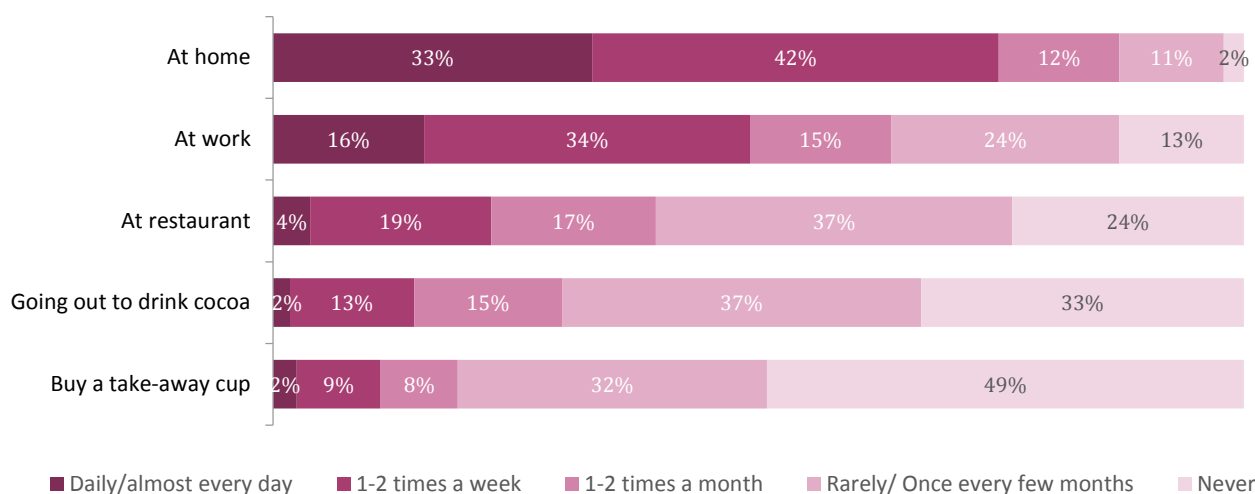


Chart 44 Chocolate-based Hot Beverages Consumption Occasions and Frequency

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

As for coffee, chocolate-based powdered hot beverages are mainly consumed once or twice a week, as opposed to tea which is a staple in Kenyan households. Only about half of respondents consume chocolate-based powdered hot beverages on a daily basis. The vast majority of respondents indulge themselves with this product type only few times a week (42%) once at home. Notably, one third of Kenyans enjoy a cup of chocolate-based powdered hot beverages few times a week at work in line with

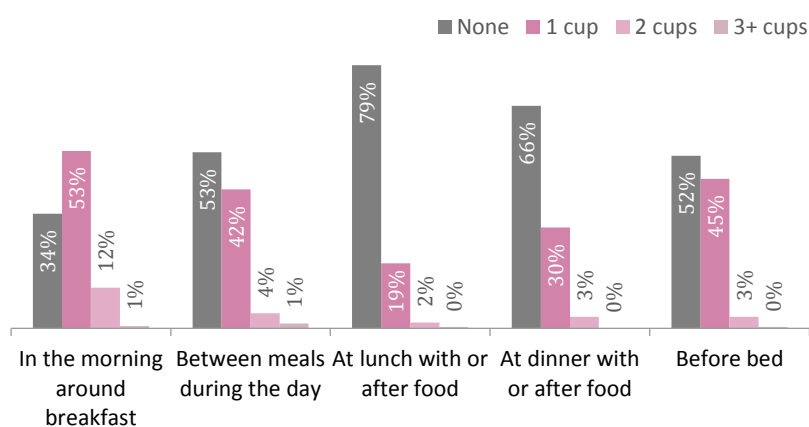


Chart 45 Daily Chocolate-based Hot Beverages Drinking Patterns

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

its availability reported during the institutional pulse surveys. This could be an indication that other powdered hot beverages as cocoa or hot chocolate are considered an indulgence.

Morning was highlighted as the most popular occasion for drinking chocolate-based powdered hot beverages (Chart 45). A cup of it is most frequently enjoyed around breakfast (53% of total

respondents), followed by the evening prior to sleep time (45%). In addition, 42% of respondents confirmed drinking a cup of chocolate-based powdered hot beverages between meals during the day.

5.3 PURCHASING BEHAVIOUR OF HOT BEVERAGES IN KENYA

Kenyan consumers tend to purchase tea several times a month or more often

With Kenyan consumers favouring tea above all other hot beverages, the frequency of purchasing tea is notable higher than that for coffee and chocolate-based hot drinks (Chart 46). Not surprisingly, 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.

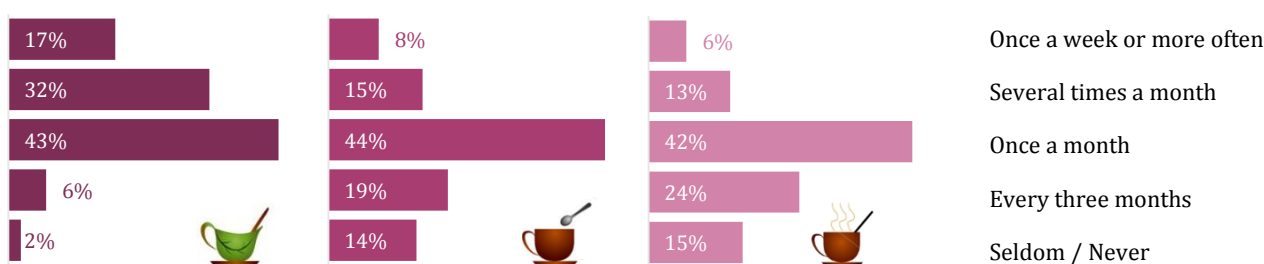


Chart 46 Purchasing frequency of Hot Beverages (tea, coffee and chocolate-based hot drinks)

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

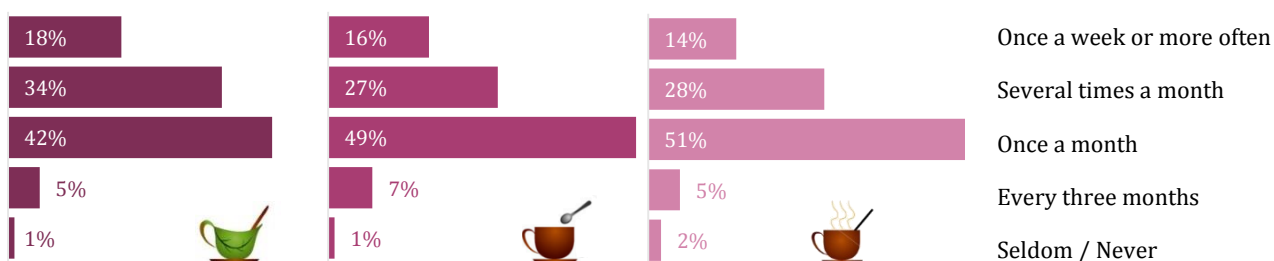


Chart 47 Purchasing Frequency of Hot Beverages (tea, coffee and chocolate-based hot drinks) by Daily Drinkers

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

When looking at the purchasing frequency split by self-identified daily consumers of tea vs daily coffee and chocolate-based hot drinks consumers, slightly different patterns are seen for tea versus other hot drinks (Chart 47). The survey results showed that the frequency of buying is very close for coffee and chocolate-based hot drinks, with around half of respondents purchasing coffee and cocoa once a month and one third of respondents buying the two hot beverages a few times a month. For tea, the percentage of tea lovers buying tea several times a month is considerable higher (34%), while a lower percentage of respondents buy tea once a month (42%) than those buying coffee or chocolate-based hot drinks.

Supermarkets and hypermarkets are key destinations for hot beverages purchases while open markets and specialist retailers feature for coffee

There is no significant difference between retail channels when it comes to hot beverages purchases, reflecting the channel split for hot drinks in Kenya (Chart 48). Supermarkets/hypermarkets are the most visited retail channel (over 95% of tea and coffee drinkers and 98% of cocoa drinkers) whereas local convenience stores follow in importance mainly due to their proximity to residential areas and extended opening hours.

About 10% of respondents stated that they also acquire tea or coffee directly from local producers (farm gate channel). Open markets also seem to play a role for coffee purchases, with around 23% of coffee drinkers turning to this channel from time to time. Coffee drinkers also favour specialist coffee shops to buy coffee for home preparation and consumption, with these types of shops specialising in local produce, such as Nairobi Java House and Sasini.

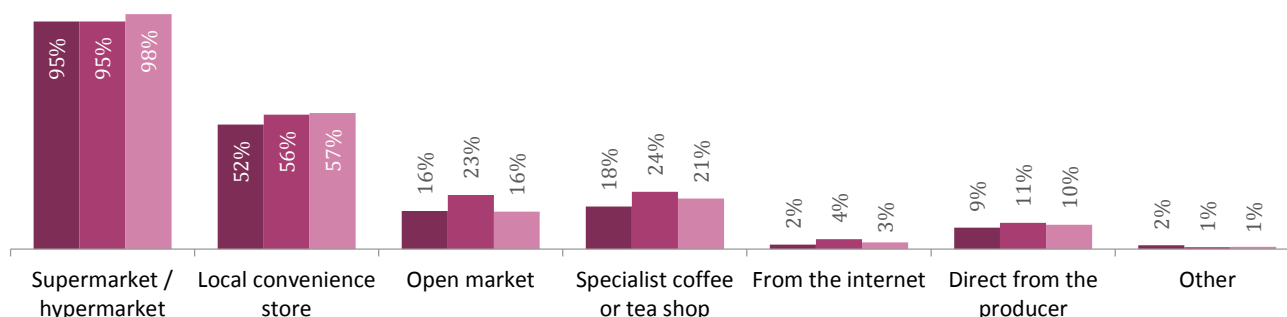


Chart 48 Preferred retail channels for tea, coffee and chocolate-based hot beverages purchases

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

5.3.1 TEA

Black tea in both teabags and loose format is favoured by Kenyans

Black tea in both loose and packaged formats remains the favourite tea type amongst Kenyans (Chart 49), and 60% of regular tea drinkers preferring black teabags. However, tea preferences show a relationship with consumer age segments, and a higher proportion, or 67%, of young consumers aged 18-29 prefer black teabags.

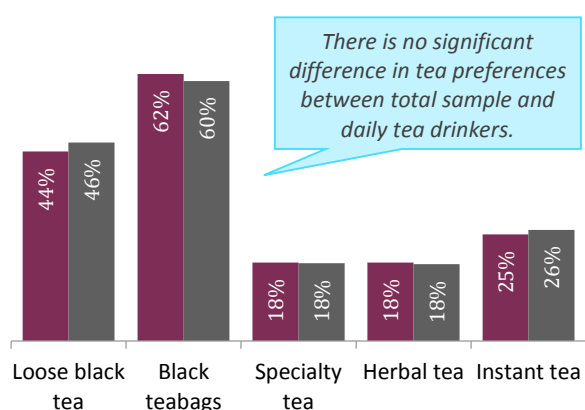


Chart 49 Preferred Tea Types by Total Respondents and Daily Tea Drinkers' Respondents

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

The second most popular tea, loose black tea, is relatively less popular among 18-24 years old, being preferred by only 29% of respondents. Conversely, 79% of 50-59 years old named it as their preferred tea. This may suggest that convenience is highly valued by younger Kenyans, due to increasingly busy lifestyles and the lack of time for loose tea preparation. It should be noted that given the emphasis on the mid-income segment in this survey, the preference for tea bags is not representative of Kenya as a whole. Given that the majority of the Kenyan population remains poor volumetrically loose tea remains the favoured format.

Specialty and herbal teas are also popular among older Kenyans (over 60 years old), with around 40% of respondents in this age group placing it among preferred teas, in comparison to only 26% of daily tea drinkers. Many young consumers prefer ready-to-drink or instant iced tea, with 34% of 18-24 year olds indicating it among preferred tea types, while only 7% of 50-59 years old and none of the respondents over 60 years old indicated drinking it. According to trade sources, perceived health benefits associated with the consumption of herbal teas may help to understand differences in tea preferences based on consumers' age.

In terms of gender differences, a higher percentage of women favours loose tea (52% for female versus 38% for male respondents). Regarding tea types, black teabags are slightly preferred by men (68%) when compared to women (53%).

The only tea brand featuring the Fairtrade logo, Kericho Gold, is the second most popular among selected local consumers

Survey results indicated that Ketepa tops consumers' preferences ranking, with 60% of consumers favouring it (Chart 50). As noted during store audits, Ketepa was among the most visible brands in terms of shelf space and representation across all retail outlets. Also, all three top favoured brands during the consumer survey, including Ketepa, Kericho Gold and Fahari ya Kenya, were found to be widely available across Kenyan retail shelves. Ketepa was identified as offering a wide range of bagged teas, while Kericho Gold and Fahari ya Kenya brands were key among black loose teas.

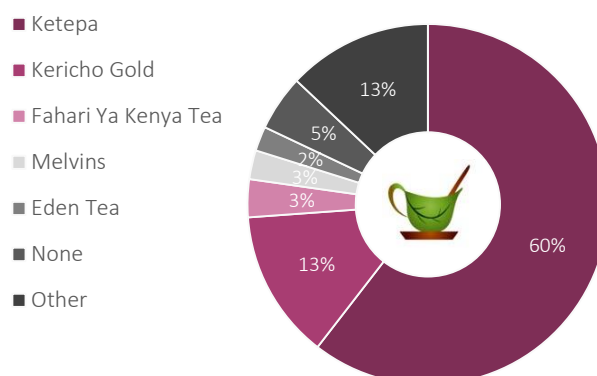


Chart 50 Top Tea Brands of Choice

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

Nearly half of respondents claim to be loyal to a specific brand. Brand loyalty is the highest among 25-29 year old consumers at 56% of respondents. Only 5% of total interviewees could not name their favourite tea brand, while this share picks up at 29% for chocolate-based hot drinks, thus confirming that cocoa and hot chocolate lovers are far less loyal to brands.

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

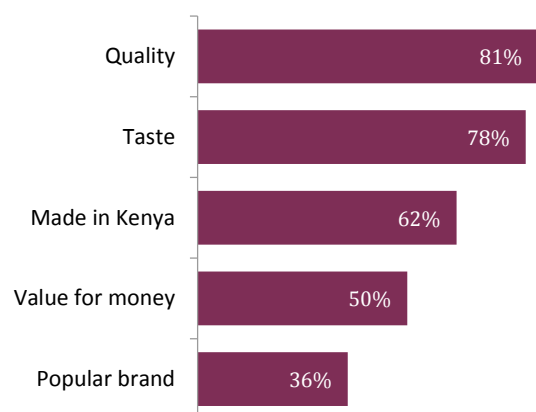


Chart 51 Top Drivers of Tea Purchases in Kenya

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

For both tea and coffee, quality and taste are key selection criteria for Kenyans, each accounting for an 80% share among the total survey sample as well as among daily tea drinkers (Chart 51). 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. Thus, for more than 60% of consumers purchasing products of local origin is important. It should be noted that the "Made in Kenya" attribute ranks as sixth for coffee and only 11th for chocolate-based hot drinks (see Appendix VII). The fact that

Kenya is considered to be a tea producing and drinking country most probably plays an important role in consumers' perception around origin.

Around half of respondents reported that value for money is a major purchasing criteria. Even though consumers look for value-added products, low price ranks only eighth in terms of importance, being relevant for 19% of both total respondents and regular tea drinkers. Relatively low concerns expressed about tea price may derive from the fact that leading brands, especially Ketepa and Fahari ya Kenya, have low to medium price positioning and thus are considered widely affordable by the sample.

5.3.2 COFFEE

Instant coffee enjoys high penetration, but is largely preferred by older and female consumers

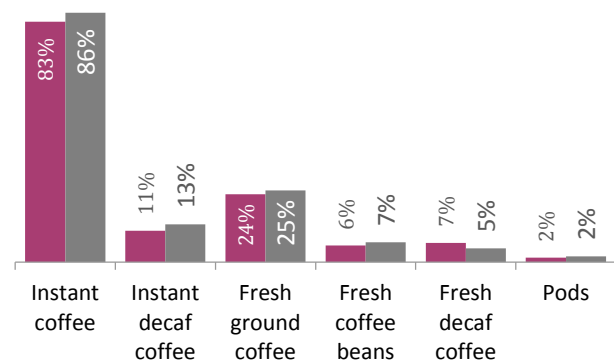


Chart 52 Preferred Coffee Types by Total Respondents and Daily Coffee Drinkers' Respondents

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

Confirming the results of store audits, instant coffee clearly dominates the consumer mindscape in Kenya, favoured by up to 83% of all respondents and 86% of daily coffee drinkers, even if it is over two times more expensive than fresh ground coffee (Chart 52).

The consumer segmentation for instant versus fresh coffee drinkers differs in terms of age, with fresh ground coffee highly popular amongst respondents of 30-39 years old. For instant coffee, the proportion of respondents increases with age, i.e. about 92% of 50-59 years old and 100% of consumers with 60 or more years old expressing a clear preference for instant coffee.

Some gender differences are evident in terms of coffee preferences. For example, around 87% of total female respondents prefer instant coffee while a lower 81% of male consumers do. The same is true for fresh ground coffee, where up to 29% of women prefer this type, compared to only 20% of men. Additionally, more male consumers indicate they prefer decaffeinated coffee, both instant and fresh, as well as fresh coffee beans and coffee pods.

Nescafé leads despite its higher retail price and importation from Brazil, followed by the Fairtrade certified Dormans

The most favoured coffee brand is Nescafé by far, with a 45% share from all respondents (Chart 53). Dormans, named by approximately 15% of respondents as their favourite brand, is well represented in both instant and fresh formats, and the only local Fairtrade certified coffee brand noted during store audits. At the same, Dormans benefits from offering various products at average and lower price points in both fresh and instant coffee versions thus making it highly attractive to price-conscious consumers. Nevertheless, the leading brand, Nescafé, features slightly higher prices for instant coffee in comparison to Dormans. This signals that consumers are ready to pay slightly extra for perceived quality and taste, and trade it for a brand of local origin.

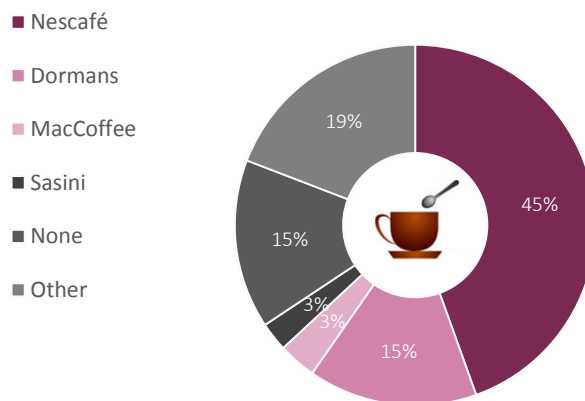


Chart 53 Top Coffee Brands of Choice

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

Consumers seem to be more loyal to coffee brands than to tea brands, with about 57% of respondents often purchasing the same brand (versus 50% in tea). Like in tea, brand loyalty is the highest among 25-29 years old consumers at 63% of respondents. Meanwhile, younger consumers of 18-24 years old tend to change brands frequently with 9% of them typically buying different brands. However, 15% of Kenyan respondents could not name their favourite coffee brand.

Same as in tea, quality and taste are key purchasing drivers for coffee, while regular coffee drinkers prioritise value for money

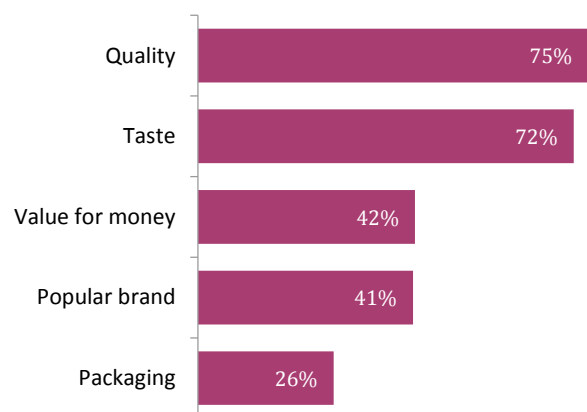


Chart 54 Top drivers of Coffee Purchases in Kenya

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

Quality, followed by taste, remain key purchasing drivers in coffee, with similar percentage of consumers identifying these parameters also for tea purchases (Chart 54). However, 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. Overall, price ranks only eighth among top purchasing drivers and is important for 16% of total respondents and 20% of daily coffee drinkers (see Appendix VII). Nonetheless, industry experts are sceptical whether the Kenyan consumer is really knowledgeable about quality or taste of coffee.

While Kenyan origin remains third among purchasing drivers for tea, the same attribute for coffee ranks only sixth with only 25% of total respondents and 22% of daily coffee drinkers concerned about origin. Similarly, just a few respondents prioritise the presence of the Fairtrade logo as an important factor when choosing a coffee brand. Fairtrade certification ranked only 13th among all major coffee purchasing drivers, signalled by 7% of total respondents and 9% of coffee drinkers. Consumers are not buying Dormans coffee, the second most popular and only domestic Fairtrade certified brand seen on Kenyan retail shelves, for its Fairtrade credentials but for its taste and quality.

Industry sources believe that other key drivers affect the consumer choice of coffee, namely in-store visibility of coffee brands and price. According to them, offering a wide range of coffee products is key to winning Kenyan consumers.

“Most consumers are not aware of what they are getting from their coffee, they drink coffee to be seen as cool or belonging to a certain class.”
— Director of Customer Relation at an Export Agency, Nairobi

5.3.3 POWDERED HOT BEVERAGES

Respondents did not indicate a preference for either hot chocolate or cocoa although more affluent consumers seem slightly more inclined towards hot chocolate

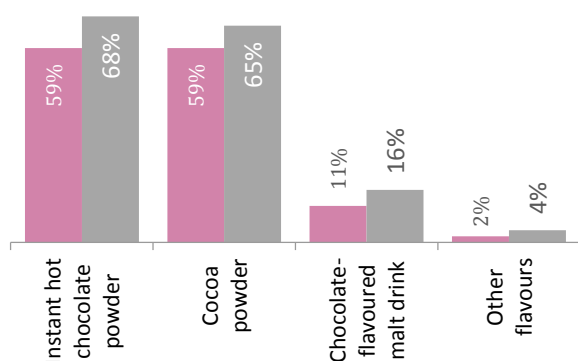


Chart 55 Preferred Cocoa Types by Total Respondents and Daily Cocoa Drinkers' Respondents

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

Kenyan consumers make little differentiation between chocolate-based and cocoa powder beverages, as per the consumer survey (Chart 55). However, a slightly higher number of daily cocoa drinkers prefer hot chocolate over cocoa (68% versus 65% of respondents). As noted during the store audit, hot chocolate products have a slightly higher price per kilo tag than cocoa products at around 15% on average, while malt drinks like soya are the cheapest. Consequently, hot chocolate is slightly more preferred among consumers with higher income brackets.

Consumer preferences for hot chocolate versus cocoa powdered beverages change with age. Cocoa powder is more popular among younger consumers, while more consumers aged above 35 years old show a greater inclination towards hot chocolate.

More than 50% of Kenyan consumers indicated they favoured Cadbury chocolate-based hot drinks

With Cadbury's Drinking Chocolate enjoying the best in-store representation among powdered hot drinks, it is no surprise that Cadbury is a consumer favourite, followed by Milo Drinking Chocolate (Chart 56). Raha, which mimics Cadbury branded products, is sold at much more affordable prices.

29% of respondents were not able to name their favourite powdered hot drink brand. Despite that, brand loyalty in powdered hot drinks is considerable higher than for tea or coffee (70% in drinks like cocoa and hot chocolate versus 50% for tea, for example). In this market, adult purchasers of powdered hot drinks tend to rely on the choice of their children.

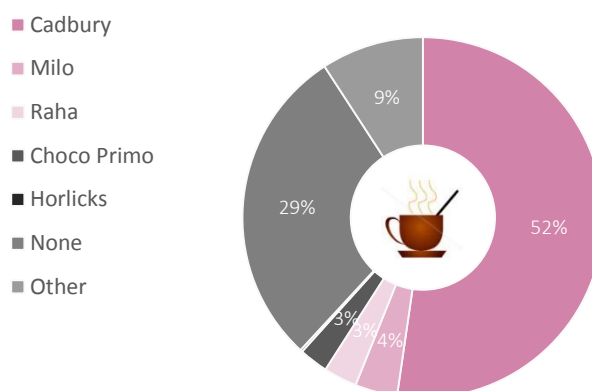


Chart 56 Top Powdered Hot Drinks Brands of Choice

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

Also, unlike in tea and coffee, Kenyans show a greater propensity to trial different brands, with 30% of respondents claiming they often buy different brands of powdered hot drinks. Nonetheless, the strong position of Cadbury's points to the fact that many consumers still return to the brand after trying other products.

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

While quality ranks as the first purchasing criteria for tea and coffee, taste tops the list of parameters in powdered hot beverages (Chart 57). Likewise, 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, followed by such factors as packaging design and nutritional benefits.

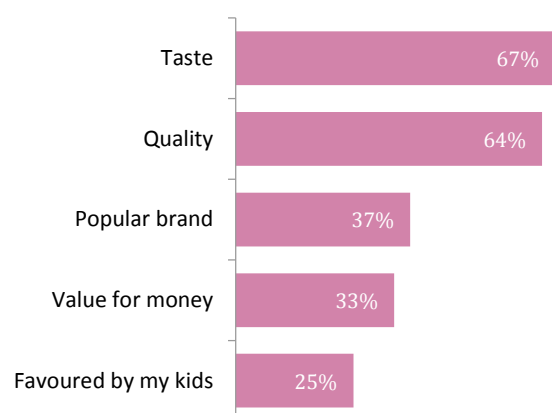


Chart 57 Top Drivers of Powdered Hot Beverages Purchases in Kenya

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

Affordability was a key requisite for 19% of total respondents and 14% of daily powdered hot beverages consumers, ranking ninth in importance - slightly lower than for coffee and tea daily drinkers (see Appendix IV). Thus, consumers are likely to be willing to pay premium for products for their children, while also keeping an eye on nutritional content.

The presence of Fairtrade certification in powdered hot beverages as a decision-making criteria is significantly lower than in tea and coffee, taking only 16th place for powdered hot beverages. Thus, only 6% of total respondents consider Fairtrade a major criterion when purchasing powdered hot beverages.

5.4 PERCEPTIONS AND ATTITUDES TOWARDS ETHICAL LABELLING

Kenyans display considerable low awareness levels on ethical labelling

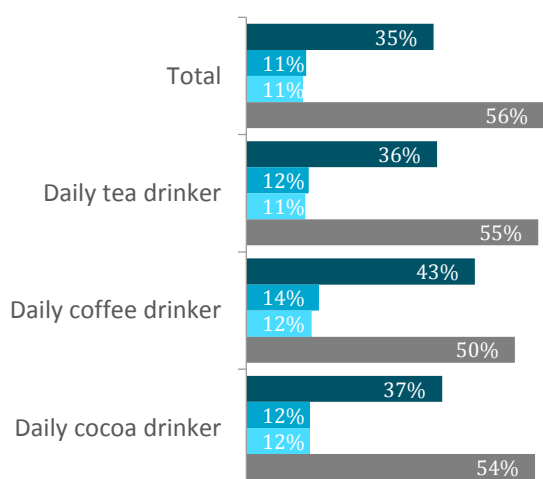


Chart 58 Consumer Awareness of Ethical Labelling (Fairtrade, UTZ, Rainforest Alliance and none of these)

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

Awareness of ethical labelling is very low among Kenyans. A majority 56% of respondents are not aware of any of the ethical labels featured by hot beverages, and only 35% of them confirmed they are aware of the Fairtrade logo (Chart 58). Awareness of UTZ and Rainforest Alliance are lower but similar with only 11% of respondents indicating some recognition. A weak correlation with age suggests that older Kenyans are more familiar with the Fairtrade concept (57% of Kenyans aged 50-59 reported having heard of Fairtrade) but the number of respondents in this age group is small (57% of respondents in this age group). Similarly, awareness levels are slightly higher amongst male respondents (38% of respondents versus only 30% of female respondents).

Internet, social media and product packaging remain key sources of information about certifications, with all three key channels mainly interesting for younger consumers

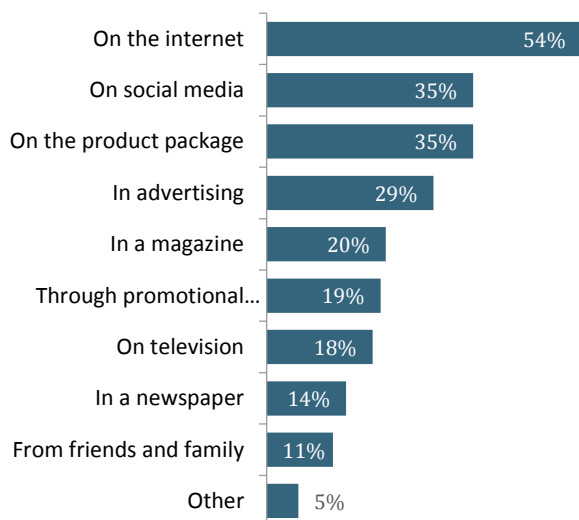


Chart 59 Source of Information on Ethical Labelling

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

The internet was identified as the main source of information about ethical certifications among Kenyans, who recognise different ethical labels (Chart 59). Not surprisingly, internet and social media are most popular among 18-39 years old, while older consumers are exposed to information about certifications more frequently via newspapers, magazines or even friends and family.

Promotional materials and advertisement of ethical labelling received stronger attention from consumers aged 18-24 and 50-59 than from other age groups. The youngest consumer segment pays more attention to the product packaging with up to 42% of them learning about certifications from the product labels displayed in the packaging.

5.4.1 AWARENESS AND CONSUMPTION OF FAIRTRADE CERTIFIED BRANDS

Cocoa drinkers have stronger associations with Fairtrade

The concept of 'fair price to producers' is most strongly connected with Fairtrade with 66% of Fairtrade-aware respondents identifying it, followed by 'equal trading relationships' with 46% of respondents (Chart 60).

Surprisingly, a higher number of daily cocoa drinkers have stronger associations about Fairtrade – 83% of them named 'fair price to producers' versus only 59% of daily coffee drinkers, and this is relevant to all key associations. The profile of daily cocoa and hot chocolate drinkers, mainly aged in the 30-39 age

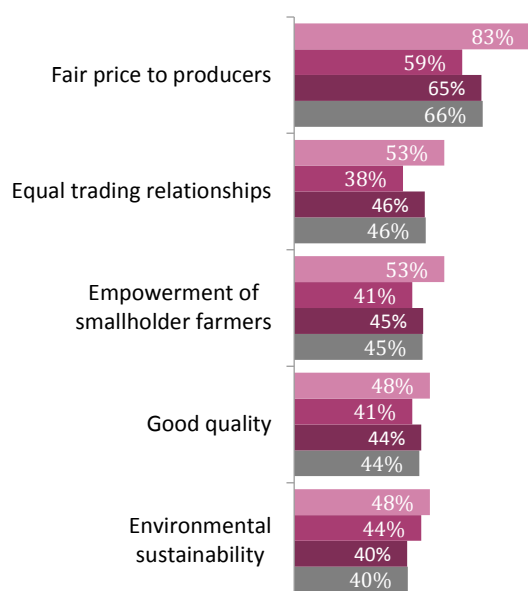


Chart 60 Top five associations with Fairtrade amongst Kenyan consumers (daily cocoa drinkers, daily coffee drinkers, daily tea drinkers and total)

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

local consumers might explain rather strong awareness among coffee drinkers about the Fairtrade concept. Fairtrade logo recognition was relatively lower among respondents with lower monthly income, thus confirming that those buying more expensive brands, i.e. or Dormans for coffee or Kericho Gold for tea, are more exposed to the Fairtrade certification.

In addition to the key five associations, which also include empowerment of smallholder farmers, good quality as well as environmental sustainability, a number of consumers believe that Fairtrade is also a global organisation supporting investment in local communities and sustainable agriculture, and ensuring living incomes for farmers.

Only a negligible proportion of respondents showed a wrong perception of Fairtrade, by associating it with “kind to animals”, “for Europe and USA only” or “palm oil”. It is worth noting that up to 14% of total respondents who are aware of the Fairtrade certificate associate it with “flowers”.

Fairtrade awareness is higher among older consumers

When reviewing the top five associations with Fairtrade among respondents, a higher than average percentage of older consumers have those associations. For example, about 75% of 50-59 year old rank fair prices to producers as their primary understanding of Fairtrade while only 55% of 18-24 years old name this parameter (Chart 61). Conversely,

bracket, with more women than men preferring this drink, may provide one reason for the greater awareness. The presence of Fairtrade in related products such as chocolate, where Cadbury's Fairtrade certified Dairy Milk chocolate has a 7.1% market share of Kenyan chocolate confectionary, may also strengthen the association for daily cocoa drinkers, who presumably like chocolate as well (Euromonitor International, 2016, March).

With regards to tea versus coffee drinkers, the associations with Fairtrade vary insignificantly. Awareness levels of Fairtrade are only slightly higher among coffee drinkers at 43% than among tea drinkers (36%). This could derive from the fact that one of the popular local coffee brands, Dormans, displays the Fairtrade logo on its packaging. Wide distribution of Dormans and its popularity among

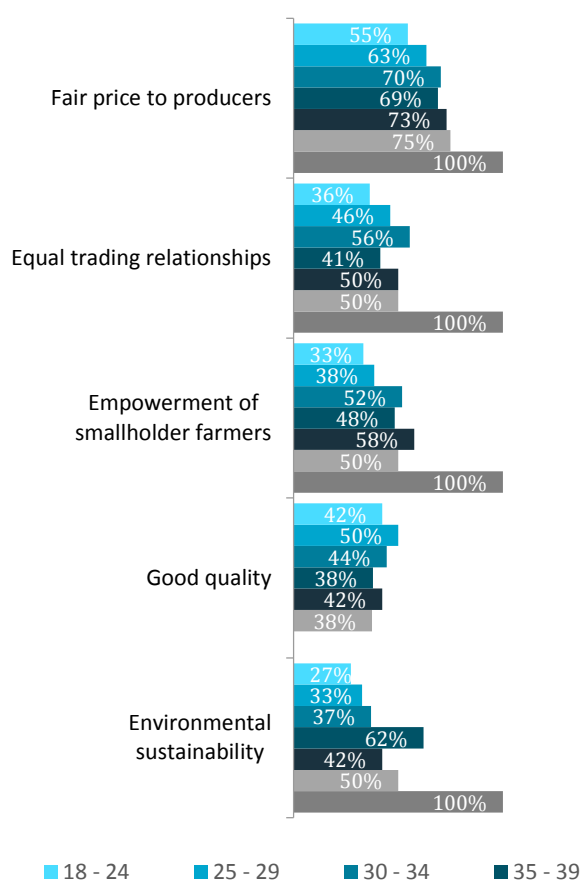


Chart 61 Top five associations with Fairtrade amongst Kenyan consumers per Age Segment

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

the second most vivid association with Fairtrade among the youngest consumers interviewed (18-24 years old) is good quality, which ranks only fourth among the respondents aware of Fairtrade.

Consumers aged 30-34 and above 40 years old display a better understanding of Fairtrade values and activities. At the same time, a higher number of younger Kenyans of 18-29 years old have weaker associations with Fairtrade and thus the launch of awareness campaigns specifically targeting this age segment is highly recommended.

Nonetheless, Kenyans expressed concern with ethical business behaviour and the social well-being of farming communities

Despite the low awareness in the sample about the Fairtrade certification and its objectives, the vast majority of respondents expressed strong concern about ethical businesses practices in Kenya. Close to 95% of respondents believe that farmers and workers should be treated and paid fairly, that more needs to be done to eradicate child labour in the country, and that more investment is required to support local communities (Chart 62).

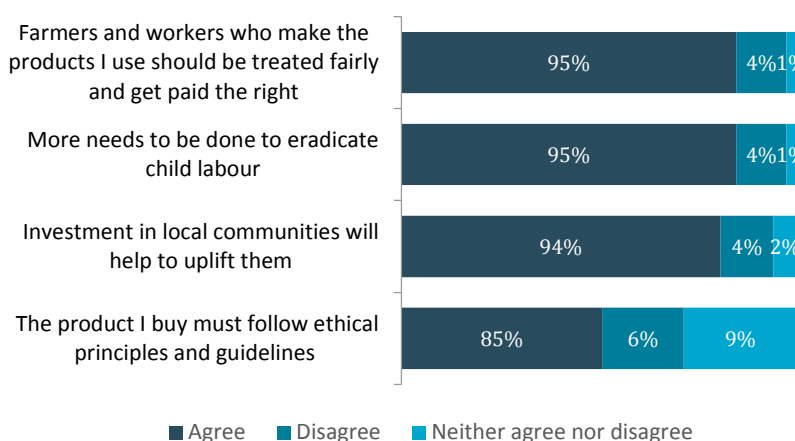


Chart 62 Consumer Attitudes towards Ethical Business Practices

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

This strong discrepancy among the number of Kenyans being aware and agreeing with the changes required in the local business environment versus the low number of people being aware about Fairtrade certification supports calls for more action on behalf of the Fairtrade organisation in terms of educating local consumers about its activities as establishing more partnerships with local companies.

Environment is important but what about the livelihoods of local communities?

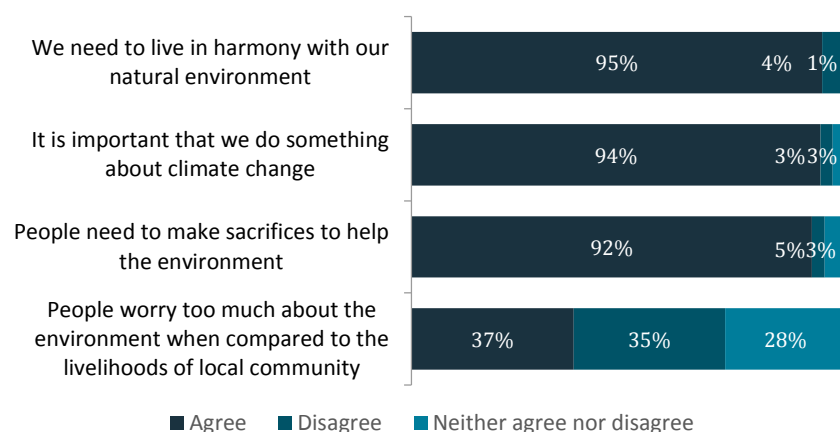


Chart 63 Consumer Attitudes towards Environmental Sustainability

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

Environmental concerns are another issue worth attention. Over 92% of total respondents expressed strong concerns about the importance of nature, the environment and climate change (Chart 63). Thus, Kenyans could be perceived as a nation carrying and potentially willing to add to sustainability. On the other hand, over a third of respondents revealed themselves as sceptics, saying that people worry too much about the environment when

livelihoods of local communities are more important, while close to a third of respondents have no opinion about this issue.

Results indicate that many respondents tend to prioritise generalist concerns about nature and the environment over daily problems facing the Kenyan population where poverty remains one of the key issues.

Origin of grocery products is not a big issue for Kenyan consumers with only a third looking to buy local

Kenyan consumers are not particularly interested in product origin. Strong preference for locally produced products was expressed only by 34% of respondents (Chart 64). The only significant difference noted among various consumer segments is in terms of income, with up to 54% of respondents with low incomes (less than KSh10,000; US\$96) showing a greater preference for local produce. This could be a reflection of fact that Kenyan products, including hot beverages, are significantly cheaper than imports, as noted during the store audits.

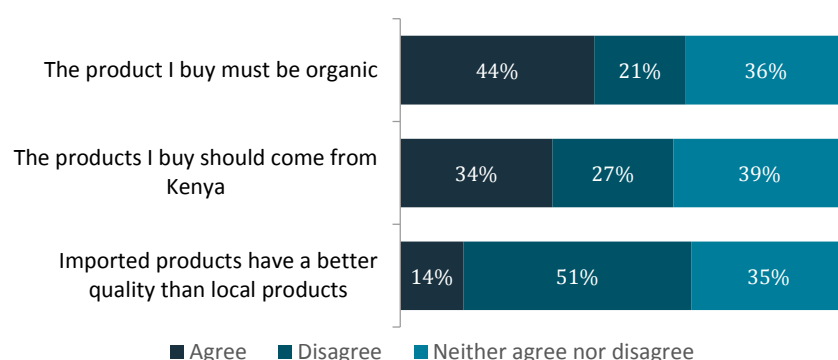


Chart 64 Consumer Attitudes towards Origin

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

At the same time, over half of total respondents believe that imported products do not provide better quality than local produce. Imported products are slightly more appreciated by younger consumers aged 18-24 at 18% versus 7% of those aged 50-59, showing that with age consumers may be more open to switching to local produce.

Kenyan consumers expressed high affection towards organic products, with nearly 44% of respondents saying they prefer organic products. Again, younger consumers aged 18-34 favour organic goods the most, with 46% of consumers in this age group choosing this type of product compared to 38% in older age groups. Surprisingly, unemployed respondents and those with lower income brackets (less than KSh10,000; US\$96) also expressed a higher preference for organic. This leads to a question of the correct understanding of the meaning of 'organic' among local consumers, which was, however, not further investigated in the present study.

The Fairtrade concept needs to be further promoted, with educational activities considered a priority

Based on the consumer survey results, the key source of information about ethical labelling and Fairtrade in particular is differentiated by consumer age. Thus, to educate consumers about the Fairtrade concept, internet and social media will be vital in reaching the youth, whereas more traditional media including promotion via magazines or newspapers and television is better suited to older Kenyans. Therefore, the message needs to be tailored depending on the age segment.

Nearly 35% of total respondents are aware of the Fairtrade certification. Moreover, consumers' associations with the certification prove to be correct, with "ensuring fair prices to producers" mentioned by 66% of respondents, and "equal

"The word 'Fairtrade' is ambiguous and its meaning is not clear to most Kenyans, with some thinking it means cheaper products. Thus, greater education is required around Fairtrade claims and its benefits."

— Marketing Manager at a Fairtrade social enterprise, Nairobi

trading relationships” by 46% of respondents. Only a minor number of respondents (1-3%) named wrong characteristics of Fairtrade, with up to 14% perceiving Fairtrade being relevant to flowers. Therefore the organisation should consider selecting up to three or four key messages revealing major objectives of Fairtrade certification to further build its perception about Kenyan consumers. Educational campaigns are still found to be necessary in the country to strengthen the understanding as well as consumer awareness about Fairtrade.

Up to 85% of consumers interviewed agreed with the statement that products they purchase should follow ethical principles, while only 35% of them are aware of Fairtrade certification. Around 95% of respondents agree with the need of ensuring an ethical business environment for farmers in Kenya. This calls for Fairtrade to educate local consumers about its activities and to highlight to consumers that purchasing Fairtrade products contributes to an industry organised along ethical principles and supporting fair business practices.

According to the results of consumer survey, younger consumers aged 18-29 are less educated about Fairtrade and express weaker associations about the objectives and activities of the organisation. Thus, educational activities especially via media channels preferred by this group, i.e. internet or social media, should be heavily used to reach this consumer segment.

5.4.2 PERCEPTIONS AROUND UTZ AND RAINFOREST ALLIANCE CERTIFICATIONS

Consumers’ awareness of the positive impact of UTZ and Rainforest Alliance certifications is also very limited

Consumer awareness proved to be even lower for UTZ certification when compared to Fairtrade, with only 11% of respondents recognising the UTZ logo. Daily coffee drinkers show the greatest awareness levels at 14%. Similarly, the recognition of Rainforest Alliance Certified logo is also very low in Kenya (11% of respondents). The low popularity of both UTZ and Rainforest Alliance certifications amongst Kenyans came without surprise, after store audits in Nairobi revealed the lack of products featuring UTZ or Rainforest Alliance labels in grocery retailing shelves.

6. FOODSERVICE AND INSTITUTIONAL CHANNELS IN KENYA

6.1 MAPPING FOODSERVICE AND INSTITUTIONAL CHANNELS

92 Nairobi-based institutional respondents provided data on shopping behaviours of hot beverages, procurement strategies and interest in using Fairtrade certified brands

Alongside a comprehensive consumer survey amongst middle-class Kenyans, Euromonitor International administered pulse interview questionnaires between November and December 2016 targeting Nairobi's businesses and other institutions as well as foodservice providers and hotels to understand and compare

- Corporate businesses
- Public institutions
- Healthcare
- Faith-based institutions
- Restaurants
- Cafés / coffee shops
- Hotels
- Catering companies

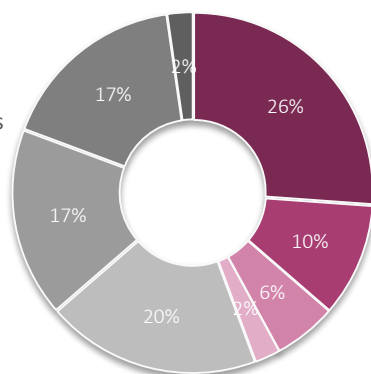


Chart 65 Sample Description of Nairobi's Institutional Consumers and Foodservice Providers

Source: Euromonitor International from pulse interviews, November and December 2016 (n=92)

shopping behaviours of hot beverages, procurement strategies and interest in using Fairtrade certified brands. Slightly different questionnaires, provided in Appendix IV, were used for organisations which provide hot beverages to their staff and visitors for free (also known as the institutional channel), and those which sell them for profit to customers (defined as the foodservice and hospitality sectors in the report) (see Appendix V).

A total of 92 organisations were approached and successfully completed the survey (see Appendix VI). These included corporate offices including financial and consulting companies, insurance

firms, travel agencies, amongst others, healthcare service providers, public and faith-based institutions within the institutional channel. Meanwhile, the foodservice and hospitality sectors comprised restaurants, cafés/bars, specialist coffee shops and hotels (Chart 65).

Although questionnaires generated a lot of interest among individual respondents and contributed to their understanding of Fairtrade certified tea and coffee brands, the analysis of the data corroborates consumer survey results pointing to limited awareness of ethical labelling in Kenya. Even from a supply side perspective, many establishments do not know, or are not sure what the Fairtrade certification encompasses. Moreover, many who said they had heard of Fairtrade, when probed further, show they are not fully conversant with what the certification entails.

6.1.1 INSTITUTIONAL CHANNEL

The institutional channel consumes locally produced black tea bags, but prefers imported instant coffee for use in their premises with powdered hot drinks not universally offered

Tea and coffee are the most common hot drinks consumed by the institutional channel (inclusive of offices, public institutions, healthcare service providers and faith-based organisations), reflecting general consumption habits in Kenya with 31% of consumers indicating they drink coffee at work, and 70% tea on a daily basis. Results from pulse interviews show that only 2% of surveyed organisations do not offer tea, 5% do not provide coffee and 30% do not supply powdered hot drinks for their employees.

Most companies, or 57% of surveyed organisations, give preference to black teabags, indicating that convenience of in-cup preparation is important here, as are presumably considerations around cleaning of cups. This compares with nearly 14% of organisations clearly preferring loose black tea. Herbal and

instant teas remain rather uncommon for office consumption. Interestingly, 12% of participant organisations claim to purchase multiple tea types, both in loose and bagged formats.

As for coffee, instant coffee is purchased by around 85% of organisations in the sample, while fresh beans and fresh ground coffee is the first choice of only 10% organisations. As pod coffee machines are still barely used, only two multinational corporations (with over 50 employees), or 5% of total respondents, opt for coffee pods. However five institutions, including two hospitals and a tertiary training institute, report using vending machines.

In those organisations where powdered hot drinks are offered to employees, chocolate-based powdered hot beverages are heavily preferred, and are purchased by 97% of respondents. Malt-based powdered drinks are seldom consumed by the institutional channel, with only one company confirming its use.

Not surprisingly corporate organisations spend more per person per month than public institutions

Public and faith-based institutions in the sample report the lowest monthly spending on hot beverages per person of around KSh250-265 (US\$2.50) (Table 26). Corporate offices spend more on average than public institutions, around KSh380 (US\$3.70) per month per person. Healthcare organisations appear to spend the most at KSh530 (US\$5.10) but the sample size of organisations in this segment reporting on their monthly hot drinks spending is small. No correlation is evident in the sample between the reported number of employees or clients/visitors versus expenditure on hot drinks.

Table 26 Consumption Patterns of Hot Beverages by the Sample of Organisations in the Institutional Channel

Source: Euromonitor International from pulse interviews, November and December 2016

Type of Organisation	N	Average number of employees	Average Tea g / month / person	Average Coffee g / month / person	Average Cocoa g / month / person	Average monthly spending per capita
Corporate offices	27	36	41 g	47 g	40 g	KSh379
Public institutions	9	119	26 g	25 g	37 g	KSh264
Healthcare providers	5	68	52 g	50 g	-	KSh530
Faith-based organisations	2	13	23 g	23 g	-	KSh250
Average	-	57	38 g	43 g	40 g	KSh368

Note: Respondents provided an indication of quantities bought monthly which was divided by number of staff to obtain an average
See channel definitions in Appendix V

Ketepa in tea and Nescafé in instant coffee were most frequently mentioned as the brands of choice

Organisations in this sector buy local tea brands with the lower priced Ketepa brand the favourite. Almost 60% of organisations interviewed choose Ketepa, which was also seen in retail to offer black teabags at comparatively low prices. 20% of respondents listed Kericho Gold which offers specialty black teas in teabags at more premium prices. Nearly 10% of organisations did not name a brand but stressed that they purchase tea made in Kenya, with the remaining companies buy herbal and instant teas, which usually carry premium price-tags.

In coffee, Nescafé is clearly preferred by the institutional channel, selected for in-office consumption by 56% of surveyed organisations, followed by Sasini instant coffee with 10%. Sasini's retail price per kg is almost half of that for Nescafé. Dormans was also named by a number of organisations, for both instant and fresh coffee. Considering that coffee is generally more expensive than tea, it is noted that institutional organisations nonetheless seem to prefer more expensive and also imported brands, i.e. Nescafé and MacCoffee in coffee in contrast to their tea preferences for cheaper local products.

As for powdered hot drinks, half of organisations interviewed chose Cadbury's and another 27% Nestlé brands, which are more expensive than Raha and Milo with 5% and 4%, respectively, as well as Choco Primo with a 9% share. Neither price nor country of origin seem to play an important role in the choice of powdered hot drinks.

6.1.2 FOODSERVICE OUTLETS, COFFEE SHOPS AND HOTELS

Average volume sales per establishment in Kenya was found to be highest for tea, with the standard coffee options still rather limited in restaurants and cafés excluding specialist coffee shops

Breakfast (7-11am) and early evening after work (4-8pm) are prime times for the consumption of hot beverages in both foodservice and hospitality establishments surveyed in Kenya. These also reported consumption intensifying during the cold and rainy seasons running from June to July and in September. A number of respondents also pointed to the end of year as a peak period, coinciding with year-end financial business meetings and company parties.

Coffee is often a key, but not always core, for sales of hot beverages through the on-trade channel in Kenya. Whilst most establishments suggested that coffee is in high demand, tea still tops hot beverages consumption. This is borne out by respondents to the consumer survey with 28% indicating they specifically go out to have tea at least once a week, compared to 24% for coffee. When it comes to take-away, however, the proportion buying takeaway coffee at least once a week is 17% somewhat higher than the 13% for tea.

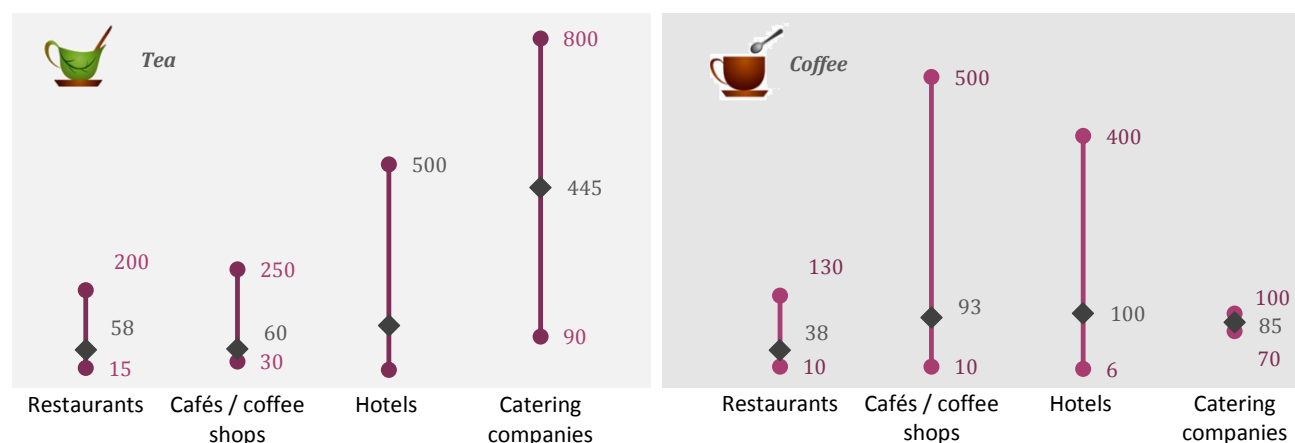


Chart 66 Tea and Coffee Servings per Day (Max, Average and Min)

Source: Euromonitor International from pulse interviews conducted in November and December, 2016 (n=49)

The pulse survey revealed that average tea servings per day for sample establishments is 90 as opposed to 75 coffee cups served daily. Hotels, in general, serve more hot beverages than restaurants and coffee shops, ranging from 30 to 500 servings per day, although the difference gap narrows for coffee consumption with coffee shops serving over 90 cups per day on average (Chart 66).

At the low end of the spectrum, chocolate-based hot drinks servings are limited to between 15 and 50 servings a day on average for coffee shops and hotels, respectively. 12% of surveyed outlets of restaurants and cafés do not offer any chocolate-based hot beverages on their menus, in contrast to tea and coffee which are ubiquitous.

Market leading tea brands Ketepa and Kericho Gold along with Nescafé instant coffee dominate foodservice

Most establishments offer a few ranges of branded packaged teas, usually comprising loose black tea, black tea bags and herbal tea bags. Ketepa is the most popular tea brand across all type of establishments

by far (58%), followed by Kericho Gold (18%). As for coffee, Kenyan outlets generally opted for either instant coffee or fresh coffee beans, with the former still leading in restaurants and cafés. Even though some establishments highlighted the importance of providing locally-sourced brands, the prevalence of instant coffee in more than 40% of surveyed establishments helps reinforce Nescafé dominant brand presence beyond the retailing channel. Dormans, primarily found in hotels and specialist coffee shops, ranks second in importance (22%). Conversely, reduced demand for chocolate-based flavoured hot drinks translates into a limited range of brands offered, with Cadbury Drinking Chocolate the only brand of choice for 72% of total establishments.

6.2 PURCHASING CRITERIA OF HOT BEVERAGES

6.2.1 INSTITUTIONAL CHANNEL

Quality and pricing are more important than origin and sustainability or ethical claims as driver for the institutional channel

The majority of organisations, or 62% of respondents, participating in the survey stated that they purchase hot drinks in bulk from multiple suppliers and wholesalers. Supermarkets are another significant source for hot drinks with 36% buying there. Only one company reported buying directly from local farmers/roasters. Obviously, suppliers and wholesale companies offer better prices for hot beverages than supermarkets, especially when organisations purchase in bulk. Despite being questioned

on the names of wholesalers and regular suppliers most declined to answer.

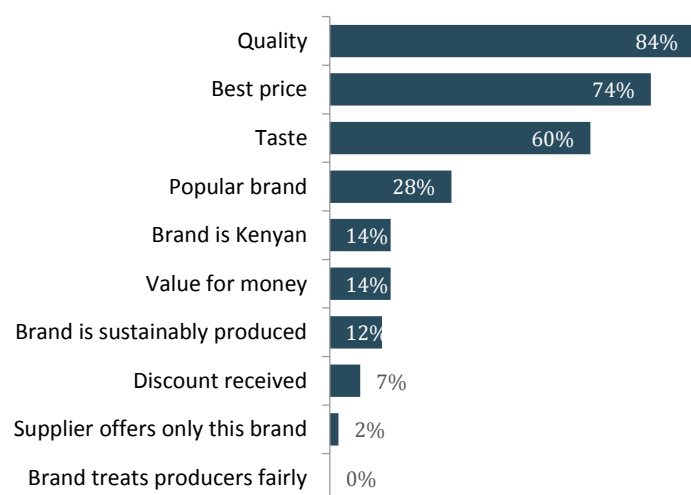


Chart 67 Importance of Factors Influencing Choice of Hot Beverages by the Institutional Channel

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

Amongst the key purchasing criteria for selecting hot beverage brands, quality outpaces price, followed by taste (Chart 67). However, when asked specifically about the importance of price 50% of respondents listed price as important or very important, and only 25% suggested it was not a consideration. Several companies indicated they had a budget for tea and coffee.

perceived as quality. Taste is important to 60% of surveyed organisations. Employees' opinion about a specific brand also plays a role in the decision-making process. In fact, in some corporate offices and public institutions, employees' feedback on hot drinks brands is crucial as good tea and coffee is seen as a perk of the job.

Almost 84% of organisations recognised quality as a key purchasing driver, however, without specifying what is

6.2.2 FOODSERVICE OUTLETS, COFFEE SHOPS AND HOTELS

Product quality and taste are more important than price for foodservice and hospitality players when it comes to buying hot beverages for their customers

Central purchasing of hot beverages seems to be lacking in some restaurants and hotels. Organisations in the foodservice and hospitality sector tend to rely on a single regular supplier to obtain supplies of hot beverages (33% of respondents). Examples include Kenyan Tea Packers, Dormans Coffee Group and

Tico's Coffee Roasting Co. Equally, a significant proportion of respondents claimed to use wholesalers frequently for bulk purchases and even supermarkets to fulfil their product needs (27% each).

For factors influencing purchase of hot beverages, pulse interviews revealed just small variations in importance assigned to the various criteria between the institutional channel and the foodservice and hospitality sectors. As in the institutional channel, quality is cited as the most important factor by a significant 84% of establishments (Chart 68). Quality is followed by taste, with price ranking only third



Chart 68 Importance of Factors Influencing Choice of Hot Beverages by the Foodservice and Hospitality Sectors

Source: Euromonitor International from pulse interviews conducted in November and December, 2016 (n=49)

in importance for foodservice and hospitality establishments. Even though prices are passed on to the customer, when asked directly about the importance of price, 54% considered price important or very important, contrasting with 24% who did not.

Besides listed factors, many establishments mentioned customer preferences, brand familiarity and aroma as reasons to purchase a specific hot beverage brand. Upmarket restaurants, in particular, select tea and coffee brands which are in keeping with their positioning. Most establishments do not

have formal mechanisms in place to obtain customers' feedback on the tea and coffee served to them, but rely on impromptu feedback or ask the opinion of regular customers. Returning customers are rightly seen as a stamp of approval for the venue.

6.2.3 INTERESTS AND ATTITUDES TOWARDS CERTIFIED HOT BEVERAGES BRANDS

Most organisations and hot beverages sellers questioned are not familiar with issues related to sustainable and ethical hot beverages brands and less than 10% of the total sample mentioned only the UTZ certification

Sustainable production practices are relevant to only 12% of the sample for the institutional channel and 2% for the foodservice and hospitality sectors, but the claim that "a brand treats producers fairly" is not considered at all by the former. This is also linked to the fact that nearly 84% of institutional respondents could not provide an example of ethical certifications, with the remaining 16% recalling only UTZ but not Fairtrade. The scenario was worse for foodservice establishments and hotels, with no ethical certifications coming to mind.

Instead of ethical certifications 21% of institutional respondents and 61% of respondents in foodservice referred to KEBS, the quality mark by the Kenyan Bureau of Standards. The Diamond Mark of Quality was also cited by 4% of respondents.

When asked about their understanding of Fairtrade, only 30% of players within the institutional channel could be said to have some awareness or a basic understanding of the Fairtrade certification (Chart 70). Nearly half, or 45% of interviewed companies, have a very limited perception of Fairtrade while the remaining 14% have never heard about the Fairtrade organisation and certification.

This compares to nearly two thirds of respondents within the foodservice and hospitality sectors openly declaring no knowledge on Fairtrade (Chart 69). For those who tried to make assumptions (35%), it was possible to identify strong misconceptions around the Fairtrade label, with many establishments associating it with product affordability and customer satisfaction on the service provided.

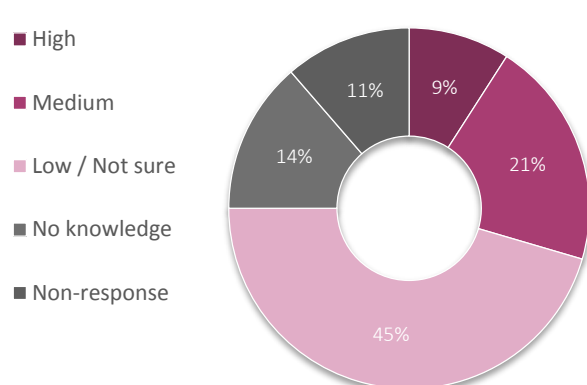


Chart 70 Awareness of Fairtrade Certification in the Institutional Channel

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

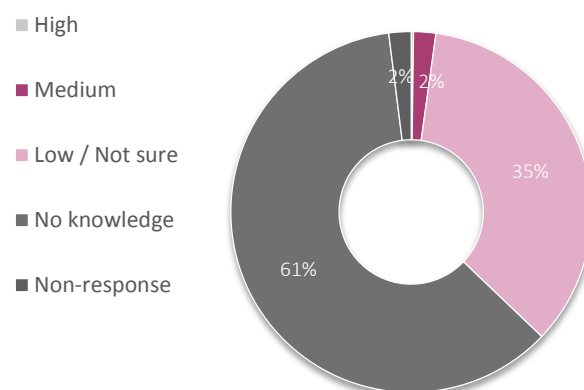


Chart 69 Awareness of Fairtrade Certification in the Foodservice and Hospitality Sectors

Source: Euromonitor International from pulse interviews conducted in November and December, 2016 (n=49)

After hearing an explanation of Fairtrade, up to 54% of companies and 85% of establishments selling hot beverages professed willingness to pay higher prices for the Fairtrade certified brands, with 90% of overall respondents expecting improved quality from certified products.

Results of pulse interviews with institutional channel and foodservice and hospitality sectors prove to be aligned with the consumer survey, in which only 33% and 35% of respondents have good perception and understanding of Fairtrade concept, respectively. Therefore, further consumer education and awareness building are required.

7. CONCLUSION AND RECOMMENDATIONS

7.1 FAIRTRADE AT THE POINT OF PRODUCTION

Fairtrade is most prevalent on the production side with Kenya accounting for more than half the producers involved in the production of Fairtrade certified tea in the region. There is an opportunity to increase certified production volumes in coffee and cocoa in other countries in the region using the successes in Kenya as a basis

Fairtrade is well represented among smallholders and estates in the region with 41 tea factories and plantations, 63 coffee producer organisations and 2 cocoa farmers certified across Kenya, Uganda, Tanzania and Rwanda in 2015. A substantial 21% of total tea harvested in the region and 10% of coffee volumes are Fairtrade certified. Fairtrade certified production volumes have also increased substantially from 2011 to 2015 (a CAGR of 16.4% for tea and 59.5% for coffee), presumably in response to the efforts of Fairtrade working with producer organisations.

Fairtrade has been particularly successful in achieving a high level of certification of tea and coffee production in Kenya. However, levels of certified coffee and tea production in other East African countries are substantially lower, although overall Fairtrade volumes in the region have increased. Despite a good representation amongst Tanzanian tea in 2015, Fairtrade has been losing ground in this country as absolute volumes of both certified tea and coffee production have declined in the period from 2011 to 2015. This leaves much room for increasing certified volumes across tea, coffee and the small regional cocoa outputs by refocusing efforts in other East African countries and exploiting the Kenyan achievements as an example in the promotion of Fairtrade certification.

Only a fraction of Fairtrade production volumes are sold as Fairtrade certified tea or coffee either locally or abroad. Understanding the reasons for this loss of certification premium will help in addressing it

On average 3% of certified tea and 22% of certified coffee production in 2015 was sold as Fairtrade certified locally and abroad. These volumes are equivalent to a mere 1% of total regional production. Furthermore, the proportions remaining within the regional ethical supply chain for both tea and coffee have declined between 2011 and 2015. For coffee, the absolute certified volumes sold have also declined. Uganda is the exception as 50% of certified coffee production is also sold certified.

Low Fairtrade sales volumes may arise from indiscriminate blending, packaging and sales into the non-Fairtrade export market or may be because of a low demand in both the domestic and export market. Either way, the certification premium is lost with impact on the expansion of the Fairtrade concept to other producers and brand manufacturers. While greater volumes of Fairtrade production provide tea factories and blenders with flexibility to ramp up Fairtrade sales volumes, an evaluation of the blending and packaging process to identify how much and what type of tea, coffee or cocoa is intended for Fairtrade will be a first step towards addressing the loss of premium. However, efforts to increase the demand for Fairtrade certified tea, coffee and cocoa should result in greater certified sales volumes.

Establishing and nurturing relationships with key domestic and international players and identifying up and coming organisations along the supply chain of tea, coffee and cocoa is key to furthering the aims of Fairtrade

While levels of regulation and control over the sale of tea, coffee and cocoa differ between countries in the region and individual stakeholders have varying access to the market, several organisations stand out as influential. As 80% of the region's tea is grown in Kenya, KTDA is the *de facto* main marketer of tea not only for Kenya but other countries in the region, around 90% of which is exported. It already has a close relationship with Fairtrade and continues to play a pivotal role in the trading of certified tea both

domestically and in the export market. For coffee, key Ugandan stakeholders need to be identified. To advance Fairtrade's objectives, core marketing concepts should be explored directly with the KTDA and similar organisations, to agree base principles and marketing strategies for Fairtrade certified produce.

Since 2016, direct sales of tea outside the Mombasa Tea Auction are possible in Kenya. 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. Fairtrade can use these developments to identify opportunities among specialist tea packers and manufacturers to develop Fairtrade certified brands.

7.2 WORKING WITH BRAND MANUFACTURERS

With only two locally manufactured brands sold in Kenyan supermarkets featuring the Fairtrade label, overall market share of Fairtrade is low for hot drinks with sales growth weakening in the face of increasing competition

The number of Fairtrade certified hot beverage products was found to be limited across retail outlets and only three brands were noted in stores to carry the Fairtrade label – local tea brand Kericho Gold, including Kericho Gold Attitude Teas, local coffee brand Dormans and the imported coffee brand Percol. Hypermarkets and other grocery retailers, such as health food specialist and specialist coffee shops, offer the greatest choice of Fairtrade certified hot beverages brands, whereas supermarkets audited during the research have fewer than 10 Fairtrade facings amongst hot drinks.

Poor presence in retail has translated into low market share for Fairtrade-certified hot drinks. In 2015, volume sales of Fairtrade certified hot drinks in Kenyan retail were estimated at only 165,600 tonnes or only 7% of the total, valued at KSh399.4 million (US\$4.1 million). 2015 volumes were up by 13.9% from 2011 with Fairtrade value growing more rapidly at 39.5% in absolute terms during the same period.

Fairtrade is a niche label amongst hot drinks, not distinguishable by premium pricing in the Kenyan market

Local Fairtrade labels do not appear to attract much of a price premium in Kenyan retail with the exception of Kericho Gold's Attitude Teas. Most fresh coffee products by Dormans are positioned within the mid-to-lower price segment notwithstanding price differentials between stores. The average per kilogram price for Fairtrade tea is above the category average but on a per package basis prices fall within the overall price range of Kenyan teas taken into account differences between stores. For tea, it is imported brands which are often the most expensive, whereas new formats of coffee, namely coffee pods, attract a premium.

The current market expression for Fairtrade products in Kenya therefore points to a niche and non-premium positioning. This is unlike other markets, where pricing follows Fairtrade's express purpose to achieve a premium for redistribution among producers. An opportunity to exploit premium positioning within the domestic market still offers potential alongside growing retail volumes and requires that Fairtrade marketing concepts be discussed with producers, brand holders and all intermediary, creative and government agencies to ensure greater clarity.

Fairtrade certified brands must be made more widely available to consumers than at present across modern and traditional retail to encourage growth with benefits of certification aligned to brand strategies

In the face of competition from multinational brands, local players, such as Gold Crown Beverages Kenya, Dormans Coffee Group and Vava Coffee Ltd, have tried to leverage ethically-sourced products,

fashionable pack sizes and designs to lure consumers. Kericho Gold's Attitude range in Kenya is one example of a successful launch of a new variant of tea that carries the Fairtrade logo with a premium. However, the recent emergence of private label brands, for example from Nakumatt, has added to competitive intensity to the detriment of Fairtrade certified hot drinks in the period of 2011 to 2015.

Brands in Kenya currently seek to differentiate their products through pricing as well as flavours, packaging formats and sizes resulting in a large variety for both tea and coffee offerings. Speciality teas and coffees are also readily available in retailers and foodservice outlets targeting the middle-to-upper classes. Nonetheless, the inherent value of Fairtrade certification which underpins differentiation in other countries is rarely seen in this region. The perception on the part of brand manufacturers of the added value of this certification may not reflect the clear values and premium positioning promoted by the Fairtrade organisation.

In working with brand manufacturers, it is important that the value of including Fairtrade certification in their brand message and marketing is fully understood. Given the competitive nature of the hot drinks market in Kenya, aligning Fairtrade certification with strategic brand goals, for example by supporting brand differentiation, will ensure that packers and manufacturers are motivated to consider Fairtrade certification.

Fairtrade should be developing close relationships with a range of companies selling hot drinks including multi-brand domestic and international companies as multi-brand players have the ability to adapt their marketing strategies selectively to include Fairtrade values and collateral. Finding direct and indirect ways for cooperation in marketing will help to advance Fairtrade's goals as much as those of such brands. Emerging private labels offer another opportunity as supply is likely to be from local sources, many of whom may already be Fairtrade certified.

7.3 BUILDING AWARENESS AND CREATING DEMAND

Limited awareness of, but interest in, Fairtrade constitutes an opportunity to mobilise the emerging middle-class ethical consumer in East Africa and demonstrates potential for market growth

Limited awareness and understanding of sustainability initiatives is evident amongst consumers in Kenya. Although Fairtrade has an advantage over other sustainable and responsible sourcing bodies, such as UTZ and Rainforest Alliance, in that its logo is encountered on some locally-produced tea and coffee brands, many Kenyan consumers do not know what Fairtrade entails. Despite low awareness levels, perceptions and attitudes towards Fairtrade certified brands are positive, as is evident from the positive reactions to the working definition or description of Fairtrade credentials.

However, consumers are generally supportive of the values underlying Fairtrade signalling that Fairtrade certified tea and coffee products in Kenya and the wider region hold significant growth potential. Building on these attitudes, campaigns targeted at different groups of consumers, such as food service and places of work, can increase awareness and recognition of the label and its positive effects on local industry.

With more than half the population in the region 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 which can be captured by designing educational campaigns for schools and the wider community in cooperation with hot drinks marketing companies and agencies.

A third of Kenyan consumers indicated they drink coffee and 70% tea at work on a daily basis. Although procurement of hot drinks at places of work is dependent on size of organisation and budgets, linking up with corporate social responsibility programmes 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.

Quality, taste and price consistently come up as important criteria for choosing a hot drink brand and Fairtrade products need to be distinguished by the attributes which are primary purchase motivations

This research has shown that what matters more to both consumers and business is quality, taste and price, with origin and brand popularity following close behind. The carrying of Fairtrade certification is not, currently, a key motivator for consumer or institutional and food service purchase, and conversion of the consumer to ethical purchasing is required to stimulate sales. Point of sale promotional activities and sensitisation campaigns should be conducted alongside actively pursuing both domestic and international taste and quality awards for Fairtrade certified produce to link Fairtrade with attributes that consumers look for when buying tea or coffee.

Coffee shops, restaurants and hotels, targeted at local middle class and tourists can be corralled into selling or providing Fairtrade certified hot drinks

Food service organisations have also shown a willingness to pay slightly higher prices for Fairtrade certified hot beverages, if quality is guaranteed. Coffee shops are becoming increasingly common in cities in East Africa along with an expanding number of chained and fast food 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. By identifying and approaching key players in this sector now, the low awareness of Fairtrade values within the foodservice sector can be directly addressed through promotion, tastings and alignment with producers.

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. Leading hotels, resorts, attractions and transportation companies should be targeted to ensure that Fairtrade products are stocked and promoted in all locations.

Online platforms constitute exceptionally powerful tools for consumer awareness building and education particularly for the younger, more connected demographic

According to the Communications Authority of Kenya, Kenya's internet penetration rose by 11% to stand at 82.6% of the entire population as of March 2016 with the number of internet users growing to 35.5 million users (Euromonitor International, 2016a, January). Facebook is by far the most popular social media network, with 5.5 million users, followed by Twitter and YouTube (Euromonitor International, 2016a, January). Some retailers are already riding on these factors. Fairtrade Africa should capitalise on this consumer trend and engage in active educational and marketing campaigns on these platforms. Strategic partnerships with producers, manufacturers and retailers should be considered for these campaigns to maximise consumer exposure.

Opportunities for Fairtrade certified tea, coffee and cocoa exist in the regional East African markets but require efforts to be invested in educating consumers and intermediaries such as food service and companies, building on supportive attitudes for ethical principles. Building relationships with

stakeholders on the consumption as well as the production side of the tea, coffee and cocoa supply chains will be key in finding common purpose and advancing Fairtrade goals.

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APPENDIX I: RESEARCH METHODOLOGY

STORE AUDITS

In the course of present study, 19 stores were visited by Euromonitor International's field researcher in Nairobi during November 2016, including three traditional grocers serving middle and upper classes (16% of stores visited, including an open market, an independent grocer and a coffee specialist) and the remaining outlets being mainly supermarkets and hypermarkets. Aiming to cover all consumer segments, the scope of the field research comprised visiting nine stores serving lower- and middle-class consumers, thus visiting supermarkets from leading retailers including Uchumi, Tuskys and Naivas in poorer residential areas located in Woodley Estate. Also, 10 grocery retailers serving to middle and upper class were included in the scope, i.e. Nakumatt hypermarkets and Carrefour supermarkets, among others.

Product coverage included top five brands in coffee and tea and top three brands in powdered beverages, as well as recording all Fairtrade certified brands in the respective categories. Information on pricing, packaging, shelf facings and product origin among others were properly recorded in the course of store audits. The average price was then calculated per kilogram, including tea bags where the ratio of one bag weighting around two grams was applied. The collected information as well as interviews conducted with employees in the stores visited were used for further analysis of penetration of certified brands in Kenya's hot beverages market.

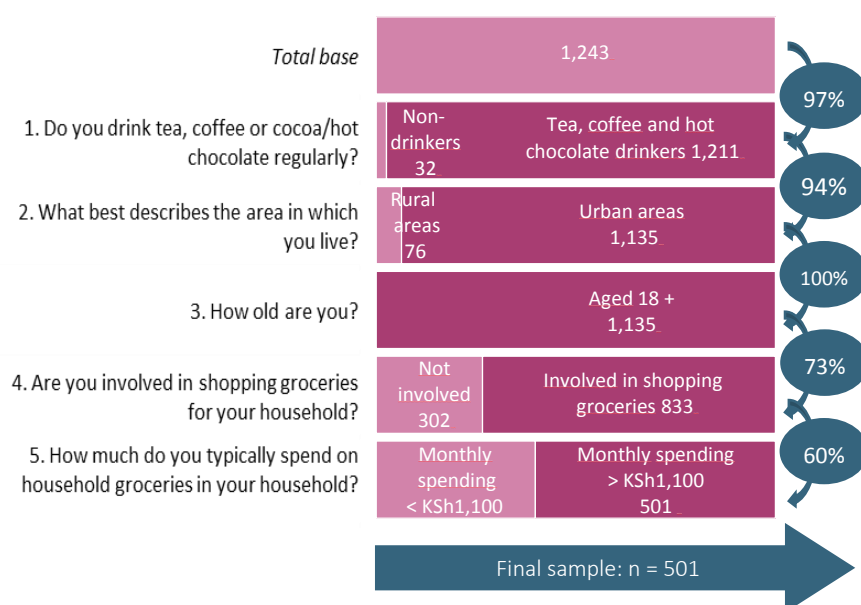
List of Stores Audited in Nairobi, Kenya

Channel	Store Name	Area	Comment
Supermarket	Tuskys Chap Chap Adams Arcade	Woodley Estate	Small supermarket targeting lower- and middle-income consumers
Supermarket	Uchumi CBD	Nairobi CBD	Well-known supermarket in middle-income area
Supermarket	Uchumi Ngong	Woodley Estate	Large supermarket in lower-income area
Supermarket	Nakumatt City Hall	Nairobi CBD	Large supermarket in middle-income area
Supermarket	Naivas CBD	Nairobi CBD	Large supermarket in middle-income area
Supermarket	Naivas Ngong	Woodley Estate	Large supermarket in middle-income area
Supermarket	Chandarana Food Plus Yaya	Kilimani	Medium-sized store catering to the middle- and high-income bracket
Supermarket	Eastmatt Tom Mboya	Nairobi CBD	Large supermarket targeting lower- and middle-income consumers
Supermarket	Ukwala Tom Mboya	Nairobi CBD	Variety on offer similar to cheaper supermarkets
Hypermarket	Nakumatt Junction	Maziwa	Ultra-modern hypermarket with large product portfolio of local and international brands
Hypermarket	Nakumatt Village Market	Woodley Estate	Large hypermarket with a huge selection of Kenyan and imported brands
Hypermarket	Carrefour	The Hub, Karen	Hypermarket with a selling space of 5,000 sq m situated in the "Hub Karen" shopping mall
Forecourt Retailer	O'Market Ngong Road	Woodley Estate	Forecourt store with limited product range
Forecourt Retailer	Engen QuickStop Argwings Kodhek	Kilimani	Forecourt store with limited product range

Small Grocer	Independent Grocer Valley Arcade	Valley Arcade	Formal store with a relatively extensive range for this type
Others	Zucchini Greengrocers	Woodley Estate	Traditional store focusing on fresh produces
Others	Healthy U Yaya	Kilimani	Small health food specialist offering packaged food, teas, supplements and medicines
Others	Urban Coffee	Kilimani	Specialist coffee shop, with take-away service

CONSUMER SURVEYS

To support the results of the present study and to gain additional insights about Kenyan consumers, Euromonitor International partnered with Critical Mix to host the consumer survey. The main objective of the consumer survey is to understand consumer habits and preferences when it comes to the consumption of tea, coffee and powered hot beverages, as well as determining purchasing behaviour for hot beverages with respect to price sensitivity and brand. In addition, it was used to test consumer awareness of and interest in Fairtrade certified brands and similar ethical labels in Kenya.



Selection of Respondents based on Consumer Screening Questionnaire

Source: Euromonitor International from consumer screening questionnaire

Thus, the questionnaire included an initial set of screening questions to qualify respondents and ensure they match the required background to participate (see Appendix III). The goal was to ensure these were frequently consumers of hot beverages, represented urban dwellers, and also participated in grocery shopping.

The survey contained 34 questions on hot beverage consumption patterns. These covered mostly consumption related information related to frequency and volumes of hot beverages consumed, purchasing location, brand preferences as well as factors related to purchasing drivers. Several questions were dedicated to awareness of ethical labelling including Fairtrade. Lastly, demographics-related questions included information on gender, household size and monthly income, among others.

B2B PULSE INTERVIEWS

Euromonitor International conducted 43 and 49 phone and face-to-face pulse interviews amongst institutional customers and foodservice providers in Kenya respectively, during November and

December 2016. These included Kenyan and multinational businesses, public institutions such as governmental agencies and universities, hospitals, faith-based institutions, restaurants, coffee shops, hotels and catering companies.

Two interview guides were designed, one for the institutional channel, and another for foodservice players. Both questionnaires were used to gather estimates on numbers of cups consumed/served and key brands. In addition, the institutional interview guide aimed at determining the institutional processes and arrangements currently in place for supply of tea, coffee and chocolate-based beverages within an organisation, factors considered in selecting a brand, awareness regarding Fairtrade certified products and the willingness on the part of organisations to purchase them. The foodservice interview guide sought responses from service providers to determine the current demand for tea, coffee and chocolate-based hot beverages in foodservice outlets, consumption seasonality, procurement processes around hot drinks and the importance of customer influence in the purchasing decisions, key factors influencing their purchase, levels of awareness regarding Fairtrade certified brands, and whether they were willing to purchase these brands and the challenges they were likely to face in adopting them. Copies of the two interview guides are attached in Appendix III.

B2B Pulse Interviews' Sample Size

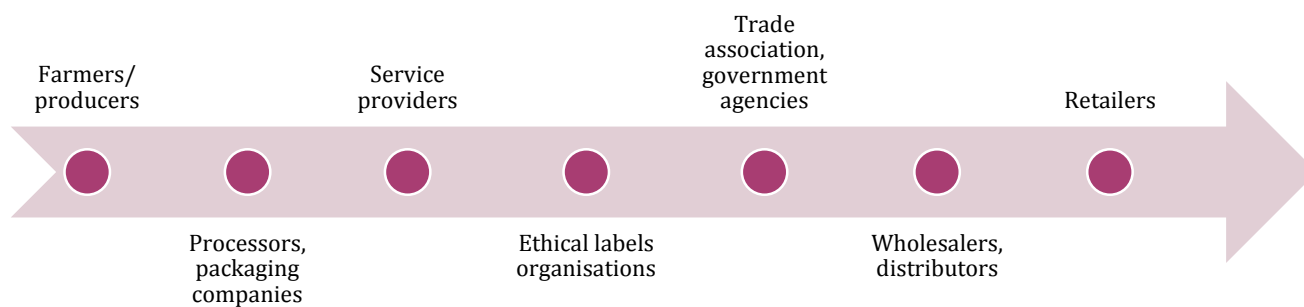
Institutional consumers	Sample
Corporate businesses	23
Public institutions	9
Healthcare service providers	5
Faith-based institutions	2
Foodservice providers	Sample
Restaurants	17
Cafés and coffee shops	15
Hotels	15
Canteens/Catering companies	2

Most interviews were carried out in Nairobi as respondents there were fairly educated and exposed to Fairtrade certified brands and thus were expected to be more familiar with ethical standards. The typical pulse interview lasted about 10 minutes. Due to the objectives of the study and the need to collect quality responses, procurement or facilities managers of companies were contacted for response to the institutional channel. For small companies and institutions with around 10 employees, office administrators were approached for pulse interviews. Appendix IV provides a list of the interviewed institutional customers and foodservice providers.

IN-DEPTH TRADE INTERVIEWS

Euromonitor International also carried out in-depth discussions with industry players along the supply chain of tea, coffee and cocoa in Kenya and Tanzania, such as trade associations, producer organisations, processors, manufacturers, distributors and retailers. The main purpose of trade interviews was to fill in information gaps and get a better understanding of the importance of ethical certifications such as Fairtrade. In addition, the information obtained from key industry informants was used to triangulate the data collected from Euromonitor's Passport database, consumer surveys and B2B pulse interviews as well as to gain further insights on production and market dynamics.

To ensure we take on board as many perspectives as possible, Euromonitor International split out the supply chain for tea, coffee and cocoa and ensured that key players were target at every stage, as showed below:



A discussion guide with open-ended questions was designed to create relevant questions for key informants based on the following topics: consumption trends, market size and growth, competitive environment, Fairtrade certification, value and supply chain analysis and manufacturers' challenges for value addition in Kenya. Trade interviews for this portion of research were more lengthy and detailed than consumer and pulse surveys. Typically, trade interviews lasted 30-45 minutes. Appendix IV gives an overview of the interviewed stakeholders.

APPENDIX II: CONSUMER SURVEY QUESTIONNAIRE

A survey on hot beverages consumption patterns as well as consumer attitudes and preferences towards Fairtrade certified brands in Kenya, November 2016.

INTRODUCTION TO THE SURVEY

Euromonitor International is currently conducting a study on the consumption of tea, coffee and cocoa in Kenya. We are interested in how you drink tea, coffee or cocoa, how often, and why you like and buy particular products and brands.

CONSUMPTION RELATED QUESTIONS

For the following 6 questions, only show depending on the answers to Q1 of Key Informant Screener.

If tea was selected, then show Q6 and Q7.

If coffee was selected, questions Q8 and Q9.

If cocoa was selected, questions Q10 and Q11.

Q6. Thinking about your consumption of tea, how often on average do you do the following?

	Daily (more than 4 times a week)	3 times a week or less	1-2 times a month	Rarely Once every few months	Never
Drink tea at home					
Drink tea at work / place of study					
Drink tea in a restaurant with or after a meal					
Go out specifically to drink tea at a café, bar, restaurant					
Buy a cup of tea to take away					

For each of the above, offer the options from daily or almost every day to never as a dropdown list.

For coding, please can you mark as “daily tea drinkers” if daily or almost every day is selected.

Q7. We would like to find out when during the day you typically drink tea. Please select the number of cups you typically drink:

- In the morning around breakfast ____
- Between meals during the day ____
- At lunch with or after food ____
- At dinner with or after food ____
- Before bed ____

Numbers of cups could be added to a drop-down list with the following options: none at this time, 1, 2, 3, more than 3.

Q8. Thinking about your consumption of coffee, how often on average do you do the following?

	Daily or almost every day	1-2 times a week	1-2 times a month	Rarely Once every few months	Never
Drink coffee at home					
Drink coffee at work / place of study					
Drink coffee in a restaurant with or after a meal					
Go out specifically to drink coffee at a café, bar, restaurant					

Buy a cup of coffee to take away					
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For each of the above, offer the options from daily or almost every day to never as a dropdown list.

For coding, please can you mark as “daily coffee drinkers” if daily or almost every day is selected.

Q9. We would like to find out when during the day you typically drink coffee. Please select the number of cups you typically drink:

- In the morning around breakfast ____
- Between meals during the day ____
- At lunch with or after food ____
- At dinner with or after food ____
- Before bed ____

Numbers of cups could be added to a drop-down list with the following options: none at this time, 1, 2, 3, more than 3.

Q10. Thinking about your consumption of cocoa/hot chocolate, how often on average do you do the following?

	Daily or almost every day	1-2 times a week	1-2 times a month	Rarely Once every few months	Never
Drink hot chocolate at home					
Drink hot chocolate at work / place of study					
Drink hot chocolate in a restaurant with or after a meal					
Go out specifically to drink hot chocolate at a café, bar, restaurant					
Buy a cup of hot chocolate to take away					

For each of the above, offer the options from daily or almost every day to never as a dropdown list.

For coding, please can you mark as “daily cocoa drinkers” if daily or almost every day is selected.

Q11. We would like to find out when during the day you typically drink cocoa/hot chocolate. Please select the number of cups you typically drink.

- In the morning around breakfast ____
- Between meals during the day ____
- At lunch with or after food ____
- At dinner with or after food ____
- Before bed ____

Numbers of cups could be added to a drop-down list with the following options: none at this time, 1, 2, 3, more than 3.

Q12. On average how often do you buy the following for preparation and consumption at home for your household?

	Seldom / Never	Every three months or so	Once a month	Several times a month	Once or more a week
Tea					
Coffee					
Cocoa/hot chocolate					

For each of the above, offer the options from daily or almost every day to never as a dropdown list.

Q13. Where do you typically buy your tea, coffee and cocoa for preparation and consumption at home? Please tick all that apply.

- Supermarket
- Local convenience store
- Open market
- Specialist coffee or tea shop
- From the internet
- Direct from the producer
- Other – please specify

Randomise list for each respondent.

We would like to find out a little more about the type of products you buy and which brands you prefer.

For the following questions, only show depending if the answers to Q12 are not “seldom”.

If tea is selected, then show Q14 to Q17

If coffee is selected, then show Q18 to Q22

If cocoa is selected, then show Q23 to Q26

Q14. What type of tea do you typically buy for your household? Please select up to two options.

- Loose black tea
- Black tea bags
- Speciality tea (for example, Darjeeling, Earl Grey, estate tea, green tea)
- Herbal tea
- Instant tea

Randomise list for each respondent.

Q15. What is the name of the brand of tea you typically buy for your household?

Respondents should respond in free form.

Q16. Do typically buy the same brand of tea each time or try a different brand to one you previously purchased? Please think about your purchases over the last 12 months.

- Always the same brand
- Usually the same brand
- Sometimes the same, sometimes different
- Usually a different brand
- Always a different brand

Randomise list for each respondent.

Q17. Please can you provide us with the top five reasons why you buy these brands of tea? Please rank in order of importance from 1 to 5, selecting at least 3 reasons.

- | | |
|------------------------------|---|
| • This brand has a low price | • The product claims to have health benefits |
| • The brand is on promotion | • It is a Kenyan product |
| • The product tastes good | • I like the packaging |
| • The package is recyclable | • The brand offers family size / bulk packaging |

- We always buy this brand
- It is a popular brand
- My children like this brand
- The quality is good
- The brand is sustainably produced
- The brand is organic
- The brand is Fairtrade certified
- The brand offers good value for money
- The brand has nutritional benefits
- Friends recommended it
- The brand treats producers fairly
- Other

Randomise list for each respondent.

Q18. What type of coffee do you typically buy for your household? Please select up to two options.

- Instant coffee
- Instant decaffeinated coffee
- Fresh ground coffee
- Fresh coffee beans
- Fresh decaffeinated coffee
- Coffee pods

Randomise list for each respondent.

Q19. What is the name of the brand of coffee you typically buy for your household?

Respondents should respond in free form.

Q20. Do typically buy the same brand of coffee each time or try a different brand to one you previously purchased? Please think about your purchases over the last 12 months.

- Always the same brand
- Usually the same brand
- Sometimes the same, sometimes different
- Usually a different brand
- Always a different brand

Randomise list for each respondent.

Q21. Please can you provide us with the top five reasons why you buy these brands of coffee? Please rank in order of importance from 1 to 5, selecting at least 3 reasons.

- This brand has a low price
- The brand is on promotion
- The product tastes good
- We always buy this brand
- It is a popular brand
- The package is recyclable
- My children like this brand
- The quality is good
- The brand treats producers fairly
- Other
- The product claims to have health benefits
- It is a Kenyan product
- I like the packaging
- The brand offers family size / bulk packaging
- The brand is Fairtrade certified
- The brand offers good value for money
- Friends recommended it
- The brand is sustainably produced
- The brand is organic

Randomise list for each respondent.

Q22. What type of cocoa/hot chocolate do you typically buy for your household? Please select up to two options.

- Instant hot chocolate powder
- Cocoa powder
- Chocolate flavoured malt drink
- Other flavour

Randomise list for each respondent.

Q23. What is the name of the brand of cocoa/hot chocolate you typically buy for your household?

Respondents should respond in free form.

Q24. Do typically buy the same brand of cocoa/hot chocolate each time or try a different brand to one you previously purchased? Please think about your purchases over the last 12 months.

- Always the same brand
- Usually the same brand
- Sometimes the same, sometimes different
- Usually a different brand
- Always a different brand

Randomise list for each respondent.

Q25. Please can you provide us with the top five reasons why you buy these brands of cocoa/hot chocolate? Please rank in order of importance from 1 to 5, selecting at least 3 reasons.

- | | |
|--------------------------------------|---|
| • This brand has a low price | • The package is recyclable |
| • The brand is on promotion | • The product claims to have health benefits |
| • The product tastes good | • It is a Kenyan product |
| • We always buy this brand | • I like the packaging |
| • It is a popular brand | • The brand offers family size / bulk packaging |
| • My children like this brand | • The brand is Fairtrade certified |
| • The quality is good | • The brand offers good value for money |
| • Friends recommended it | • The brand is sustainably produced |
| • The brand has nutritional benefits | • The brand treats producers fairly |
| • The brand is organic | • Other |

Randomise list for each respondent.

Q26. Which of the following certification schemes are you aware of? Select all that apply.

- Fairtrade
- UTZ
- Rainforest Alliance
- None of these

Randomise list for each respondent.

Respondents who do not select Fairtrade coded as “unaware”.

Q27. Please tell us where you saw or heard of these certification schemes. Select all that apply.

- | | |
|--------------------------------|---------------------------|
| • On television | • On the internet |
| • On the product package | • In a newspaper |
| • Through promotional material | • In a magazine |
| • In advertising | • From friends and family |

- On social media
- Other

Randomise list for each respondent.

Q28. Which of the following do you associate with Fairtrade? Please select all that apply.

- Environmental sustainability
- Fight against climate change
- End to child labour
- Protection of rainforests
- Fair price to producers
- Local / Kenyan
- Empowerment of smallholder farmers
- Tea
- Coffee
- Empowers women
- Stronger producer organisations
- Global organisation
- No artificial ingredients
- Cocoa
- Palm oil
- Flowers
- Equal trading relationships
- Sustainable agriculture
- Investment in local communities
- Good quality
- Living incomes for farmers
- For Europe and USA only
- Expensive
- Kind to animals

Randomise list for each respondent.

Only show if the answer in question 28 includes Fairtrade, if not go direct to question 30.

There are a number of incorrect or partially correct statements as these are not primary goals – “fight against climate change”, “for Europe and USA only”, “no artificial ingredients”, “protection of rain forests”, “kind to animals”, which should be coded as “low awareness”. Similarly, if all are selected, code as “unaware”.

Q29. How strongly do you agree with the following statements?

	1 Strongly disagree	2 Disagree	3 Neither agree nor disagree	4 Agree	5 Strongly agree
The products I buy should come from Kenya					
Farmers and workers who make the products I use should be treated fairly and get paid the right price					
It is important that we do something about climate change					
People need to make sacrifices to help the environment					
More needs to be done to eradicate child labour					
We need to live in harmony with our natural environment					
Investment in local communities will help to uplift them					
The product I buy must be organic					
The product I buy must follow ethical principles and guidelines					
Imported products have a better quality than local products					
People worry too much about the environment when compared to the livelihoods of local communities					

Randomise list for each respondent.

Every respondent should answer these questions.

CONSUMER DEMOGRAPHICS

Q30. Are you

- Female
- Male

Q31. How many people live in your household? Please select the most appropriate.

- 1
- 2
- 3
- 4
- 5
- More than 5

Q32. How do you earn your living? Please select the most relevant option.

- I am in full-time employment
- I work part-time
- I run my own business
- I am an expatriate
- I am a student
- I am a housewife
- I am unemployed

Q33. My household (including all members of the household) has the following monthly earnings – please select one.

- Less than 10,000 KSh
- 10,001 to 50,000 KSh
- 50,001 to 100,000 KSh
- More than 100,000 KSh
- I prefer not to say

Q34. Have you ever travelled outside Kenya?

- Yes
- No

Thank for completing this survey.

APPENDIX III: CONSUMER SCREENING QUESTIONNAIRE

A recruitment questionnaire to identify suitable respondents who would fit the consumer profile previously determined and thus qualified to be interviewed for the survey on hot beverages consumption patterns as well as consumer attitudes and preferences towards Fairtrade certified brands in Kenya, November 2016.

SCREENING QUESTIONS

Q1. We would like to know a bit about the beverages you and members of your household drink during the day. Which of the following beverages do you consume in a typical day?

- Coffee
- Tea
- Cocoa / Hot chocolate
- Water
- Fruit juice
- Cordials / concentrates
- Carbonated drinks (such as Coca Cola, Pepsi, Fanta)
- Beer
- Wine
- Spirits
- Milk / Dairy
- None of these

Randomise list for each respondent.

If the answer does not include tea, coffee or cocoa / hot chocolate, then terminate survey.

Q2. What best describes the area in which you live? Please select only one option.

- In a large city (for example, Nairobi, Mombasa or Kisumu) or in its outskirts
- A major town or in its outskirts (for example, Nakuru, Eldoret, Kehancha, Kikuyu or other)
- A rural village or small town with fewer than 100,000 people

If the answer is "a rural village or small town" terminate survey.

Q3. In what year were you born?

If the answer is the year 1999 to 2016 please terminate survey.

Compute age groups according to 18 – 24, 25 – 29, 30 – 34, 35 – 39, 40 – 49, 50 – 59, older than 60.

Q4. Which of these statements best describes your involvement in shopping groceries, food and other household supplies for your household?

- I am the only one responsible for buying grocery and household supplies
- I am jointly responsible buying grocery and household supplies
- I influence the types of grocery and household products and brands bought in my household
- I am not involved with grocery shopping for my household

We are looking for consumers who make the purchasing decisions in the household. If the answers "I influence the types of grocery products and brands bought in my household" or "I am not involved with grocery shopping for my household" are selected, terminate the survey.

Q5. How much do you typically spend on household supplies and groceries in your household? Please select the most relevant option.

- Less than 1000 KSh per week (or less than 5,000 KSh per month)
- 1,000 to 5,000 KSh per week (or 5,000 to 25,000 KSh per month)
- More than 5,000 KSh per week (or 25,000 KSh per month)

If the answer is less than 1,000 KSh per week / 5,000 KSh per month please terminate survey.

APPENDIX IV: B2B PULSE INTERVIEWS GUIDE

Short and focused pulse interviews with potential customers from the foodservice and institutional sector on preferences, trends and purchasing behaviour for hot beverages in Kenya, November and December 2016.

QUESTIONS TO INSTITUTIONAL CONSUMERS PROVIDING HOT BEVERAGES FOR FREE

Q1. Please can you confirm which of these beverages you buy for consumption on your premises by staff, patients, congregants and visitors and what type/format of each?

- Tea – loose black tea, black teabags, fruit/herbal varieties, other
- Coffee – ground coffee, coffee beans, coffee pods, instant coffee, coffee derivatives, other
- Cocoa – instant hot chocolate, cocoa powder, other

Q2. Do you have a machine to make coffee? What kind? How about tea?

Q3. How many people in the organisation do you approximately supply hot drinks to on a daily basis?

Q4. We are interested in understanding how much of each of these is consumed by businesses in Kenya and it would help us if you could share how much (by volume) of each you buy per month/week.

- Tea
- Coffee
- Cocoa

Q5. Approximately how much do you spend on hot drinks a month?

Q6. How do you typically obtain the hot drinks offered? For example, do you buy them wholesale, direct from the producer/roaster, are they delivered, do you go out to a supermarket when you run out, do you have one regular supplier or do you use multiple suppliers? Would you be prepared to share the name of the company you buy from?

Q7. What brands do you typically buy for each?

- Tea
- Coffee
- Cocoa

Q8. Are any of them Fairtrade certified, or have a similar certification that you are aware of?

Q9. Please can you provide us with the top three reasons why you buy these brands?

- Best price
- Discount received
- Popular brand
- Quality
- Supplier offers only this brand
- Taste
- Brand is Kenyan
- Value for money

- Brand is sustainably produced
- Brand treats producers fairly
- Other, please specify

Randomise list for each respondent.

Q10. How important, on a scale of 1 for least important to 5 for most important, is the opinion of your staff/patients/congregants/visitors when you select the brand of tea, coffee or cocoa you offer? Do you measure their opinion and how?

Q11. On a scale of 1 to 5, how important is price in your choices of brands and suppliers? For example, by how much would the price have to change to make you reconsider your choice?

Q12. What do you understand by Fairtrade?

Fairtrade is a global movement, which addresses the injustices of conventional trade by supporting smallholder farmers and workers. Fairtrade stands for changing the way trade works, through fair prices, better working conditions and local sustainability to offer a more stable future for farmers and their communities. When you choose Fairtrade, farmers can invest in, build a better quality of life for their families and communities, growing better quality products and protecting the environment. Fairtrade is about choosing products that change lives.

Q13. What would make you consider buying a Fairtrade certified brand? Would you be prepared to pay more for a Fairtrade certified brand?

QUESTIONS TO FOODSERVICE PLAYERS SELLING HOT BEVERAGES

Q1. What trends have you seen in the consumption of tea, coffee and cocoa beverages from your customers? Have you noticed a change in taste preferences?

Q2. When do your customers typically drink tea, coffee or cocoa in your establishment? Can you highlight the time of day when most hot drinks orders are made. Also what is the seasonality in the consumption pattern?

Q3. Please can you confirm which of these beverages you sell and what type / format of each as in the examples?

- Tea – loose black tea, black teabags, fruit/herbal varieties, other
- Coffee – ground coffee, coffee beans, coffee pods, instant coffee, coffee derivatives, other
- Cocoa – instant hot chocolate, cocoa powder, other

Q4. How many cups of each do you typically sell per day/week?

- Tea
- Coffee
- Cocoa

Q5. How do you typically serve coffee, tea, and cocoa? Do you have a coffee machine? What kind? How about tea?

Q6. How do you typically obtain the hot drinks offered? For example, do you buy them wholesale, direct from the producer/roaster, are they delivered, do you go out to a supermarket when you run out, do you

have one regular supplier or do you use multiple suppliers? Would you be prepared to share the name of the company you buy from?

Q7. What brands do you typically buy for each?

- Tea
- Coffee
- Cocoa

Q8. Are any of them Fairtrade certified, or have a similar certification such as UTZ or Rainforest Alliance that you are aware of?

Q9. How does the quality and brand of teas or coffees you sell relate to your competitive positioning as a restaurant/hotel?

Q9. Please can you provide us with the top three reasons why you buy these brands?

- Best price
- Discount received
- Popular brand
- Quality
- Supplier offers only this brand
- Taste
- Brand is Kenyan
- Value for money
- Brand is sustainably produced
- Brand treats producers fairly
- Other, please specify

Randomise list for each respondent.

Q10. How important, on a scale of 1 for least important to 5 for most important, is the opinion of your customers when you select the brand of tea, coffee or cocoa you offer? Do you measure their opinion and how?

Q11. On a scale of 1 to 5, how important is price in your choices of brands and suppliers? For example, by how much would the price have to change to make you reconsider your choice?

Q12. What do you understand by Fairtrade?

Fairtrade is a global movement, which addresses the injustices of conventional trade by supporting smallholder farmers and workers. Fairtrade stands for changing the way trade works, through fair prices, better working conditions and local sustainability to offer a more stable future for farmers and their communities. When you choose Fairtrade, farmers can invest in, build a better quality of life for their families and communities, growing better quality products and protecting the environment. Fairtrade is about choosing products that change lives.

Q13. What would make you consider buying a Fairtrade certified brand? Would you be prepared to pay more for a Fairtrade certified brand?

APPENDIX V: DEFINITIONS

Product Categories	
Hot Drinks	This is the aggregation of coffee, tea, and other hot drinks.
Coffee	This is the aggregation of fresh coffee and instant coffee. Please note that foodservice sales of coffee are volumes sold to the on-trade (foodservice) sector and not those sold to the consumer.
Fresh Coffee	<p>This is the aggregation of fresh ground coffee and fresh coffee beans. Often referred to as "Roast & Ground" coffee.</p> <p>Fresh coffee beans includes all types of packaged fresh whole coffee beans.</p> <p>Fresh ground coffee includes all types of packaged fresh ground coffee, whether premium, mild, standard, decaffeinated, mocha, speciality and/or flavoured. Fresh ground coffee covers all loose and packaged ground coffee, including coffee pods, i.e. portions of fresh ground coffee encapsulated in a container, which can be metal, plastic or paper.</p>
Instant Coffee	Includes all types of instant coffee, including flavoured, freeze-dried granules and powdered, regular or decaffeinated. Excludes all bottled, ready-to-drink coffees. Varieties with added ingredients are also included (for example espresso, cappuccino, creamer, ginseng etc.) so long as their main ingredient is coffee.
Tea	This is the aggregation of black tea, fruit/herbal tea, green tea, instant tea, and other tea.
Black Tea	Black tea is more oxidised than green, oolong, or white teas, and generally has a stronger flavour. Teas processed through both CTC (crush-tear-curl or cut-tear-curl) and orthodox methods are included here. This is the aggregation of Black Standard and Black Specialty Tea.
Loose Black Tea	Includes all varieties of packaged loose standard and speciality black tea, therefore excludes sales of unpackaged loose tea. Standard black teas are commonly blended teas, with finer particles (for a darker, richer flavour), but most importantly are marketed by the brand (as opposed to the tea variety). Speciality black teas are commonly "estate tea" or more appropriately tea from a specific origin, such as Darjeeling, Assam, Ceylon, Lapsang Souchong and Breakfast tea.
Tea Bags Black Tea	Includes all varieties of packaged tea bags consisting of standard and speciality black tea, excludes sales of unpackaged tea. Tea bags in all forms are included under tea bags, for example sticks, pyramids and discs.
Fruit/Herbal Tea	The vast majority of products in this category are not derived from the tea plant (<i>camellia sinensis</i>). They are also known as tisanes or infusions. They include scented, floral, herbal, fruit, masala and spice teas. Common flavours of fruit/herbal tea include the following: camomile, rosehip, blackcurrant, mixed fruit, flower/bud tea, chrysanthemum tea, plum tea, peppermint, rosemary, clove tea and ginger tea. Any teas positioned as a slimming aid (including green teas specifically marketed as slimming aids) are included in this category, as are any medicinal teas positioned as a remedy for certain ailments such as cough/cold, digestive remedy, sleeping aid etc.

Green Tea	Green tea is made solely with leaves of <i>camellia sinensis</i> which has undergone minimal oxidation during processing. It is green in colour and slightly bitter tasting. This also includes jasmine tea made from green tea, as is common in Asia, but not jasmine added to black speciality tea which would be included there. Green tea marketed under various descriptions, for example “health tea” or antioxidant tea is included here.
Instant Tea	Instant tea is tea that has boiling water added to powdered, granulated or cubed tea with no brewing required. Includes all tea forms: black tea, lemon, other fruit flavoured instant teas, chrysanthemum powder etc. is also included.
Other Tea	This includes all teas not covered by the above subsectors. The most common types include rooibos tea, white tea, oolong tea, mugicha and gunpowder tea. Leading brands in off-trade volume include Ten Ren, Lipton and Ito En.
Other Hot Drinks	This is the aggregation of Flavoured Powder Drinks and Other Plant-based Powder Drinks. Products can be served hot or cold, and can be mixed with water, milk, or other liquids.
Flavoured Powder Hot Drinks	This is the aggregation of chocolate-based flavoured powder drinks, malt-based hot drinks, and non-chocolate-based flavoured powder drinks.
Chocolate-based Flavoured Powder Drinks	<p>All chocolate-based products either powdered, granulated or in a block/tablet. Products may be consumed hot or cold. Cocoa powder (marketed for cooking/baking purposes) is excluded. However, if the product is marketed and positioned with other hot beverages for drinking it is included. Also included are flavoured chocolate drinks, for example orange or caramel flavoured. Malt-based or plant-based products with chocolate flavouring are however not included</p> <p>Products that contain milk powder as bases are included here, such as Neri Cocoa. Some products such as House Black Soybean Cocoa, which are based on soy powder instead of milk powder, are also included here.</p>
Malt-based Hot Drinks	All malt (or barley)-based drinks, also commonly referred to as “food drinks” are included here. Flavoured powder malt drinks included here. All bottled, ready-to-drink malt based drinks are excluded.
Other Plant-based Hot Drinks	All other plant-based hot drinks not covered elsewhere. These are based on a powder from a plant, rather than an artificially flavoured powder. They can for example be based on a powder extracted from soya beans, cereals, oat, sesame, coconut, walnut, chicory or yerba maté.

Retailing Channel

Modern and Traditional Grocery Retailing	<p>Retailers selling predominantly food/beverages/tobacco and other everyday groceries. This is the aggregation of hypermarkets, supermarkets, discounters, convenience stores, independent small grocers, forecourt retailers, and other grocery retailers.</p> <p>Modern grocery retailing is the aggregation hypermarkets, supermarkets, forecourt retailers, convenience stores and discounters.</p>
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Traditional grocery retailing is the combination of those channels that existed before the emergence of chains, so are those that are owned by families and/or run on an individual basis.

Hypermarkets	Retail outlets selling groceries and non-food merchandise. Frequently located on out-of-town sites or as the anchor store in a shopping centre. Example brands include Nakumatt Hypermarket.
Supermarket	Retail outlets selling groceries selling at least 70% groceries. Excludes convenience stores and independent grocery stores. Example brands include Nakumatt, Tusky, etc. Usually chained but may also be independent.
Forecourt Retailers	<p>Convenience stores have a primary focus on selling food/beverages/tobacco and other groceries. They are often chained, such as Shell Select. Forecourt stores at petrol stations are also included in the definition. Convenience stores have several of the following characteristics:</p> <ul style="list-style-type: none"> • Extended opening hours when compared to other stores in the country. • Often located in residential neighbourhoods. • Product range includes items of the following categories - Audio-visual goods (for sale or rent), Take-away food (ready-made sandwiches, rolls or hot food), Newspapers or magazines, cut flowers or pot plants, greetings cards.
Independent Small Grocers	Retail outlets selling a wide range of predominantly grocery products. Owned by an entrepreneur owning and operating one or more (but fewer than ten) retail outlets. Mainly family concerns and generally independent. Neighbourhood grocery stores are included here.
Outdoor Markets	Includes bazaars, kiosks, street vendors and beach vendors. These are most commonly informal traders.
Internet Retailing	<p>Sales of consumer goods to the general public via the Internet. Consumers purchase goods advertised or promoted through a web-medium whereby the payment is made online through the web platform. Includes mobile retailing (m-commerce): consumers use wireless devices such as mobile phone, PDA, BlackBerry, to connect to Internet and purchase the goods online.</p> <p>Excludes quick delivery services of food, magazines, household goods and DVD rentals.</p>

Foodservice and Hospitality Sectors

Foodservice	The foodservice channel covers the market for meals and refreshments prepared and consumed outside the home. Foodservice establishments included are full-service restaurants and fast food outlets, cafés/bars, 100% home delivery/takeaway, self-service cafeterias and street stalls/kiosks.
Restaurants	This is the aggregation of restaurants and fast food outlets. It encompasses all sit-down establishments where the focus is on food rather than on drink. Menus offer multiple selections and may include breakfast, lunch and dinner. Preparation of food products is often complex and involves multiple steps.

Cafés / bars (inclusive of specialist coffee shops)	<p>This category encompasses all establishments where the focus is on drinking (either alcoholic or non-alcoholic beverages). As a general rule, establishments deriving 50% of their income or more from the sale of drinks are included here.</p> <p>Specialist coffee shops correspond to “coffee-themed” outlets, which focus primarily on serving coffee. Coffee is usually the main item on the menu, with a large variety of different coffee types and coffee-related products available. The category is modelled after the “Starbucks” idea: an American born concept characterised by a modern environment, a designer décor, a cosy and stylish ambience and a strong focus on coffee.</p>
Catering companies	This category includes all institutional units responsible for the provision of food services under contractual arrangements with a customer. The category includes food preparation for a specific event (event catering) or at one location for a specific period of time (contract foodservice).
Hospitality	This category includes all units providing customers with short-term lodging. This includes hotels, motels, inns, resorts, holiday chalets, cottages and flats, student houses, boarding schools, hostels (for youth or migrant workers), camping facilities, trailer camps, etc.
Hotels	Hotel outlets that provide lodging include independent and chained operators as well as all company owned, leased, managed and franchised outlets. Aparthotels are included. Serviced apartments are the same as aparthotels with the rental of apartments offering the service of a hotel. Extended stay hotels are included. Villas attached to hotel resorts are also included in the hotels category.
Institutional Channel	
Institutional	This includes all the legal institutional channels in an economy, no matter their size. It does not include grey market or black market entities outside the legal/taxing apparatus of the country.
Corporate offices	This category is the aggregation of financial intermediation, business services, and legal institutional units responsible for retail and wholesale trade of products
Public Institutions	This category includes all institutional units owned and/or controlled by the government (federal, regional or local). Depending on the country, it includes general government, public financial and non-financial corporations.
Healthcare service providers	This category is the aggregation of hospitals, medical practices, dental practices and other health services.
Faith-based organisations	This category includes all religious facilities/places of worship in an economy, including: churches, mosques, temples, synagogues or other similar places.

APPENDIX VI: LIST OF SOURCES

B2C Pulse Interviews

Corporate offices

Mastercard Kenya	Philips Kenya
Posterscope	Travelport
Visa Kenya	Nairobi Bottlers
Jamii SACCO Society	Orokise Sacco
ABC Bank	Letu Barbershop
Pride Inn Office	Dani Computer Co
Game Changer	Panaar Seed
Jubilee Insurance Westlands	Jutegemea Finance
Eco Consultancy Firm	Coca-Cola Co Westlands
Glenmark Pharmaceuticals	Fincom Agencies
Fewa Interiors	Floralife
Geju Printers and Stationers	Wrigley's Company
Wrigley's Co	Alpine Coolers
SFS	Davinpal Enterprises

Public Institutions

Agricultural Development Corporation	Cooperative University College of Kenya
Egerton University	Kenya Bureau of Standards
Kenya Flower Council	UNICEF Kenya Country Office
USDA Foreign Agricultural Service Office of Agricultural Affairs	Technical University of Kenya
African Community Development Centre	

Healthcare service providers

Metropolitan Hospital	Matter Hospital
Avenue Healthcare Clinic	Aga Khan University Hospital
Karen Hospital	

Faith-based organisations

St Faith Church	Star Of The Sea Catholic Complex Ganjoni
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B2B Pulse Interviews

Restaurants

Ankara Food Court	Trattoria Resturant
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Pizza Inn Insore	City Zone Caterers
Jambo Grill	Kilimanjaro Food Court
Chocho Harbour Restaurant	Gray Bells
Lunch Box	Arcade Flavour's Restaurant
Chowpaty Restaurant	Club Rio and Restaurant
Urban Store Food	St Valencia Bar and Restaurant
Casablanca Club and Restaurant	Fontanelle Restaurant and Bar
Plaza Restaurant	

Coffee shops

Kahawa The Coffee House	Noma Café
Savanna The Coffe Lounge	Kaldis Coffe House
Java Coffee House	G-café Maasai Coffee
My Shop Convenient Store	Artcaffé
ADVA Café	Highwest Café
Cake City	Xroma Café
Little Chef Café	Taste Fresh
Raha Leo Café	

Hotels

Sentrim Hotel Six Eighty	Oakwood Hotel
Jam Rescue Hotel	Sagas Hotel
Blue Springs Hotel	Jimlizer Hotel
The Norfolk Hotel	Prideinn Hotel Westlands
Southern Sun Mayfair	NanChang Hotel
Mwananchi Hotel	Maryland Hotel
Dancourt Hotel	Hotel Dorset
Castle Royal Hotel	

Canteens/Catering companies

Sherhe Caterers	Manga Poa Delight
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APPENDIX VII: DETAILED CONSUMERS' PURCHASE DRIVERS

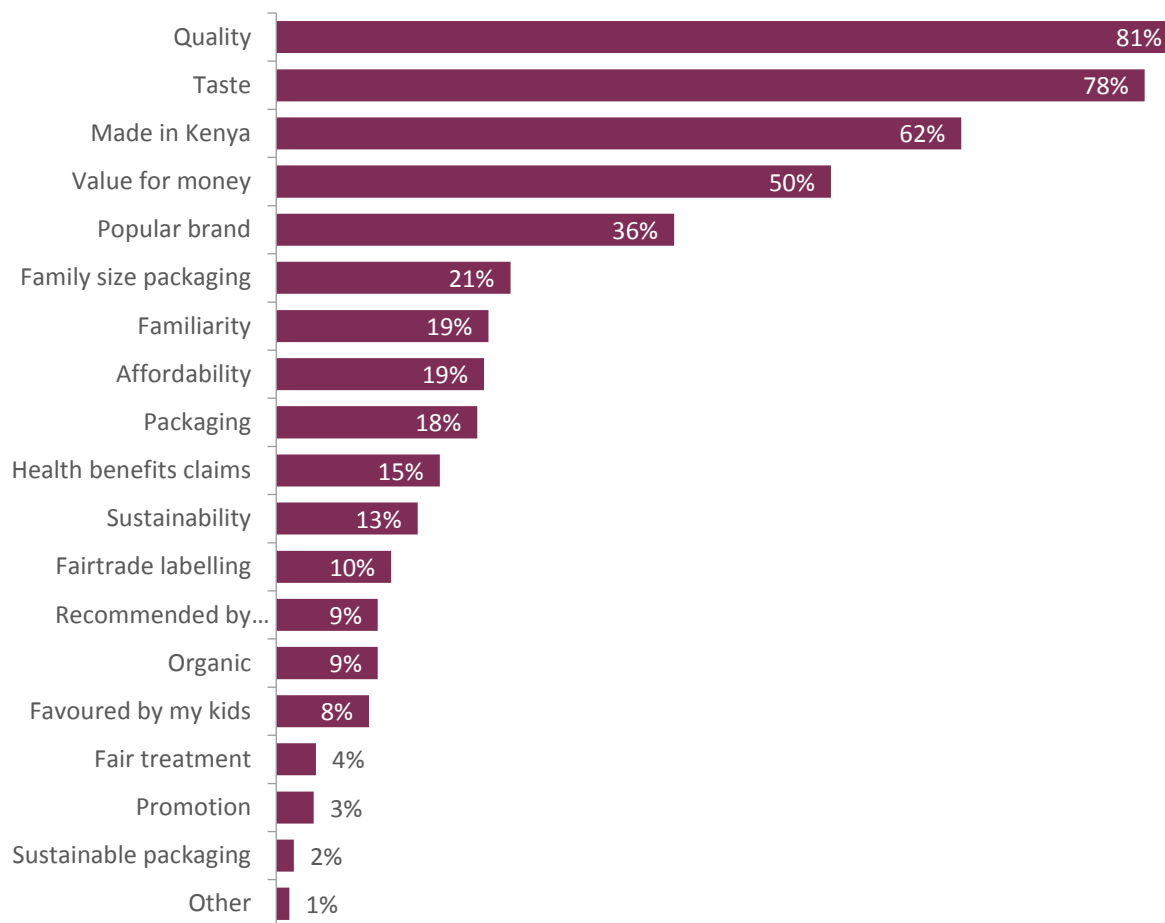
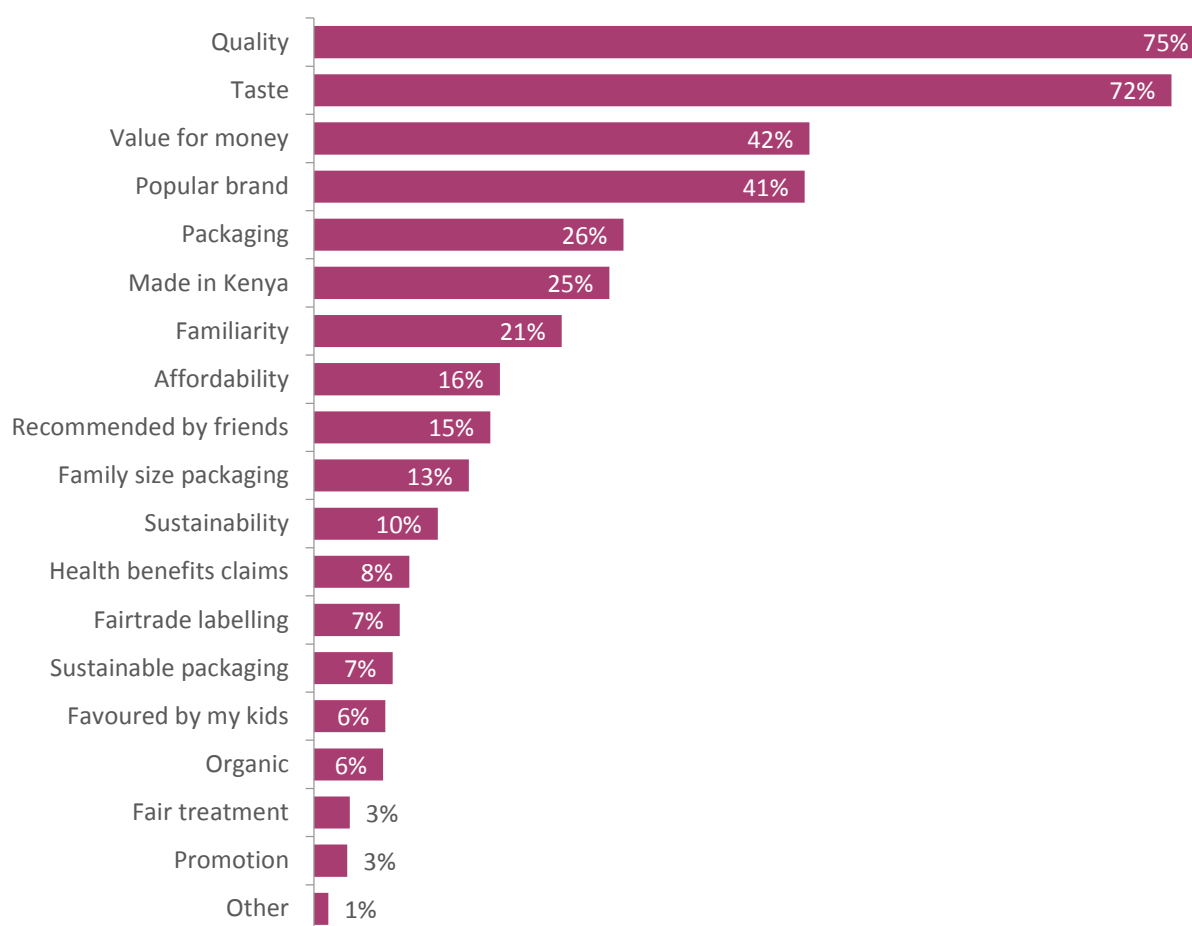


Chart 71 Drivers of Tea Purchases in Kenya

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

**Chart 72 Drivers of Coffee Purchases in Kenya**

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

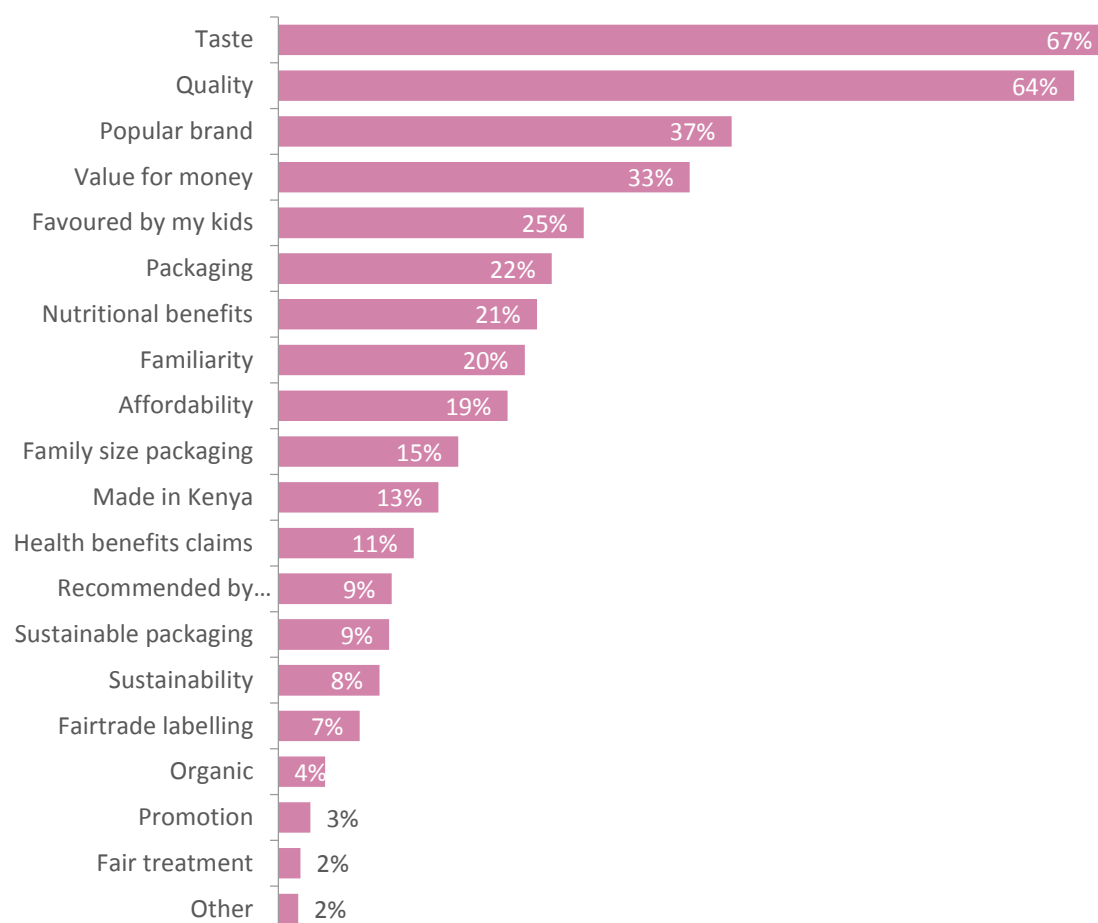


Chart 73 Drivers of Coffee Purchases in Kenya

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