



MARKET DIVERSIFICATION STRATEGY AND SUCCESS OF FOOD PROCESSING FIRMS IN KENYA

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Background

1. Businesses want to succeed – growth & sustainability
2. Business environment is key for success
3. In Africa is sometimes considered hostile, uncompetitive, stressful & difficult
4. Yet, some businesses succeed and thrive
5. The question is: How and why do some succeed while others fail?
6. One strategy used by some firms is market diversification.

Objectives

1. To describe the food processing subsector in Kenya
2. To document the nature and extent of market diversification among the food processing sector in Kenya
3. To determine whether there is any relationship between the degree of market diversification and firm success

Methodology

1. Mapping – Construction of a sampling frame
2. Survey - Firm level data from 48 Firms out of 141 (35%), data collection 2014
3. Case Studies – eight cases selected for in-depth interviewing around themes that emerged from the survey data, data collection 2015-16

Theory

- “ Strategic Management Theory: Resource Based View of Firm:
 - . Heterogeneous firms => diversification is answer to excess capacity of particular resources and capabilities (Wernerfelt 1984)
 - . Superior performance = result of tapping underused resources (Desmond 2007)
- “ ‘New New’ Trade Theory: Heterogeneity explains patterns of trade across firms and destination markets (Melitz & Redding 2012)

KEY FINDINGS

Age and Size of Firms in the Sample

AGE	Frequency	Percent
5 - 10 years old	12	25.0
11 - 15 years old	8	16.7
16 - 20 years old	7	14.6
More than 20 years old	21	43.8
Total	48	100.0

1. Mean Age – 21.5 Years
2. 44 % of the firms > 20 years

SIZE	Frequency	Percent
10 – 49	21	43.8
50 – 100	7	14.6
101 – 999	13	27.1
1000 – 2700	7	14.6
Total	48	100

1. Mean size – 367 employees (casual + permanent)
2. Small – 44%
3. Medium – 15%
4. Large and Very Large – 42%

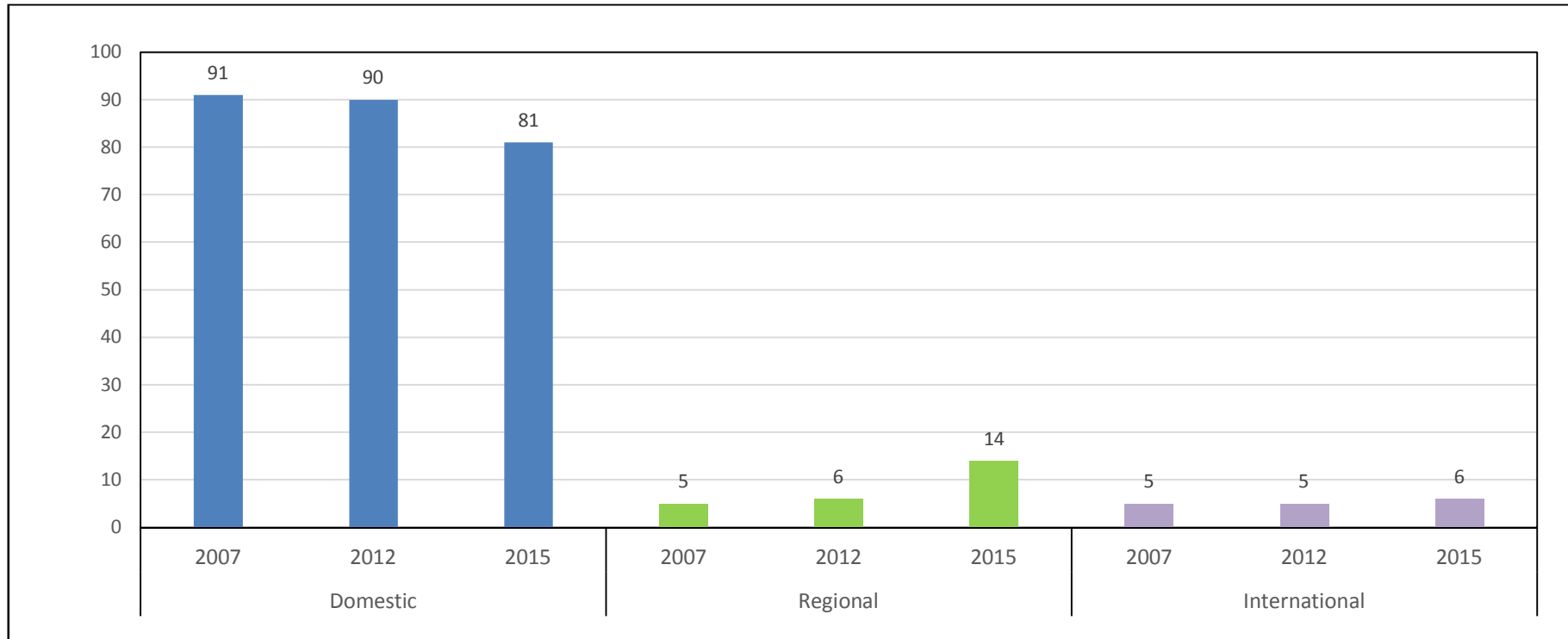
Firm Success

Perception of Performance	Frequency	Percent
Well above industry average	12	25.0
Somewhat above industry average	9	18.8
At industry average	19	39.6
Somewhat below average	4	8.3
Well below average	4	8.3
Total	48	100

Turnover 2012 - Kshs.	Frequency	Percent
10.1 Billion – 30 Billion	4	8.3
1.1 Billion – 10 billion	4	8.3
501 Million - 1 Billion	4	8.3
101 Million - 500 Million	9	18.8
51 Million - 100 Million	6	12.5
10 Million - 50 Million	8	16.7
< 10 Million	9	18.8
Not indicated	4	8.3
Total	48	100

Other measures of Firm Success included EBIT and Turnover per Employee (Table 8 & 9 page 15 - 16)

Market Structures for Food Processing Firms in Kenya



1. Regional market is growing
2. Domestic market declining but still dominant
3. International market increasing slightly

Three Main Customers for the Firms Product (%)

	N	Minimum	Maximum	Mean	Median
Supermarket chains	38	2	99	49	59
Independent retailers	32	1	80	23	20
Wholesalers	20	0	100	31	23
Direct sale to end customers	24	1	96	20	10
Exporters	11	0	63	11	5
Other firms in the country	11	0	100	24	13
Other firms abroad	3	0	100	33	-

Internationalisation

	No role at all	Some but limited role	Some role	Important role	Very important role	Total
Import of foreign technology	15.6	2.2	6.7	4.4	71.1	100
Access to foreign capital	65.9	6.8	11.4	2.3	13.6	100
Technical assistance from foreign firms	40.0	4.4	17.8	20.0	17.8	100
Inputs from donors and international finance institutions	80.0	6.7	4.4	8.9	0.0	100
Sales to foreign firms present in country	80.0	8.9	6.7	0.0	4.4	100
Sales to foreign firms abroad	73.3	4.4	8.9	4.4	8.9	100

Internationalisation

- “ Imports of inputs from world markets:
 - . 28 firms imported only
 - . 15 firms imported and exported
 - . **mean of inputs imported 21% of inputs**
- “ Sales to export market:
 - . 18 firms exported only
 - . 15 firms exported and imported
 - . **Mean Sale Exported 10% - low**
- “ Neither Export Nor Imports 17 Firms (35%)
- “ **Low Internationalization**

Market Diversification and Success

“ Destination of Sales to Level of Success

“ Pearson’s correlation, % of sales to scaled success score (Table 10):

Market	P-value
Domestic market 2007, 2010, 2012	Negative correlation, not significant
Regional market 2007	.033
Regional market 2010	.147
Regional market 2012	.103
Rest of the world 2007, 2010, 2012	Positive correlation, not significant

Destination of Sales to Level of Success

Levels of Success to Main Customers for 2007, 2012, 2015 (projected) – Pearson's correlation (Table 11)

Customer type	P-value
Supermarkets	.026
Independent retailers	-.231
Wholesalers	-.436
Exporters	.334
Other firms in the country	-.386
Other firms abroad	.189
Direct sale to end customers	.140

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Summary and Conclusions

1. Variation in market diversification in FP firms (global exports, regional exports, and domestic market expansion) related to success
2. Firm success is associated with level and type of market diversification pursued
3. Export to African Regional Market (EAC/Africa) is associated with higher levels of success - directly or through investing
4. Sales to supermarkets is associated with higher levels of success in FP
5. Firms involved in international activities demonstrate higher rates of success – Technical Assistance

Recommendations

1. Need to strengthen or enhance regional trade – EAC
2. Market expansion within the country should be enhanced in line with devolution
3. Challenges in supplying to the supermarkets be addressed – delays in payments
4. International collaboration of Kenyan firms – technical assistance should be strengthened



Thank you very much for listening