

Tropical Heat – ‘Creating demand in growing markets’

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The SAFIC project ran from 2012-2018 and investigated how and why African firms are able to be successful in changing business and institutional environments. The project focused on identifying strategies that could lead to sustained firm performance and sought to explain these firms' degrees of success by looking at the interface between firm internal factors (resources and capabilities) and firm external factors (market structures and institutions - formal and informal). In doing that, the project combined firm level theories with institutional and business environment theories, including state-business relation theory. See more at: <https://www.cbs.dk/en/research/departments-and-centres/departments-of-management-society-and-communication/centre-business-and-development-studies-cbds/research/successful-african-firms-and-institutional-change-safic>

Introduction

The food processing industry is a cornerstone in the industrial development strategy of Kenya. The development of the industry is a crucial part of enhancing the productivity of the agricultural sector, which employs a significant part of the population.

This case study is based on a survey carried out with Tropical Heat on December 2013, and an in depth case study carried out in 2014, 2015 and 2016. It is part of a broader research undertaking to investigate how and why African firms succeed in a changing business and institutional environment. For other case studies on the same industry in Tanzania, kindly see the CBDS Special Working Paper no. 1, 2019.

History and activity

Tropical Heat (initially named Deepa Industries) was founded in 1973. The company started out as a cottage firm selling products in the local vicinity of Thika. Today it is one of the leading manufacturers of spices and snacks in the East African region and its brand - Tropical Heat – has now become a house hold name in Kenya. The manufacturing processes are fully automated in a brand new hygienic factory which is also HACCP and ISO22000 certified. Furthermore, the company exports to Uganda, Tanzania, Rwanda, DRC, Burundi, UK and USA.

Vision

The Vision of Tropical Heat is “To be the market leader in East Africa in the sales of quality spices and snacks. We envision our brands to become Kenya’s source of pride by creating products loved by all while delivering quality, service and passion into every process along the way and adhering to our core values at all times”.

Critical moments

The current chairman of Tropical Heat is Mr. Nilesh Shah. He joined the company in 1995. Tropical Heat was founded in 1973 by the current chairman’s father-in law, his wife (Smita Shah) and brother-in-law (Navin Shah). The company was a cottage industry that produced snacks and spices to cater for Asian palates including chevda.¹ The company was founded in Thika Town.² In 1986, the company relocated to Nairobi at Ngara Road. Today, the company has a broad product line – snacks, including crisps and chevda, and spices.

The key turning point in the company was in 1992 when Deepa Industries changed its brand from “Deep”, which means light or lamp in Gujarati, to “Tropical Heat”. The new name captured the new vision of the company to cater to the wider clientele and move away from solely an Asian clientele. Until 2016, the company was called Deepa Industries and the brand was Tropical Heat. In 2016, the company’s name changed to Tropical Heat Ltd. The second major turning point came in 2004 when Mr. Nilesh Shah joined the company as an executive director. Prior to joining Tropical Heat, Mr. Nilesh Shah had worked in a technology/engineering company from where he brought with him this expertise. This led to Tropical Heat opening a state of the art factory with automated machinery in 2005 in the Industrial area in Nairobi. Automation included moving from hand fried to continuous frying for snacks and a bottling line for spices. In 2016 the company was in the process of automating the crisps line further by introducing a sorter. Since 2008,

¹ Chevda is often referred to as Bombay mix.

² Thika town is an industrial town in Kiambu County, Kenya, lying on the A2 road 42 kilometres North East of Nairobi

the company has set aside a budget of KES 50 million for upgrading its equipment. The company has built a new state of the art cold storage facility and factory in Limuru, which is set to open mid-2018.

Automation was key to the growth of the firm. In 2005 the firm had 80 employees and a turnover of USD 1 million. By 2012 the company had more than doubled its employees from 80 to 230 and had a turnover of USD 8 million. In 2015 it had 250 employees with a turnover of 10 million USD.

The company is also extremely innovative in its range of products. In 2006 for instance, Tropical Heat was the first company to introduce easy to use flip and grinder jars for its spices in Kenya. In 2014, it was the first company to introduce the manufacturing of rice cakes using Kenyan grown rice to keep with the healthy snacks trend on the market. In 2016 it introduced sugar free chevda for diabetic customers. The company's focus on international standards has also contributed to its success. In 2007 for instance, it became the first spice and food company in East Africa to get ISO22000:2005 certification.

Main products and markets

Products

Tropical Heat has a range of product groups. These include spices, herbs, masalas, seasonings, salts, peanuts, ethnic snacks, healthy snacks, puffs and crisps. In the past, spices and herbs were the main products. However, snacks, particularly potato crisps, are catching up, and many suspect that it will overtake the sale of spices and herbs in the near future. As the Chairman said during an interview in 2015, “snacks is where growth is in the industry”. Under the snacks category, the firm is experimenting with low cost brands targeting the mass market, or what is increasingly now called the “bottom of the pyramid” market.

Markets

Tropical Heat predominantly sells to the local market in Kenya. Its products are to be found in many retail outlets across the country. This is followed by the regional market, especially in the East African Community trading block. Uganda was the first one in 1990, and Tanzania came two years later. In recent years, Kenyan supermarkets that have expanded to the regional market have been instrumental in helping Tropical Heat increase its foothold in the regional markets even further. Beyond the regional market, the firm has also ventured into the global market. In 2004, the firm started exporting to the UK. Two years later, in 2006, it sent its first exports to Australia. More recently, in 2015, it started exporting to the USA. In keeping with recent technological trends, Tropical Heat is now also selling its products on online marketplaces such as Amazon.

Customers

In terms of importance, supermarkets are the most important customers for Tropical Heat. This is followed by wholesalers, exporters and other firms who use Tropical Heat products such as spices in their own manufacturing.

Explaining performance

- **Management and organization**

The company attributes its performance to a number of factors including human resources, its brand name and its effective use of technology. On the human resource side, most of its 250 employees are highly educated, skilled and undergo continuous training to keep up with industry trends. The firm also takes a number of its employees abroad to industry events for benchmarking purposes, and is also promoting appropriate management structures to transit into modern corporate entity. The firm is increasingly training young graduates. It then entrusts them with leadership responsibilities of key departments while also giving them space to experiment, innovate and make mistakes as they learn in the process.

As already pointed out, the company has been progressively modernising its processes. A lot of attention has been placed on upgrading the firm's production processes. Since 2008, the company has put aside an annual budget of KES 50 million for capital equipment acquisition. A lot of effort has also been placed on redesigning the packaging.

This has been possible because of the commendable entrepreneurial capabilities of the firm's leadership. For instance, the company invests in training and entrusts young people with responsibilities. This is despite the fact that the Kenyan labour market is in flux due to high levels of poaching.

- **Marketing and value chain**

The firm has invested a lot of effort in marketing its products. Working with retail channels the firm has been engaging with merchandisers. To introduce new products to the market, the firm has embraced an activation strategy in selected supermarkets. Based on the feedback from such exercises, the firm makes decisions on rolling out to other retail outlets. Tropical Heat exhibits in fairs such as the annual Nairobi International Trade Fair, and it uses such forums to test the reception of new products.

Similarly, the firm has also been actively using digital platforms to reach out to its consumers. It has an active Facebook page <https://www.facebook.com/tropicalheatltd/> where it engages customers in promotions to entrench its products as well as to receive constructive feedback.

A key challenge in the industry is the availability of quality and consistent volumes of raw materials. Potatoes are primarily grown by small holder farmers who rely on weather conditions (in this case, rain). As a result, there are months when there is glut and other months when there is scarcity. Similarly, many farmers are also unable to use the correct seed. To go around these challenges, the firm has engaged in a contract farming relationship with a number of farmers. Practically speaking, Tropical Heat works with a number of stakeholders under the umbrella of the National Potato Council of Kenya. The firm is also represented on a number of committees at the Kenya Bureau of Standards to develop standards for spices and snacks in the country.

- **External factors explaining performance**

Externally, the firm attributes its performance to a strong and sustained growth in market demand spurred by the rise of the middle class in Kenya as well as in the rest of the region. As the chairman once said, “Tropical Heat ventured into the right business at the right time”. He pointed out that one cannot go wrong in the food industry in developing countries, not as long as the following were in place: quality products, right prices, and appropriate packaging. He further stressed that the product has to be delivered by a firm guided by values and integrity.

Future prospects/challenges

Tropical Heat has a big dream. It no longer sees itself as a small and medium enterprise but has joined the league of larger enterprises in the country. It aims at being the leading snack and spice manufacturer in the region and is making very deliberate steps to achieve this. The firm is in the process of finalising a new state-of-the-art factory in Limuru³ to, among other things, increase its production capacity. The factory also features cold storage facilities to ensure steady supply of raw potatoes, particularly during periods of scarcity.

To increase its sales, the firm has embarked on a carpet bombing strategy targeting the mass market. Targeting a radius of 50 kilometres, the firm targets to deliver its products to every single kiosk, corner shop, and convenience store in Nairobi and its environs.

The firm faces a number of challenges. However, the most important one is delayed payments from its key customers, usually supermarkets.

³ Limuru is a town in Kiambu County, Kenya, lying off the A2 road 40 kilometres North West of Nairobi

Conclusion

This case has shown how a Kenyan firm has evolved from a small cottage entity founded in 1973 to a leading food manufacturer employing 250 staff with an annual turnover of 10 million USD in 2015. Initially, the company was catering for small ethnic clientele in Thika town in Kenya, but as of 2016, its products are found in most supermarkets in Kenya. The firm has also gone beyond the Kenyan borders to supply to the East African. In addition, it has ventured into the UK and USA markets.

To achieve growth, the company has taken deliberate steps over time. It has steadily invested in modern technology, and as of 2016 most of its production processes were automated. This, together with a youthful, educated and constantly trained work force has driven its innovation particularly in its products range which targets not only the premium but the mass market too. In keeping with the current trend of healthy lifestyles, the company is also innovating with healthy snacks such as sugar free chevda and rice cakes.

Effective marketing strategies have also been a key success factor. These include product activation activities in high traffic supermarkets, and the feedback received on new product categories. To target the technologically savvy consumer, the company has a social media strategy to promote its products and opt for constructive feedback. These, coupled with a sustained growth in market demand, and further fuelled by the growing middle class, have driven the company's success.

But we have also established that as Tropical Heat strives to build its brand and consolidate its position as a regional leader in snacks and spices manufacturing, there is a pressing challenge which needs to be addressed: delayed payments from leading supermarkets.