RECENT RETAIL DEVELOPMENTS IN EAST AFRICA

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INTRODUCTION

Africa's retail sector offers many opportunities. The continent has 1.3 billion people, which will grow to 2.4 billion by 2050 and over 4 billion by 2100. At the same time, the population is urbanizing, while the consumer segment is growing as well. Most of the population is served by informal markets, primarily, but not exclusively, in rural and under-developed areas. The primary retail drive into Africa has come from South Africa, with foreign players such as Carrefour and Walmart also targeting the continent. This "African expansion" has met with mixed success. This report addresses some of the more recent developments in the sector.

Majid Al Futtaim, founded in 1992, in September 2021, described itself as one of the leading retailers across the Middle East, Africa, and Asia. It operated 53 Carrefour stores in Egypt and over 300 stores in at least 15 other countries across the Middle East and Asia.

This report deals with the situation amidst the entry and growth of Carrefour in Kenya and Uganda, respectively.

SETTING THE SCENE

The retail sector in Africa has been changing significantly over the past few years, with more changes envisaged for the foreseeable future. There can be no doubt that Africa represents a massive opportunity for retailers. This section taps into a research report by management consulting firm Kearney.

Africa's population increase of 2.4 billion by 2050 represents most of the global increase. Nigeria will house the third-largest population globally, with high population growth rates for the Democratic Republic of the Congo (DRC), Egypt, Ethiopia, and Tanzania. According to the Kearney report, Africa will house 17 of the world's 20 fastest-growing cities, of which four will be in Nigeria. City centers such as Luanda (Angola), Kinshasa (DRC), Accra and Kumasi (Ghana), Nairobi (Kenya), Lagos (Nigeria), Dar es Salaam (Tanzania), and Kampala (Uganda) are all on this list. In addition, sub-Saharan Africa will enjoy the highest disposable income growth globally, at a 9% compound annual growth rate.

In addition, Kearney identified additional drivers of change such as "increasing demand from young and digitally savvy consumers in cities, increasing mobile phone penetration, the creation of digital payment and shopping networks, favorable government regulations and spending initiatives, and significant investment by both foreign and domestic companies."[1]

Simultaneously, reducing transaction costs on electronic payments boosts the development and facilitation of digital ecosystems. Kearney believes that Africa

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[1] https://www.engineeringnews.co.za/article/africa-retail-to-be-changed-by-mobile-device-penetration-digital-payments-and-shopping-networks-growth-2021-12-09

currently accounts for 50% of all global mobile money transactions. This growth is developing Africa into the next giant retail hotspot.

According to Kearney partner Prashaen Reddy, retailers in Africa face increasing competition and margin pressure, which leads them to focus on return on investment, adopting new strategies such as franchising and rationalizing store footprints, and innovating business models.

Reddy believes it is crucial to understand consumer attitudes, situations, and dynamics as these factors are essential for success in the retail sector. It is also clear that the focus of global consumer spending is migrating from the developed Western Hemisphere to emerging markets in Africa, Asia, and the Middle East.

According to the Kearney report, because of Covid-19, market forces are transforming the African retail sector, providing a blueprint for developing other emerging markets.

Kearney also identified several challenges to retailers in Africa. These constraints include gaps in e-payment infrastructure supply, logistical inefficiencies, and a lack of trust that all slow-down existing and future growth opportunities. These challenges are in addition to "corruption, widespread poverty, security concerns, supply chain issues, lack of infrastructure, active conflicts, archaic governmental retail policies and practices, and isolation."

It is also essential to understand the classes of retail in sub-Saharan Africa to understand the growth opportunity on the continent. According to Kearney, there are four classes of sub-Saharan African retail, namely informal, traditional, modern, and illicit. Reddy believes that the modern retailing sub-sector represents the most significant opportunity for acquisitions by regional and international players.

The Kearney report has singled out the UAE'S Majid Al Futtaim, Carrefour's exclusive franchisee, as a retailer intending to "double down on African countries such as Kenya and Uganda, focusing on price, private label, and building customer loyalty." [2] [3]

Carrefour's focus on East Africa is an exciting development. However, an analysis of the Top 35 countries on the 2021 Global Retail Development Index (GRDI) shows that East Africa does not figure prominently on this list. The table below shows the top countries in North Africa, West Africa, and East Africa, with ranking in parentheses. The factors used to rate the countries include market attractiveness, country risk, market saturation, and time pressure.

Table 1: African Countries in the Top 35 GRDI

North Africa	West Africa	East Africa
Morocco (6); Egypt (7); Tunisia (29)	Ghana (8); Ivory Coast (16); Senegal (18); Cameroon (32); Nigeria (34)	Kenya (24)

(Source: extracted from The Global Retail Development Index)[4]

[2]https://www.engineeringnews.co.za/article/africa-retail-to-be-changed-by-mobile-device-penetration-digital-payments-and-shopping-networks-growth-2021-12-09
[3] https://www.kearney.com/global-retail-development-index/2021
[4] https://www.kearney.com/global-retail-development-index/2021

The UAE's media reported in 2021 that the country planned to conclude a comprehensive economic partnership agreement with Kenya to consolidate its position as a gateway for global trade and investment. However, the relationship between the two countries is characterized by a considerable trade imbalance favoring the UAE.

According to Dubai business leaders, Sheikh Mohammed bin Rashid Al Maktoum, the vice-president and prime minister of the UAE and Ruler of Dubai, had singled out Kenya as "one of the most promising business partners for Dubai" in the coming years.[5]

VOLATILITY IN EAST AFRICA

HISTORICAL CHALLENGES IN KENYA

According to a 2019-report by the Retail Trade Association of Kenya (RETRAK), Kenya's retail sector has been experiencing several challenges, pressurizing retail chains. Firstly, the industry has small margins between 1.5% and 3.8%. Therefore, using price strategies is of short duration as it is unsustainable. Instead, the focus should be on exploiting expansion opportunities, strict cost controls, and introducing non-sales income sources to meet the constant or rising costs linked to wages, rent, and utilities.

The state of national economies has also frequently led to lower general consumption, affecting overall growth in the retail industry.

The nature of leadership, governance, and ethics are additional influencing factors. They can cause boardroom struggles and conflicts, leading to negative consequences for businesses.

Poor due diligence and market studies on the expected store traffic have led to bad investment decisions.

A high risk of pilferage and shrinkage remains a considerable challenge for the sector. The impact of internal shrinkage continues to grow. It is suspected that full-time shoplifting syndicates plan and execute thefts, causing a loss of 2.5% of total industry revenue.

Access is also a potential problem, as road infrastructure improvements can constrain this necessity. Location and ease of access are therefore crucial.

Supply is another critical factor. The poor availability of stock items causes customers to look elsewhere. Therefore, vetting suppliers for quality, quantity, and reliability is essential.

Other challenges include poor financial analysis, lack of customer focus, poor category management, corruption, poor asset utilization and space optimization, a bloated and demotivated workforce, poor supplier relationship management, and weak retail knowledge.[6]

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[5] https://www.businessdailyafrica.com/bd/economy/uae-targets-new-kenya-trade-deal-3541932

[6] https://www.businessdailyafrica.com/analysis/ideas/Why-Kenya-s-big-retail-chains-are-struggling/4259414-5293136-

TUSKYS' RETAIL WOES IN EAST AFRICA

Tuskys Supermarkets had operated 63 branches in Kenya and Uganda at its peak. However, towards the end of 2020, it reduced its geographical spread due to disputes with landlords and Kenya Power over rent arrears and unpaid electricity bills.

Tuskys' problems started to become evident in April 2020 when it closed three branches in Nairobi, which Tuskys attributed to the social distancing requirements brought about by the spread of the Covid-19 pandemic.

In mid-September 2020, Tuskys laid off many non-unionized workers, most of whom had not been paid in full for two months. It also shut down at least four more branches in Kenya due to increasing cash flow problems.

In addition to the four branches in Kenya referred to above, all five branches in Uganda were closed for weeks.

A cash injection of Ksh2 billion (~US$20 million) from Mauritius did not improve Tuskys' fortunes.

Tuskys had reportedly not paid thousands of its direct and outsourced employees for July and August 2020, with salary arrears amounting to an estimated Ksh320 million (~US$3.2 million).[7]

DEACONS' DEMISE

Another retailer in the region that announced it would be closing its doors is Deacons East Africa, which had operated in East Africa for up to 60 years. The Group was a fashion and clothing retailer. It owned 4U2, FNF, Adidas, and Bossini clothing and shoe stores in Nairobi (Kenya) and Kigali (Rwanda). Dyer and Blair (a Kenyan investment company) was interested in acquiring the brand's stores once the deadline for purchase submissions elapsed.

Deacons East Africa had a plan to raise US$4.15 million to reduce its debt obligations. However, this did not happen, and the company finally decided to resort to liquidation.

Deacons lost several franchises on its journey to liquidation:

- In 2016, Deacons sold its Woolworths franchise in Kenya to South African fashion retailer Woolworths Holdings.
- In November 2018, Deacons was placed under administration after losing its biggest franchise, Mr. Price, another South African retail brand.

While selling off these entities brought in much-needed cash flow in the short term, it negatively affected the profitability of Deacons. Even an attempt to deal with its challenges by listing on the Nairobi Securities Exchange in 2016 proved insufficient.[8]

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qtq248z/index.html?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=gPWgYGJ9UlcBYDK6iJr597jkRrJMoMrKr9eUkqV2Fg

[7] https://www.theeastafrican.co.ke/tea/business/more-trouble-for-tuskys-1937498?utm_source=newzmate&utm_medium=email&utm_campaign=2318&tqid=hu24ZiJ1WFEBK2pZ8.6Nv6ue8bMXe1Weo_IIE._4kA

[8] https://weetracker.com/2020/09/16/deacons-east-africa-liquidation/

FINAL CURTAIN FOR NAKUMATT

Struggling Kenyan retailer Nakumatt finally saw the writing on the wall when its creditors in early January 2020 unanimously voted to close it down after a revival strategy failed. Nakumatt owed banks, suppliers, and landlords Sh38 billion (~US$354.5 million).

Nakumatt could not obtain any additional funding. Due to the high degree of financial leverage, the administrator believed it would be difficult to "attract an investor to inject the substantial amount of equity required to restructure NHL's balance sheet."

Nakumatt grew from a mattress shop in Nakuru to eventually have branches across Kenya and East Africa. The 60 branches it had in February 2017 dropped to six in September 2018. These were sold to Naivas for Sh422 million (~US$4 million) in November 2019.[9]

SOUTH AFRICAN RETAILERS EXPERIENCING CHALLENGES

Shoprite increased its footprint in Africa north of South Africa for a few decades. This strategy was driven by a maturing South African retail market and the absence of formal retail stores in the rest of sub-Saharan Africa. The entry of Walmart in South Africa when it purchased the majority stake in Massmart in 2011 lent impetus to South African retailers' move into Africa. Shoprite has also been struggling to operate successfully in East Africa.[10]

In recent years, Shoprite and several South African retailers have experienced difficulties that reflected broader problems in the African retail environment. They expanded into Africa to escape the overcrowded and largely saturated market at home and tap into the growing population and middle class in the rest of Africa. This was in addition to the benefits of a lack of competition and increasing governance on the continent.

Typical problems that led to various South African retailers later withdrawing from Africa include the following:

- Some imported products instead of procuring locally, with wage and dumping disputes erupting in some markets.
- Retailers did not realize that the South African retail conditions were not universal in Africa and that they had to adapt, which some struggled with.
- Decreasing demand in a high-cost inflationary environment became a challenge.
- Retailers and mall developers scaled the outlets based on the size of the opportunity, despite the need for smaller and more widely dispersed shopping centers in big African cities.

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[9]https://www.businessdailyafrica.com/corporate/companies/Nakumatt-falls-after-creditors-vote-for-liquidation/4003102-5409628-3rsbjgz/index.html?mc_cid=a66e8e915e&mc_eid=061fce3873
[10]https://www.iol.co.za/business-report/companies/shoprite-plans-to-exit-from-its-uganda-and-madagascar-markets-252732a6-6c48-4762-8ec8-b43557f611ec

- A lack of skills, few locally available equipment and inputs, a shortage of land, and power and water deficits increased the development costs of malls and drove down yields.
- There were only a few local tenants large enough to rent.
- Global brands were inclined to either sit on the fence or distribute through small franchises.
- Business models were not aligned to local conditions or flexible enough to deal with rising challenges.[11] [12]

Shoprite recently announced it would withdraw from Uganda and Madagascar. The group had ten stores in Madagascar and five in Uganda. It had already closed its stores in Kenya. Shoprite's decision to leave Uganda was reportedly driven by currency devaluations, lower commodity prices, and high inflation, which have caused disposable household incomes to drop.

At the same time, Ugandans had also started to support local stores, which have lower prices, while online shopping has attracted consumers. The Covid-19 pandemic also had a significant adverse effect on the rest of Africa.[13]

As for Shoprite's presence in Kenya, the retailer announced in early August 2020 that it would lay off 115 workers and close its second branch (the Nyali branch) in less than five months due to a reduced flow of shoppers. The intended date of termination was 31 August 2020.

MASSMART SELLING OFF ITS GAMES STORES IN EAST AND WEST AFRICA

South Africa's Massmart announced in August 2021 that it had decided to sell its 14 Game stores in East and West Africa to focus on its core strengths. These included five Game stores in Nigeria, four in Ghana, three in Kenya, one in Uganda, and one in Tanzania.

It seems that the performance and complexity of running the 14 stores in five markets in East and West Africa were beyond the capacity of Massmart at that stage. As a result, the group had been reviewing its portfolio outside of the Southern African Development Community.[14]

CHOPPIES' ENTRY AND EXIT

Botswana retailer Choppies, which entered the Kenyan market in 2016 by taking over nine Ukwala Supermarket stores, opened two new outlets, increasing its branch count

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11 https://africanbusinessmagazine.com/sectors/retail/south-african-retail-and-the-story-of-africas-consumer-boom/?mc_cid=7b7f26d2f9&mc_eid=512a079920

12 https://www.businessdailyafrica.com/corporate/companies/Shoprite-lays-off-115-shuts-second-Kenya-store-since-April/4003102-5604016-iu089nz/index.html?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=0KG8Yn51DUcBCS12USrokXpD1Umvil1o369AXzrEaw

13 https://www.iol.co.za/business-report/companies/shoprite-plans-to-exit-from-its-uganda-and-madagascar-markets-252732a6-6c48-4762-8ec8-b43557f611ec

14 https://www.iol.co.za/business-report/companies/massmart-in-talks-to-sell-14-game-stores-in-east-and-west-africa-86857676-2b46-4cc9-adda-dccbc91db5de

to 11. Choppies planned to open seven new outlets by the end of the year. The inflow of foreign retailers happened as Uchumi, Tuskys, and Nakumatt had limited their market presence by closing several branches after years of seemingly unconstrained growth, marking a shift in the local retail sector.

The withdrawal of some and demise of other existing retail groups in Kenya and Uganda paved the way for the entry and growth of retail giants such as Carrefour.

CARREFOUR ENTRY INTO EAST AFRICA

CARREFOUR INVITED INTO EAST AFRICA

According to Franck Moreau, Country Manager at Majid Al Futtaim – Retail Kenya, Majid Al Futtaim entered the Kenya market to introduce household retail with the "highest international standards and best practices."[15]

Carrefour announced its intention to enter the Kenyan market in 2016. At the time, after South Africa, Kenya was the second most attractive retail market in Africa. Its fast-growing middle class made Kenya an attractive base for new entrants into Africa. In addition, approximately 30% of Kenyans do their shopping in formal retail outlets, making it very lucrative for multinationals and large retail chains.

While Africans appreciate international brands, the brands themselves should not only depend on brand strength as the basis of the entry strategies. Nielsen had reported that traditional trade accounts for 70% of retail sales in Kenya, showing the power of kiosks and local vegetable vendors. These traders provide daily convenience, especially to those without private transport. While Kenyans will use large retail stores for bulk purchases, most do their daily shopping in the traditional stores.[16]

Carrefour reportedly received multiple invitations towards the end of 2017 to move in as an anchor tenant in Nairobi malls struggling to deal with the vacuum left by Nakumatt. Carrefour accepted some of the invitations and opened its third shop in Kenya in October 2017.[17]

CARREFOUR BENEFITTING FROM SHOPRITE EXIT AND NAKUMATT DEMISE

Carrefour has developed into one of the major players in the Kenyan retail market since entering the country in 2016 at The Hub in Karen, Nairobi.

In October 2020, Carrefour and Naivas replaced Shoprite in spaces the latter had vacated at the Waterfront Mall in Karen and the City Mall in Nyali, respectively.

Majid Al Futtaim had set up an internal development team to identify, analyze, assess, and approach landlords of the different locations potentially suitable for a Carrefour store.

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[15] https://www.majidalfuttaim.com/en/media-centre/press-releases/2017/03/majid-al-futtaim-opens-second-carrefour-hypermarket-in-kenya-at-the-two-rivers-shopping-mall
[16] https://www.linkedin.com/pulse/carrefour-entry-strategy-kenyan-market-space-ashley-mutiso/
[17] https://www.businessdailyafrica.com/news/Foreign-retail-chains-get-a-foothold/539546-4140962-iyiaeuz/index.html

Carrefour had replaced Nakumatt in major malls, including TRM, Junction, Galleria, Mega, and Uchumi at Sarit Centre.

Carrefour has stepped up competition for customers with retailers such as Naivas that have a presence in the area. It uses the new store to target the residents of Westlands, Parklands, and the larger Thigiri area that are currently underserved. Carrefour recently also took up the space Nakumatt Holdings vacated at Centrepoint Mall in Diani.

Majid Al Futtaim selected its locations based on the convenience and attraction to its customers and the expected number of customers.

In June 2020, Carrefour opened its Mega branch on Uhuru Highway in Nairobi, increasing the number of its outlets to eight, whereafter they opened three branches in Mombasa. The Mega store targets residents in Upper Hill, Madaraka, South B, South C, and Mombasa Road that retailers currently underserve.

The group has remained resilient in the market even as Shoprite and Choppies had opted to exit the country.[18]

Carrefour based its expansion strategy on taking over space previously occupied by struggling supermarket chains, including Nakumatt and Uchumi, and opening new outlets.[19]

By March 2021, Carrefour was the third-largest supermarket chain in Kenya, behind Naivas and QuickMart, and the leading international retailer.

In August 2021, Carrefour opened its 12th store in the Southfield Mall in Embakasi, Nairobi, bringing its tally in Kenya up to 16. Carrefour announced the store would become a complete hypermarket by the end of 2021 with its non-food assortment. Its opening will eventually create 125 internal and 100 external employment opportunities. It also offers many opportunities for local suppliers, farmers, and manufacturers, contributing to Carrefour's mission of supporting the prosperity of local industries and communities.[20]

PRE-PANDEMIC RETAIL GROWTH

In Kenya, Carrefour generated sales revenue of Sh18.7 billion (~US$1745 million) from its Kenyan outlets in 2019. This was a 28% increase from its 2018 sales revenue of Sh14.6 billion (~US$136.2 million). According to Majid Al Futtaim, the increase could be ascribed to its aggressive expansion across major towns in Kenya since it launched in Kenya in 2016. Their vigorous growth over the past four years had been based on attracting a solid clientele base among the country's expanding middle class. Carrefour intends to continue expanding its business across key markets in Africa.[21]

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[18] https://www.businessdailyafrica.com/bd/data-hub/retailers-rush-for-prime-locations-in-survival-battle-2728572?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=1_G0dyZ7DkgBbsjmhn_mIpgmuYPmuZ9ngEUvzQHjnA

[19] https://www.businessdailyafrica.com/corporate/companies/Carrefour-opens-Mega-store-on-Uhuru-Highway/4003102-5574450-j5jic5/index.html?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=lfu2NXs8HUsBjUUnEhiTjTETJbdrctVQVxSGm25l4g

[20] https://www.capitalfm.co.ke/business/2021/08/carrefour-opens-its-16th-store-in-kenya/

[21] https://www.nation.co.ke/business/Carrefour-records-Sh18-7bn-sales-in-Kenya/996-5517414-1rok51z/index.html

While other retail chains such as Shoprite, Choppies, and Nakumatt were struggling and withdrew from Kenya, Carrefour announced a 30.2% growth in sales from Sh19.4 billion (±US$176.7 million) in 2019 to Sh25.3 billion (±US$230.5 million) in 2020 from its Kenyan outlets last year amid its expansion drive.

Carrefour is now the only foreign-owned major retailer in Kenya. Its plans for 2021 involved the expansion of its retail business in Kenya with a focus on online shopping. Majid Al Futtaim ascribed its success to this strategy.

During Covid-19, retailers like Carrefour adopted safety measures to create comfort, such as providing hand sanitizer and disposable gloves for staff and customers.[22]

CARREFOUR IN UGANDA

Majid Al Futtaim opened the first Carrefour store in the Oasis Mall in Uganda in February 2020. This store has more than 20,000 high-quality products from international and local brands. The Majid Al Futtaim Hypermarket in Uganda had recruited 130 Ugandan employees and contracted 60 more from external local companies. It also engaged 230 Ugandan suppliers to stock the Carrefour store in Uganda.[23]

Majid Al Futtaim has adopted a long-term expansion plan for East Africa and views Uganda as one of the fastest-growing economies in Africa. So, they opened a second store in Kampala in March 2021 at the Metroplex Shopping Mall.[24] The branch has more than 20,000 products, 90% of which will be sourced locally. The new store also created direct and indirect jobs for over 90 Ugandans.

Carrefour Uganda has partnered with Jumia Food and Glovo to provide on-demand delivery services from its Oasis and Metroplex stores.[25]

Similarly, as in Nairobi, Carrefour's new store in Kampala is occupying space previously held by Nakumatt and Shoprite at the Metroplex Shopping Mall in Naalya. The new supermarket serves shoppers living and working in Naalya, Ntinda, Namugongo, and their vicinities. In addition, the new store would uplift the surrounding community by creating employment opportunities for over 90 Ugandans.[26]

In September 2021, Carrefour announced it would take over six stores of South Africa's Shoprite in Kampala by the end of 2021. The stores are in Acacia Mall, Arena Mall, Clock Tower, Lugogo Mall, Victoria Mall, and Village Mall. This move significantly grew Carrefour's regional footprint in Uganda and East Africa.

According to Hani Weiss, the chief executive of Majid Al Futtaim Retail, the lease transfer agreement represents Majid Al Futtaim's continued investment in East Africa.

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[22] https://www.businessdailyafrica.com/bd/corporate/companies/carrefour-defies-covid-record-sh25bn-sales-3325088

[23] https://www.busiweek.com/majid-al-futtaim-opens-first-carrefour-store-in-uganda/

[24] http://www.fastmoving.co.za/news/international-news-18/carrefour-franchisee-to-open-first-ugandan-store-13303

[25] https://www.foodbusinessafrica.com/uganda-welcomes-second-carrefour-store-as-the-retailer-continues-with-expansion-plans-in-east-africa/

[26] https://www.businessdailyafrica.com/bd/corporate/companies/carrefour-opens-second-store-in-kampala-3324458?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=hv6nfmY7ABABlv4hE6la4Yqez2bPTegTj6HkVyk17Q

The firm aims to strengthen its value proposition in the region and support local talent through creating jobs and career development opportunities.[27]

CARREFOUR GROWING ITS FOOTPRINT IN EAST AFRICA

Carrefour Kenya exploited the withdrawal from Kenya by Shoprite by taking up the premises vacated by Shoprite at the Westgate Mall in Nairobi in 2021.

While rivals such as Shoprite left Kenya due to what they described as poor business, Carrefour is expanding its presence in the country. In addition, Choppies Supermarket, headquartered in Botswana, has also withdrawn from the Kenyan market.[28]

The Standard Bank Group from South Africa recently lent the conglomerate Sh3 billion (~US$27.6 million) to expand its Carrefour business in Kenya. The new credit facility replaced earlier loans that Carrefour Kenya had taken to launch its operations in Kenya. It took loans of Sh1.5 billion (~US$13.8 million) and repaid them in 2019 ahead of their contractual maturity.

To stimulate sales, Carrefour partnered with Lipa Later towards the end of 2021, offering customers access to Lipa Later's LipaVismart product which offers customers a rolling monthly payment plan for all items within Carrefour. The product has a credit limit of up to a basket size of Sh500,000. Once customers start making monthly payments, they get access to the amount repaid.[29]

Carrefour Kenya has grown its market share through loyalty programs and aggressive discounts on various products.[30]

Carrefour has also adopted modern technology in its operations to ensure a better shopping experience for its customers. It reported in March 2023 that it had installed a self-checkout service at its store in Westgate Shopping Mall in Nairobi, allowing customers to complete purchases without the assistance of cashiers at the cash counter, saving time, and eliminating inconveniences caused by long queues. According to a Grand View Research report of 2019, demand for self-checkout systems will increase at an annual rate of 13.3% between 2020 and 2027.

The self-checkout lane accepts cashless payment options including Mpesa, debit or credit cards, and MyCLUB loyalty points. The service will be rolled out in all Carrefour stores in Kenya once the pilot has proven successful.[31]

By the end of May 2023, seven years since it entered the country, Carrefour had opened its 20th store in Kenya, aiming to benefit from the country's growing population and businesses in Nairobi. It now has 16 stores in Nairobi, with two each in Kisumu and Mombasa. The stores are located in the Hub, the Village Market, Galleria

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[27] https://redpepper.co.ug/2021/09/french-retailer-carrefour-acquires-over-six-shoprite-stores-in-uganda/
[28] https://www.businessdailyafrica.com/bd/corporate/companies/carrefour-replaces-shoprite-at-westgate-3303064
[29] https://www.capitalfm.co.ke/business/2021/11/carrefour-unveils-option-for-customers-to-shop-but-pay-later/
[30] https://www.businessdailyafrica.com/corporate/companies/Carrefour-takes-Sh3bn-loan-for-Kenya-growth/4003102-5544728-47hdtm/index.html?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=i_25Mmc_BR4BQzDZitcfzvpCXyzc3LySus47LK1.MA
[31] https://www.capitalfm.co.ke/business/2023/03/carrefour-brings-first-self-checkout-service-to-kenya/

Shopping Mall, the Sarit Centre, the Junction Mall, Thika Road Mall, Two Rivers Mall, and Southfields Mall.

Its latest store on General Waruinge Street in Eastleigh, Nairobi, stocks approximately 20,000 products from consumer goods, cleaning and household products, personal hygiene products, and fresh food, including fruits and vegetables.[32]

CARREFOUR'S CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

As part of its corporate social responsibility, in May 2020 Carrefour launched a month-long donation campaign in partnership with the Kenya Red Cross to assist communities in need. For every 10 food hampers donated by its customers, Carrefour contributed one. Customer donations consisted of cooking oil, maize meal, rice, sugar, and other food items, targeting needy families neighboring Carrefour stores. The distribution of the items was done through the Kenya Covid-19 Emergency Response Fund. Franck Moreau, Country Manager of Carrefour Kenya, believes it is important to give back to those in need.[33]

In March 2022, Majid Al Futtaim (MAF), corporate parent of Carrefour, committed the retailer to sell only cage-free eggs across its stores in the region under a newly signed animal welfare policy. MAF announced it was working toward a 100% cage-free shell egg private label assortment across all markets it operates in by 2030 and all national brands by 2032. To achieve this goal, it committed to collaborating with its suppliers. It will be promoting alternative and more sustainable housing systems, such as cage-free, outdoor access systems, free-range systems, and organic systems. Its policy is aimed at promoting the adoption of higher welfare farming. The group believes cage-free egg production offers consumers benefits, including improved health, reduced mortality, higher product quality, enhanced disease resistance and reduced medication, lower risk of foodborne diseases, farmer job satisfaction, and a contribution to corporate citizenship efforts.[34]

To increase the sustainability of its services and become net positive in carbon and water by 2040, Carrefour Kenya announced in July 2022 it had entered into a partnership with Little which will enable it to use e-bikes when delivering its online orders. To promote gender equality as well, female riders will be used in this service. Carrefour had set itself a target to have up to 40% of its online deliveries fulfilled using e-bikes by the end of 2022. The company sees micro-mobility as the future of last-mile deliveries and believes using e-bikes will reduce congestion and lower emissions whilst boosting Kenya's sustainable development goals.[35]

Carrefour has also announced the launching of community projects. It recently constructed a modern kitchen, hand washing stations, and book racks, in addition to installing a solar water pumping system and a 5,000-litre water tank at Gacharage Primary School in Kiambu County. It was done as part of the company's corporate social responsibility initiative 'Round Up Your Bill' with the support of its customers. The initiative allows customers to round up their shopping bill by a few shillings and

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[32] https://www.capitalfm.co.ke/business/2023/05/carrefour-opens-its-20th-store-in-eastleigh/

[33] https://www.capitalfm.co.ke/business/2020/05/carrefour-red-cross-partner-to-support-communities-in-kenya-impacted-by-covid-19/

[34] https://www.capitalfm.co.ke/business/2022/03/carrefour-to-sell-only-cage-free-eggs-across-its-stores/

[35] https://www.capitalfm.co.ke/business/2022/07/carrefour-kenya-partners-with-little-cab-to-roll-out-electric-bikes/

donate towards providing essentials for local communities. According to Christophe Orcet, Regional Director of Carrefour – East Africa, the contributions from customers allow Carrefour to provide learners at the school with access to clean water and daily meals.[36]

SUCCESSFUL LOCAL PLAYERS

QUICKMART GROWING ITS FOOTPRINT

QuickMart Supermarket is a retail chain growing and succeeding where other Kenyan chains have been failing. After opening four more stores in mid-2021 in the counties of Kiambu, Nairobi, Kilifi, and Trans Nzoia, the chain now has a branch network of 45 stores.

QuickMart is now competing against Naivas, which also plans to open more outlets across Kenya.

QuickMart's business model focuses on its fresh concept, allocating up to 30 to 40% of its floor space to fresh fruit and vegetables and fresh foods from its deli, bakery, and butchery.

QuickMart was tapping into the opportunity presented by, amongst others, failed retailer Tuskys ceasing most of its operations in Kenya. While it until recently was Kenya's top retailer with 53 stores, by May 2021, Tuskys' had less than ten outlets.[37]

NAIVAS GROWING IN KENYA

Naivas is another retailer in Kenya that is exploiting the demise of Nakumatt, Uchumi, and Tuskys, and Shoprite leaving Kenya. It opened an outlet in Eldoret in May 2021, taking the number of its branches up to 72. Like QuickMart, Naivas also took over space formerly occupied by Tuskys.

Naivas intends to continue with its growth strategy, opening two other outlets in Eldoret to benefit from the opportunities presented by the growing population. The firm also planned to open stores at Muindi Bingu (Nairobi), Kisumu, and Githurai (Kiambu).

Naivas believed it was essential that for it to grow, every unit must be profitable on its own and not depend on the overall profitability of its business.[38]

Naivas' expansion moves come simultaneously as many of its competitors continue to struggle. One of the new planned branches will be at the Lifestyle Mall in Nairobi's central business district, a site formerly occupied by Nakumatt. Another branch, i.e., at the Waterfront in Nairobi, became vacant when Shoprite closed its doors less than six months after opening at the mall.

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[36] https://www.capitalfm.co.ke/business/2023/08/carrefour-raises-sh5mn-in-donations-to-support-school-feeding-sanitation-in-kiambu/

[37] https://www.businessdailyafrica.com/bd/news/counties/quickmart-stores-in-market-race-against-rival-naivas-3396776

[38] https://www.businessdailyafrica.com/bd/news/counties/naivas-opens-72nd-store-in-eldoret-cement-leadership-3411448?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=k6PhM3U6UksBu3jKwPWQuEfhrmfbAX5.GN5skGqdrw

Naivas attributes its relative success to the following factors, amongst others:

- Focus on the customer and do not hesitate to make the required decisions.
- Identify underperforming stores and either fix them or shut them down.
- Diversify outlets, and redesign them to have a modern appeal, including grocery sections, fresh produce sections, delis, and alcohol sections to grow revenue.

Naivas executive management indicated the company would remain focused on the Kenyan consumer, with local expansion a priority before going abroad.[39]

CARREFOUR DIGITAL SERVICES

TAPPING INTO THE E-COMMERCE MARKET

In November 2018, the Carrefour group announced the signing of a partnership between Majid Al Futtaim (MAF) and CFAO Retail (two of its international partners), and Jumia, the leading e-commerce company in Africa. The partnership agreement enables Carrefour and CFAO Retail to sell their product range on the Jumia Marketplace in four African countries, i.e., Cameroon, Ivory Coast, Kenya, and Senegal. Carrefour thereby tapped into the vast opportunity presented by Africa's fast-growing e-commerce market.[40]

PAYMENT PLANS

In November 2021, Carrefour Kenya partnered with Lipa Later to launch a new product called LipaVismart, providing an installment payment plan for its customers in all Carrefour stores in Kenya. LipaVismart allows customers to purchase items within the retail chain but only make their first payment up to 30 days later while taking the item home immediately.

Clients can sign up for the service online or at any outlet. They instantly receive approval indicating their credit limit. The facility works like a revolving credit account, with clients getting access to the amount already repaid. It provides customers with a seamless shopping experience.

Carrefour intends to expand the product into the rest of the region. It offers the lowest interest rates at 2.3% per month, with no other fees. In addition, customers can select the duration of the repayment period, which varies from 3, 6, 9, or 12 months.

ONLINE SHOPPING

Carrefour also launched an online shopping app in January 2021. The MAF Carrefour App enables customers to do their shopping online and have them delivered to their preferred location. The app is currently only functional in Nairobi, but Carrefour intends

[39] https://www.businessdailyafrica.com/bd/corporate/companies/naivas-toopen-four-more-outlets-2463894?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=3Oe1fGc1CEIBvEfeonuFDQ56vhj2XdcGvK2KLQ1I5A

[40] https://www.carrefour.com/en/newsroom/carrefour-bolsters-its-presence-africa-selling-carrefour-branded-products-jumia-e-commerce

to expand it to other cities in Kenya soon. In addition, the MEGA store on Uhuru Road offered home delivery services in the region, making it convenient to shop online during the pandemic.

Carrefour has also introduced digital services, including 'Click and Collect,' which offers customers the opportunity to shop and have their goods ready for collection at the store. Another service is the “Valet trolley” service that allows customers to shop online and then visit the mall to have their shopping brought to their car.[41]

SUPPLIER RELATIONSHIPS

Majid Al Futtaim has been the target of negative press due to their relationship contract with the suppliers. Their contracts generally state that the suppliers must pay an upfront fee of 1.4 million shillings (US$14,000), an additional 10,000 shillings (US$100) on every new product introduced, and provide continuous rebates on the sales of the product. This has led to legal action by especially its smaller suppliers who cannot afford these proposed fees. In addition to a fine, Carrefour Kenya was ordered to revise its agreements with approximately 700 suppliers within a month after Kenya’s Competition Tribunal found it had been exploiting traders.[42]

FUTURE TRENDS

Greg Gatherer, account manager at Liferay Africa, identified four significant trends he believes are essential for retailers to note in 2022.[43] These trends explain the potential market within which African retailers, such as Carrefour, Naivas, and QuickMart, will operate. It will be interesting to see to what extent these trends do pan out and how retailers will deal with them.

Firstly, supply chain issues resolve slowly. Gatherer believed that shipping costs would normalize in 2022, reducing the number of cost items retailers must be concerned about. However, by April 2022, there was still no sign of any normalization.

Secondly, B2B and B2C e-commerce will see continued growth in the year ahead. As an example, he indicated e-commerce would grow from 1.4% of South Africa’s total retail sales in 2018 to 4% by the end of 2021. He believed most big retailers are now taking e-commerce far more seriously, especially for on-demand delivery. As a result, e-commerce would constitute an even greater portion of the retail sector in 2022.

Statista confirms Gatherer's projections. According to Statista, the projected annual revenue change of e-commerce from 2018 to 2025 is as set out in Table 2.

Statista also reported that during 2020, the revenue generated by online shopping in Africa was estimated to be around US$27.97 billion, an increase of over US$6 billion since 2019. Statista forecasts that e-commerce revenue in Africa will keep increasing to reach more than US$46.1 billion by 2025.[44]

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41 https://www.foodbusinessafrica.com/carrefour-kenya-partners-with-lipa-later-to-offer-shop-now-pay-later-services-to-customers/

42 https://www.foodbusinessafrica.com/carrefour-kenya-ordered-to-revise-supplier-contracts-by-competition-tribunal-following-allegations-of-abuse/

43 https://www.bizcommunity.com/Article/196/731/222988.html

44 https://www.statista.com/statistics/1190541/e-commerce-revenue-in-africa/

Table 2: Annual Revenue Change of e-commerce in Africa from 2018 to 2025, by sector

Characteristic	Electronics & Media	Fashion	Food & Personal Care	Furniture & Appliances	Toys, Hobby & DIY
2018	29.7%	44.4%	41.3%	35.6%	27.6%
2019	27.9%	38.6%	44.5%	34.5%	28.4%
2020	51.8%	46%	81.6%	46.6%	53.6%
2021	26.3%	32%	39.5%	31.7%	30%
2022	15.2%	19.1%	24.6%	20.6%	19.6%
2023	11.7%	14.3%	17.9%	16.5%	15.6%
2024	8.6%	10.4%	12.2%	11.8%	11.6%
2025	7.1%	8.7%	10.6%	10.4%	10.1%

Source: Statista, 2022 (https://www.statista.com/statistics/1190528/percentage-change-in-e-commerce-revenue-in-africa-by-sector/)

Thirdly, Gatherer believes 2022 will see an integration of online and offline experiences. While e-commerce will continue to grow, people's expectations of physical retail stores will change. Consumers may visit physical stores to experience the goods before buying online, necessitating a seamless experience between the online and offline worlds. This is a continuation of an existing trend that has been observed for several years. In Singapore, businesses have been concerned since they observed this trend in the upmarket Orchard Street retail environment. It will be interesting to see to what extent this trend manifests in Africa.

Fourthly, retailers will grow as financial service providers. In countries such as South Africa, retailers have been offering financial products for some time now. For example, Shoprite recently launched a free bank account for more than 20 million Xtra Savings customers. The amount of data retailers have on customers makes them ideally suited to launch financial services products.[45]

CONCLUSIONS

It is interesting to note that while many retailers in Africa, such as Shoprite (South Africa), Pick n Pay (South Africa), Choppies (Botswana), Nakumatt and Uchumi (both Kenya) struggled to achieve success in the East African retail environment, others have been successful. Carrefour, a foreign-owned entity, has successfully established a footprint in Kenya and Uganda. Naivas and QuickMart are two Kenyan-based retailers currently doing well in Kenya. The progress of Carrefour, Naivas, and QuickMart did receive a boost with the collapse of the former retailers Nakumatt, Tuskys, and Uchumi and the withdrawal of Shoprite and Choppies.

The attraction of Africa for the retailers of the world is clear. The continent's growing consumer class and urbanizing population are powerful incentives to expand into

[45] https://www.bizcommunity.com/Article/196/731/222988.html

Africa. In addition, the rise of megacities in Africa makes for huge markets. Combined with this is an underdeveloped formal retail sector, which has made sub-Saharan Africa an essential new growth destination for retailers. The above pull factors are complemented by the push factor that both the USA and European markets are becoming too congested for the likes of Walmart and Carrefour. Even in Africa, South African retailers found the local market becoming mature.

It is now up to Naivas and QuickMart to oppose Carrefour for market share in Kenya. All three of these retailers are investing heavily to expand and fill the gaps left by retailers that have exited the Kenyan market.[46]

The UAE's Majid Al Futtaim Group runs the Carrefour operation in Kenya and Uganda. From the annual reports, it is clear the Group is very successful. According to its website, the Group operates more than 320 Carrefour stores in 16 countries, serving more than 750,000 customers daily, and employing over 37,000 people. It sources more than 80% of its products from the region. This enables the Group to streamline its supply chain, minimizing the costs of doing business.

Naivas and QuickMart will both struggle to compete successfully against such a significant competitor. This will be in addition to a retail environment that is a difficult one to start with. The average shopper in Kenya is cost-conscious, and research has shown that many prefer to shop at informal markets. However, it is possible that an urbanizing and more affluent consumer market will turn towards a more formal retail offering such as that offered by Carrefour, Naivas, and QuickMart. This development might create a more positive retail shopping environment for retailers.

Up to now, retailers have adopted different models for expansion, each with varying degrees of success. Shoprite had followed a greenfield expansion strategy, while Pick n Pay stated that it would use local partners to drive its African expansion a few years ago. Carrefour is also following a greenfield strategy. It is still not clear which of these two models is more successful and under what circumstances, if at all.

Carrefour increasing its footprint in Africa is an indication that the prominent players in the food retail sector have woken up to the significant potential within the continent. However, it is not the only global food retailer, as Walmart entered Africa about a decade ago via an acquisition of 51% of Massmart in South Africa.

It is also clear that not all the outreaches are successful, as the challenges some of the retailers have faced clearly demonstrate. The lesson is that even African companies must do their homework thoroughly before engaging in business ventures abroad.

Supermarkets in Africa are a new trend (proving to be quite pervasive) and are changing the shopping habits of the growing middle-class. According to McKinsey, Africa's consumer industries will grow by more than US$400 billion by 2020, all wanting to tap into the middle class. Shoppers are moving from street shopping to the malls for their entire shopping experience under one roof and the status thereof. Retailers need to keep pace with these aspirations.

Challenges include the high cost of transporting goods on poorly maintained roads, aging railways, and border crossings plagued by bureaucracy and corruption. Yet,

[46] https://www.businessdailyafrica.com/bd/corporate/companies/naivas-three-stores-in-race-against-carrefour-3386998?utm_source=traqli&utm_medium=email&utm_campaign=bdafrica_newsletter&tqid=3a6tcSV4BxABQ1HweFxcJK.sD.xGQ_1Ru.apYPEJLg

despite most African shopping still taking place in the informal sector, retailers keep seeing the potential. Africa has seen a remarkable metamorphosis over the past decade — from an explosion in real estate development to the new consumerism. This trend is bound to continue due to a rapidly urbanizing and youthful population.

Africa is changing, and the early movers will benefit from this the most. The growing middle class, urbanization, higher disposable incomes, and greater political stability lead to an aspirational trend. South African retailers have moved into Africa due to the mature retail market in South Africa. Walmart uses South Africa and Massmart's African footprint as a beachhead in Africa.

Major retailers such as Aldi, Sainsbury, and Tesco have no meaningful presence in Sub-Saharan Africa. However, Carrefour has changed the competitive landscape by moving into East Africa.

According to researcher Ashley Mutiso[47], Carrefour must understand several factors should it want to be successful and not follow the path of the Shoprites of the world:

- It is critical to have good relationships with suppliers and customers. Restrictive contracts for suppliers in Europe and the US will not necessarily work in Kenya. It is essential to balance the company’s regulations with Kenya's, as the country’s retail market is mature and has its own regulations.
- Customer service is critical in Kenya and is not negotiable.
- Store brands are strategic in creating consumer loyalty. These brands embrace the notion of quality and good pricing, taking advantage of the combined strategy of differentiation and cost leadership.

Mutiso believes that while the Kenyan market is receptive to new entrants, their strategies must conform to the specifics of the Kenyan market to succeed. The strategy must remain global but act locally. To copy and paste an international brand strategy will not work; brands must be customized to local preferences.

Local is also not African. Africa is not one country but consists of 54 countries (or 55, depending on how one counts). Every country is unique, with its own market characteristics and consumer profiles. Care must be taken of this truth in developing entry strategies for every country.

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[47] https://www.linkedin.com/pulse/carrefour-entry-strategy-kenyan-market-space-ashley-mutiso/

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