MAINTAINING RELEVANCE AMIDST INFLATIONARY PRESSURES: A CASE OF RETAILERS IN KENYA

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REG NO: 150962

MARCH 2023

Executive Summary

In recent years, the Kenyan economy has been subjected to inflationary pressures as a result of a number of reasons, including the depreciation of the Kenyan shilling, rising energy and food prices, effects of covid-19 pandemic , Russian -Ukraine conflict and higher taxes. These inflationary pressures have had a substantial impact on the country's retailers, who have faced rising costs and decreasing consumer demand. The main objective of the current report was to establish ways in which retailers can remain relevant with the rising inflation. The impact of inflationary pressures on retailers in Kenya is significant and multifaceted, with challenges ranging from increased costs to supply chain disruptions and increased competition. The data used for the following report was obtained from a survey done by Kasi Insight on the impact of rising costs on Kenyans living in Nairobi. The study was conducted in June and November 2022. Based on the analysis of the data, the report found out that inflation/rising cost of living is a major issue among consumers in Kenya. This has a significant effect on their purchase behavior for example they tend to go for cheaper alternatives. In light of these, some retailers find it difficult to make sales as one of the strategies they use to curb inflation on their end is rising prices of goods and services thus transferring costs to the end consumers. According to this report, retailers in Kenya will continue to face numerous challenges as a result of inflationary pressures, including increased competition, supply chain disruptions, and reduced customer spending. To remain competitive and retain their customer base, retailers need to adopt proactive strategies that can help them weather the effects of inflation. Such strategies may include offering sales and promotions, reducing the price of commodities, monitoring key consumer segments and repackaging goods into smaller units. By implementing these approaches, retailers can position themselves for long-term success in the challenging economic environment.

Table of Contents

1.0 Introduction

Inflation has been referred to as the constant rising of commodity prices over a period of time. Post the pandemic supply side inflation hit the country. According to a study by the Central Bank of Kenya (2021), the pandemic led to supply chain disruptions, which, coupled with the government's measures to contain the virus, led to a reduction in production, particularly in the agriculture and manufacturing sectors. This reduction in production resulted in a shortage of goods, leading to an increase in their prices, especially basic commodities such as food, fuel, and housing.

Furthermore, the depreciation of the Kenyan shilling against major currencies, particularly the US dollar, has also contributed to the inflationary pressures in the country. According to a study by Macamba and Korir (2021), the weakening of the Kenyan shilling against the US dollar has resulted in the increase in the prices of imported goods, which has had a significant impact on inflation.
The inflationary pressures in Kenya have had a profound effect on the country's population, particularly the low-income earners who spend a significant portion of their income on basic commodities. The high cost of living has led to reduced purchasing power for consumers, with many households struggling to make ends meet. According to a survey by Infotrak Research and Consulting, 77% of Kenyans identified the high cost of living as the main issue affecting them.

In response to these inflationary pressures, various stakeholders, including the government and private sector, have implemented measures to mitigate the impact of inflation. For instance, the Central Bank of Kenya has increased its policy rate to curb inflationary pressures by reducing money supply in the economy (CBK, 2021). Additionally, retailers have adopted various strategies such as diversifying their product range, improving supply chain management, and adopting competitive pricing strategies to maintain relevance amidst inflationary pressures (Kamau, 2022).

Further according to the Kenya National Bureau of Statistics, the overall year-on-year (annual) inflation rate as measured by the Consumer Price Index (CPI) was 9.2 per cent, in February 2023; an increase from an inflation rate of 9.0 per cent recorded in January 2023. Monthly inflation rate for February 2023 was 0.6 per cent (KNBS, 2023).

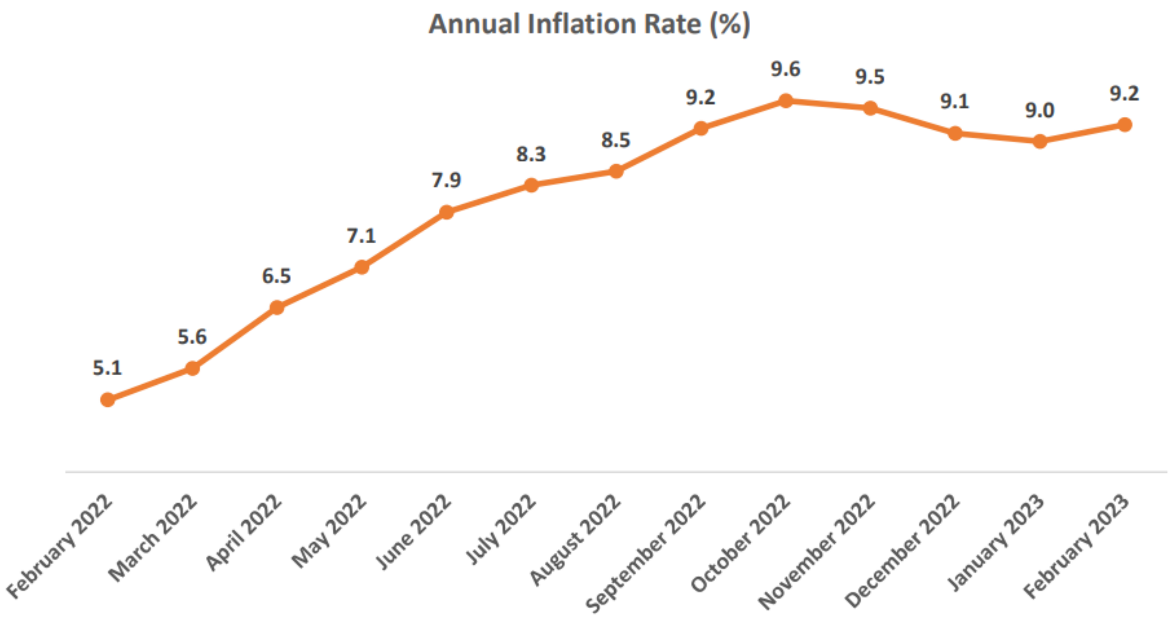


Figure 1.1 Kenya's Inflation Rate from Feb 2022 – Feb 2023

Source: Kenya National Bureau of Statistics (KNBS), 2023

Inflation has been a persistent issue in Kenya for several years, and it is expected to remain so in the coming years due to various factors (Kiganda, 2014). One of the main drivers of inflation in Kenya is the increasing government taxes, which lead to higher costs of production and an increase in prices of goods and services. For instance, in the 2021/2022 budget, the government introduced several tax measures, including an increase in Value Added Tax (VAT) from 16% to 20%, excise duty on petrol, and digital service tax. These taxes have a ripple effect on the prices of goods and services, making them more expensive for consumers (Oyollo,2022).

To mitigate the impact of inflation, the government can adopt various measures, including implementing prudent fiscal and monetary policies, promoting investment in the agricultural sector to enhance food security, and improving infrastructure to reduce transportation costs. Additionally, businesses can adopt strategies such as diversifying their product range, improving supply chain management, adopting competitive pricing strategies, providing excellent customer service, and establishing an online presence to maintain relevance amidst inflationary pressures.

1.1 Impact of Inflation on Retailers

The increase in the cost of goods and services is one of the most prominent repercussions of inflationary pressures on Kenyan retailers. Retailers who import items from other countries are particularly affected, as the weakening of the Kenyan shilling means they must pay more for their imports. This raises the cost of items for customers, perhaps leading to decreasing demand for retailers. According to a study conducted by the Central Bank of Kenya (CBK), rising food and fuel prices are the key drivers of inflation in the country, with the food and non-alcoholic beverage sector seeing the highest inflation rate (CBK, 2019).

Additionally with the increasing rates of inflation, retailers' prices may need to rise in order to preserve profit margins. Yet, in a climate where consumers are already struggling to make ends meet owing to increased living costs, this can be difficult. Inflation has had a substantial impact on consumer behavior, according to a study conducted by the Kenya National Bureau of Statistics (KNBS), many consumers have decided to cut their expenditure on non-essential goods and services in order to cope with rising prices (KNBS, 2018). When consumers become increasingly price-sensitive, retailers may need to cut their pricing in order to remain competitive. However, this is challenging in a situation where expenses are rising due to inflation. As a result, some retailers are compelled to leave the market, particularly Small and Medium-sized Enterprises (SMEs) who may not be able to adjust to the ever-changing market conditions.

Finally, inflationary pressures can also have an impact on the supply chain for retailers in Kenya. Rising costs can lead to supply chain disruptions, as suppliers may struggle to meet demand at the same price points as before. This can lead to shortages of key goods and services, which can further impact retailers' ability to operate effectively. Odhiambo (2013) found that inflation had a significant impact on the supply chain for retailers in Kenya, particularly for those who relied on imports.

1.2 Objectives

Given the impact of inflation in the country, the main objective of this research was to establish how retailers can remain afloat given the inflationary pressures facing them and consumers alike.

1.2.1 Specific Objectives

Specifically, the report sought to answer the following questions:

1. Is inflation an issue to consumers in Kenya?
2. What do Kenyans think is the cause of inflation?
3. How are consumers dealing with inflation and what can retailers do to retain their customers.

1.3 Justification of the report

1. Economic Impact: Inflationary pressures can have a considerable economic impact, and retailers are not immune. As the cost of goods and services rises, people tend to restrict their

spending, which can result in lower sales for retailers. Retailers can learn how to limit the negative impact of inflation on their company by performing a report on preserving relevance in the face of inflationary pressures.

2. Market Dynamics: Market dynamics in Kenya are always changing, and retailers must adapt in order to remain relevant. A research on staying relevant in the face of inflationary challenges can assist retailers in staying current on market changes and consumer preferences. This enables them to make informed business decisions and remain competitive.
3. Customer Retention: Price increases caused by inflationary pressures can lead to consumer unhappiness and attrition. Retailers can acquire insights on how to keep customers even during difficult economic times by doing a report on sustaining relevance during inflationary pressures. These can involve measures such as delivering excellent customer service, competitive pricing, and diversifying their product line.
4. Inflationary pressures can also have an impact on the long-term viability of retailers' companies. Retailers can acquire insights on how to reduce the impact of inflation on their operations and retain profitability even in difficult economic circumstances by completing a research on sustaining relevance during inflationary pressures.

2.0 Data Source

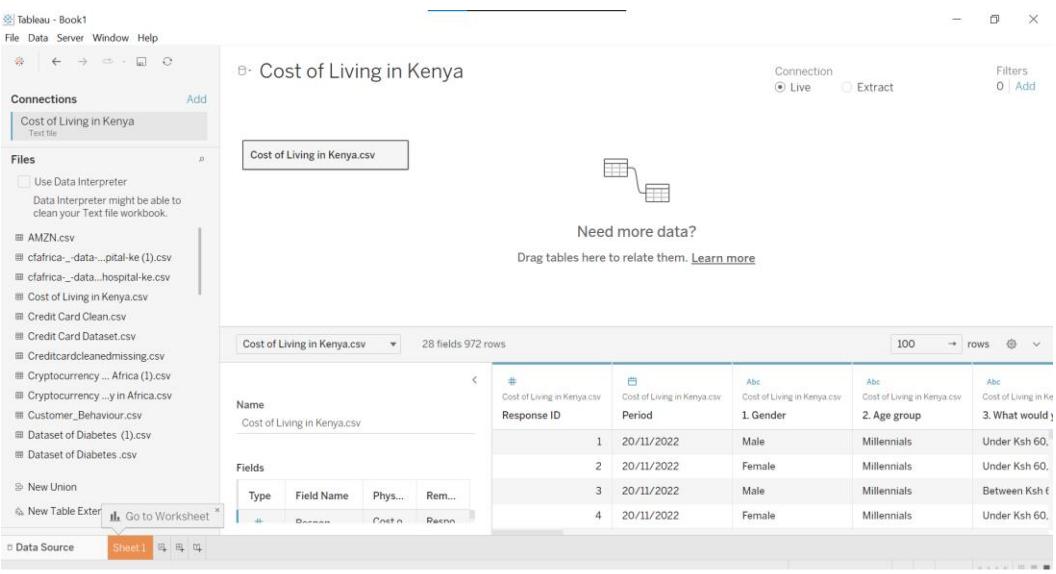
To gather insights for the report, the researcher obtained the data from Kasi Insight, a highly regarded market research company that specializes in conducting regular surveys in different African markets. The focus of my research was on the Kenyan market, and as such, the researcher utilized survey data collected from respondents in the Nairobi region during June and November of 2022. The survey sample size was robust, comprising 973 individuals, and the questions were carefully designed to capture their experiences and opinions regarding the impact of the rising cost of living in the country.

To gain a comprehensive understanding of the situation, the survey was crafted to inquire about the sectors where the respondents had witnessed the most significant price increases, and what measures they had implemented to help alleviate the inflationary pressure. Moreover, the survey aimed to elicit the participants' views on what should be done to tackle inflation effectively in the Kenyan economy. By collecting and analyzing this data, the researcher was able to provide valuable insights and recommendations for retailers to maintain their relevance amidst inflationary pressures.

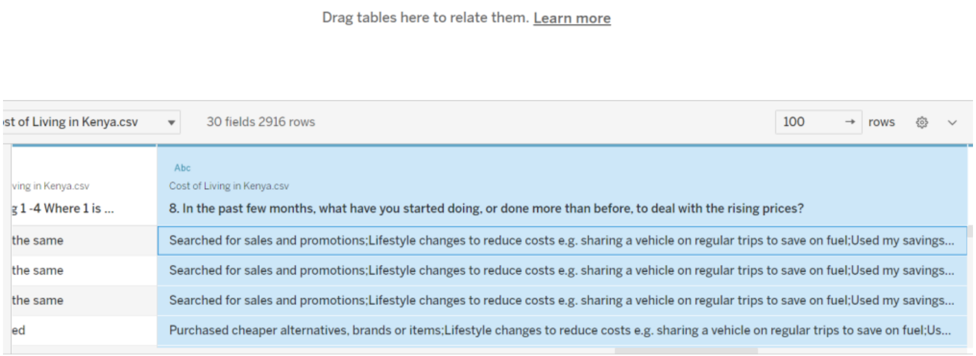
2.1 Data Cleaning Procedure

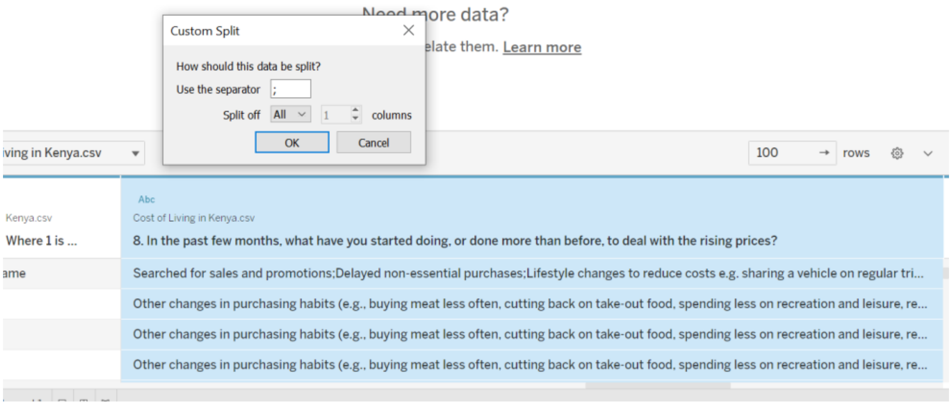
It is worth noting that the data obtained from Kasi Insight was of high quality, as it was clean and did not contain any missing values. To ensure that the data was suitable for analysis, the researcher uploaded it onto Tableau to check for any potential inconsistencies or anomalies that might make data analysis challenging.

The data was uploaded as shown in the screenshot below.

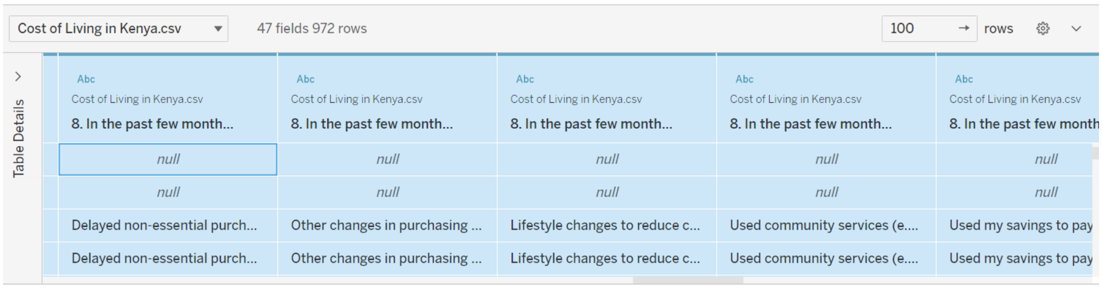


Being a survey, the data had a number of questions that had multiple responses. The researcher started by custom splitting the columns as shown in the screenshots below.

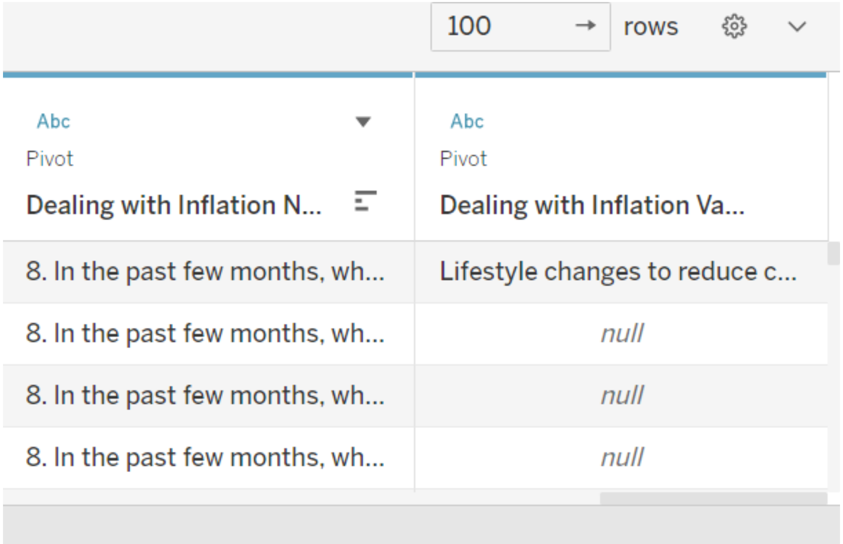




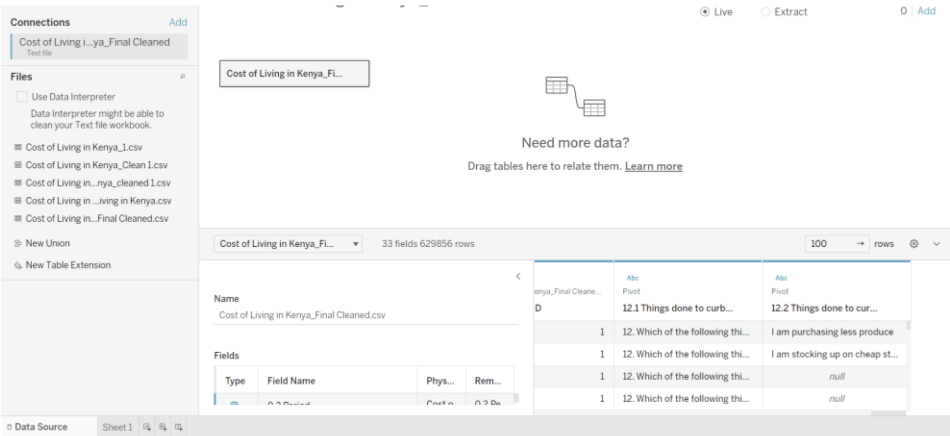
The output obtained after the data was split into various columns is as shown below.



After successfully splitting the data, the researcher pivoted the columns then renamed the features so as to avoid any confusion as the data had a number of questions with multiple responses.

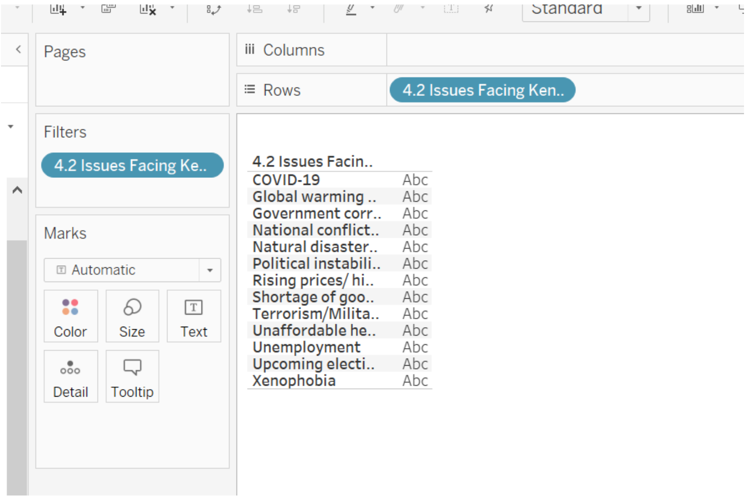


The researcher repeated the step a number of steps while saving the different versions of the data. This was done just to ensure that the researcher could retrace her steps when any mistake was made.

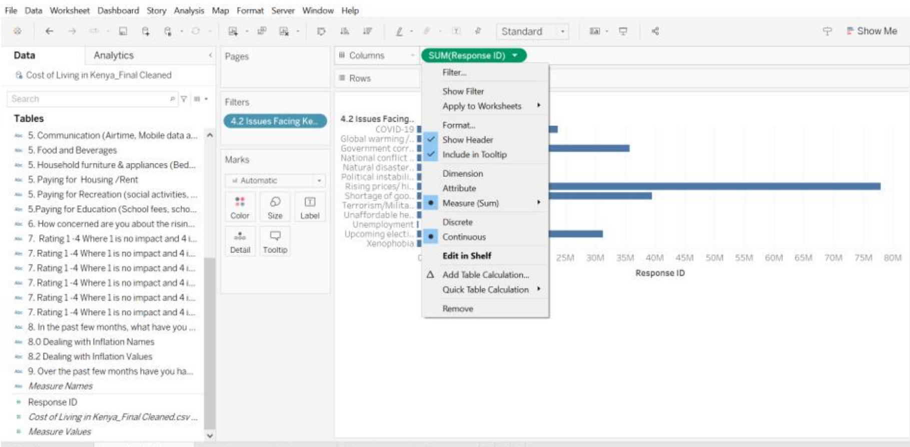


2.2 Data Transformation

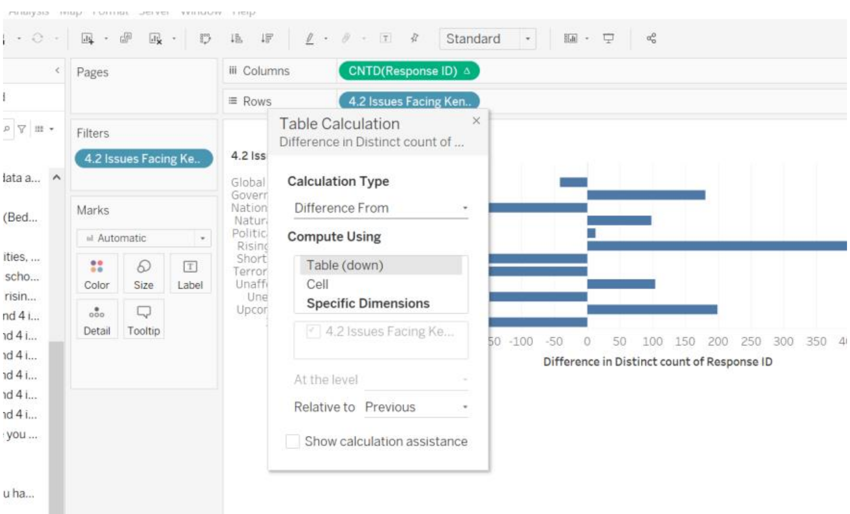
After the data was cleaned and ready for analysis, the researcher started manipulating the data and trying to see the number of visuals the data can provide.



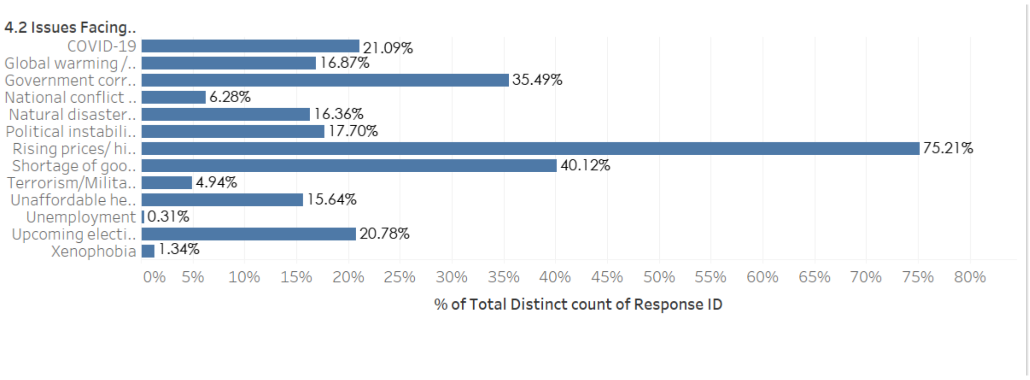
The first question was based on the issues that Kenyan consumers were facing. Respondents were asked to give the top three issues that affect them on a daily basis. The researcher decided to use the unique count of response id considering the question had multiple responses.



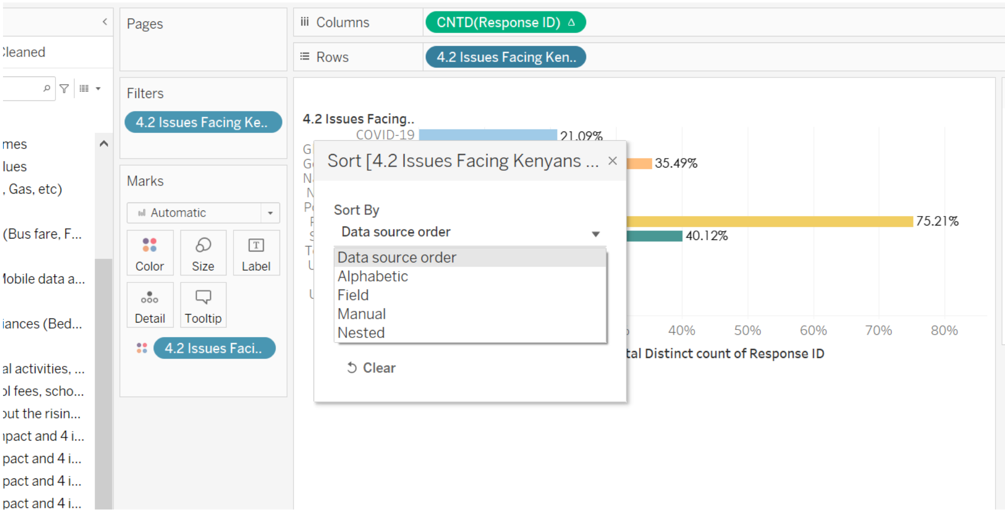
After using the unique count of id, the researcher went ahead and specified that she needed the percentage of the unique id over the total number of respondents.



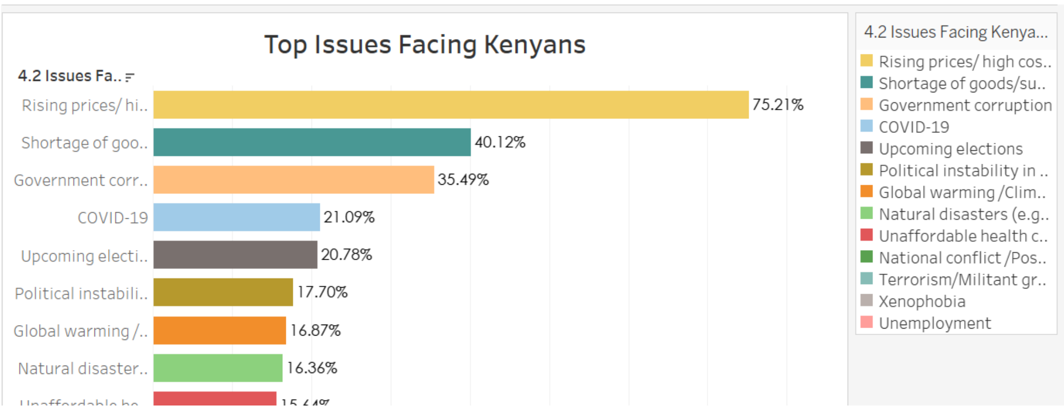
The following screenshot was obtained from the percentage of total.



Further the researcher decided to sort the percentage values obtained while adding the color filter for better visuals.



The researcher obtained the following after using the color filter and including a title on the visual.



2.3 Data Model

The data model of the report was highly based on survey data. The survey begins with three demographic questions about gender, age group, and household income. Typically, these questions are designed to assist researchers in identifying patterns in consumer segmentation that arise depending on the responses achieved.

The next set of questions asked respondents to name the top three issues in their country about which they are most concerned. This was a prompted questions as the respondents were given a list of issues to choose from, this was mainly because at times respondents have similar issues which when phrased differently can give different perspectives.

Respondents are then asked to rate the impact of growing prices on their ability to pay day-to-day expenses, make discretionary purchases, find cheap housing, save for retirement, access healthcare, and buy organic or healthy food. These questions are intended to assess the impact of inflation on respondents' lives.

In the final set of questions, respondents are asked to highlight any measures they have taken in reaction to the rising costs and to express their thoughts on the best strategies to combat inflation. These questions assisted the researcher in identifying effective inflation-management techniques.

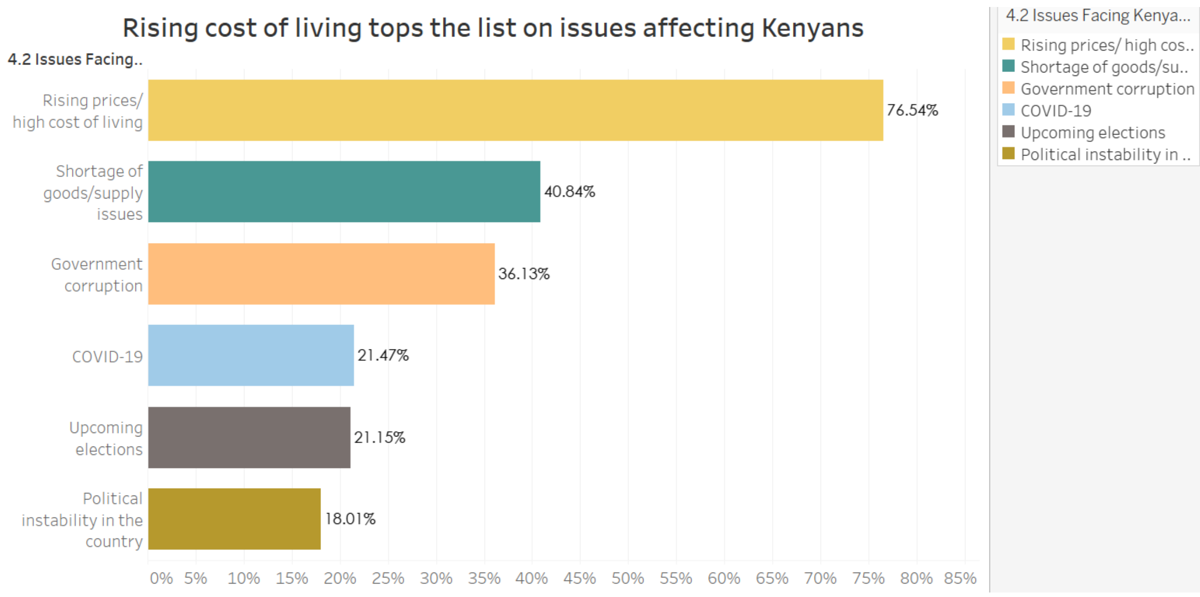
Generally, the data model of the survey was intended to collect information on a variety of issues connected to inflation and its influence on respondents' lives. The questions are designed to elicit both quantitative and qualitative information, allowing the researcher to acquire a better knowledge of the issues at hand.

3.0 Dashboard and Report

The section below presents the findings of the analysis done on the current study. The study was based on consumer perceptions of inflation and how inflation impacts their day to day life.

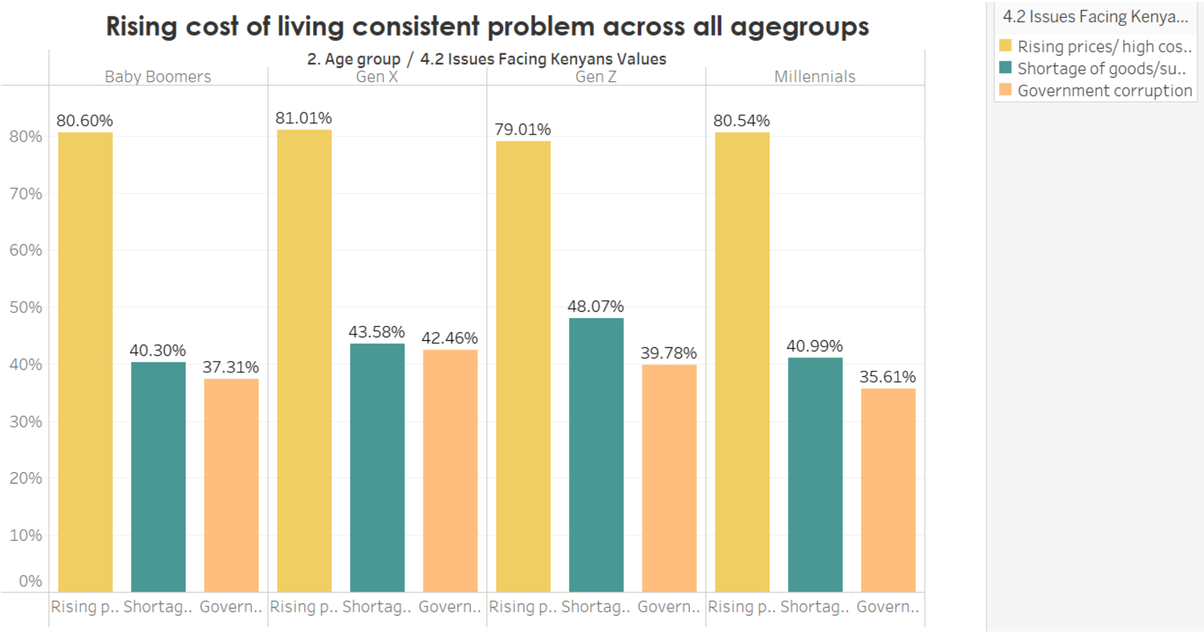
3.1 Inflation is a major problem in the Kenyan economy.

When consumers were asked what they thought were the major issues affecting them, 77% of them believed that the high cost of living was the main problem affecting them. They were followed by those that believed that the shortage of goods and supply issues were the main challenge affecting the country (41%).



A study conducted by the World Bank in 2019 found that affordability was a major concern for consumers in developing countries, with many struggling to afford basic goods and services (World Bank, 2019). Another study by the United Nations in 2020 found that the high cost of living was a major factor contributing to poverty and food insecurity in many countries (United Nations, 2020). The shortage of goods and supply issues mentioned by 41% of the respondents is also a common issue in many countries. A study by the Organization for Economic Co-operation and Development (OECD) in 2020 found that disruptions in global supply chains due to the COVID-19 pandemic had led to shortages of essential goods and services in many countries (OECD, 2020). Similarly, International Labor Organization (ILO) in 2020 found that supply chain disruptions and production shutdowns had led to job losses and reduced access to essential goods and services for many people (ILO, 2020).

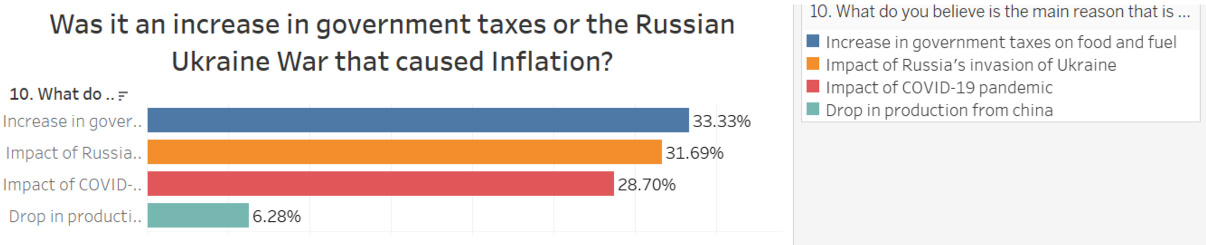
Similarly, across all age groups, high cost of living is a major concern.



Interestingly, Gen Zers lead when it comes to the shortage of goods and services. As a demographic that started working recently, Gen Zers always go for the cheaper alternatives which they can afford. However, with the constant rise in prices, all demographics are going for the cheaper alternatives. This makes the cheaper services and goods to end in retail stores.

3.2 Consumers are not sure of the cause of inflation.

Now that inflation is a major issue that affects Kenyans, one might wonder why prices of commodities are constantly rising.

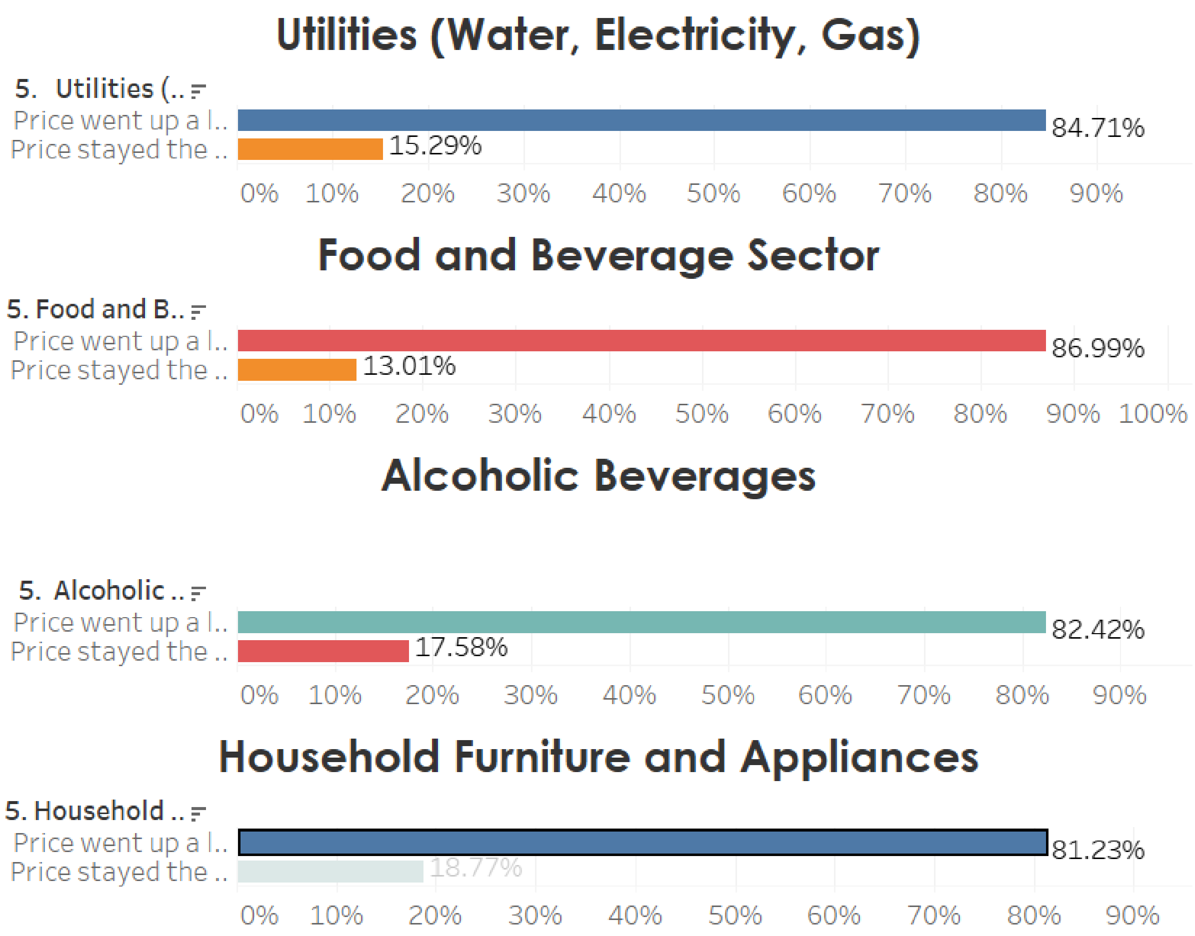


When asked what has caused the recent cause of inflation 33% believe it was caused by government taxes on food and fuel while 32% believe that it was caused by Russian-Ukraine war. These taxes include excise duties, value-added tax (VAT), and other levies that the government imposes on essential commodities, such as maize flour, sugar, cooking oil, and gasoline. As these items become more expensive, consumers are forced to pay higher prices, leading to an overall increase in the inflation rate.

Further, the Russian- Ukraine conflict resulted in a rise in global oil prices, as Russia is one of the world's leading oil producers. This increase in oil prices, in turn, affects the cost of transportation and other goods and services, which leads to an overall increase in prices across the economy. Thus, while the Kenyan government may not have control over global oil prices, the impact of these prices on local inflation cannot be ignored.

3.3 Impact of inflation felt equally in both the essential and non-essential space.

When looking at the industries that were impacted with inflation, majority of respondents have felt the impact on both the discretionary and essential goods. Further, the findings highlight that the essential goods might have been affected more by inflation. This is majorly because people can delay purchase on discretionary goods but cannot go without food or water.



The inflation on Food and Beverages was 87% while that of Utilities was at 85%. On the other hand, the inflation levels for discretionary products was slightly lower with Alcoholic Beverages at 82% and Household Furniture at 81%.

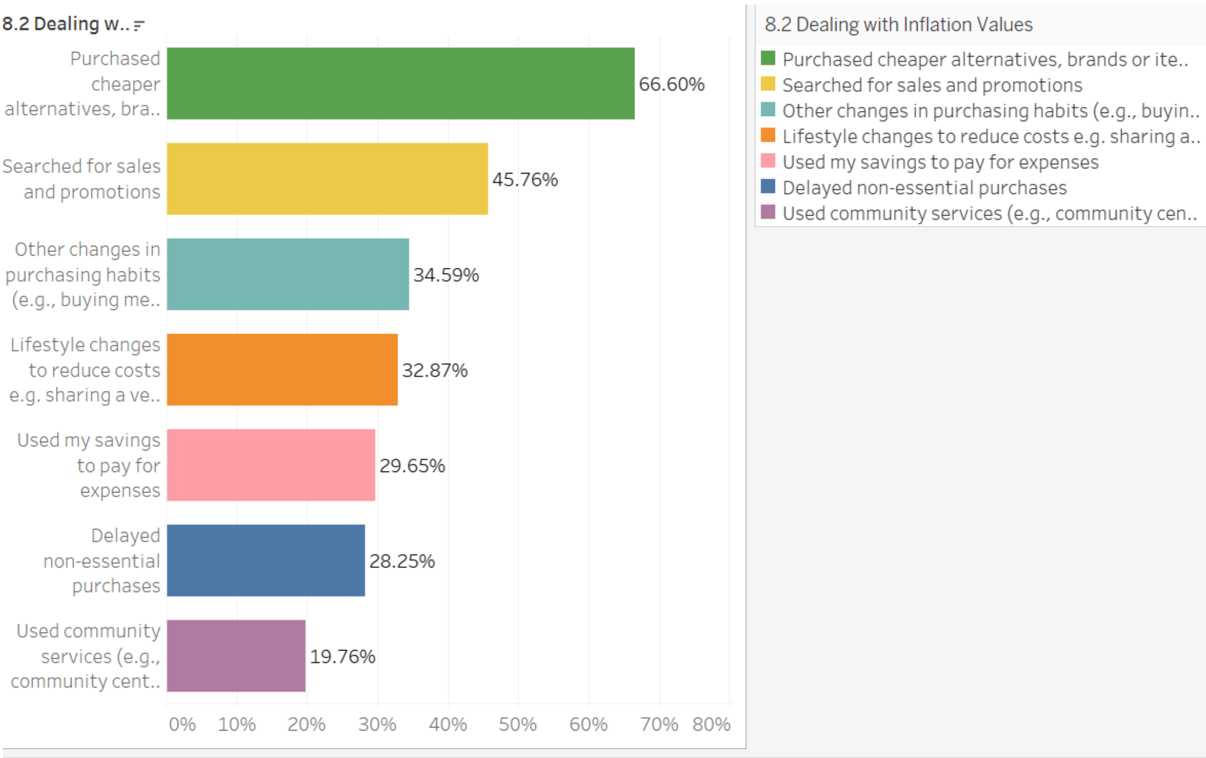
Several studies have demonstrated that inflation has a significant impact on both discretionary and essential goods, with the latter being more affected due to their importance in everyday life. For instance, a study by the Central Bank of Kenya (CBK) found that food and non-alcoholic beverages were the main drivers of inflation in the country, accounting for over 36% of the overall inflation rate in 2020 (CBK, 2021).

Moreover, a recent survey conducted by TIFA Research found that a majority of Kenyan consumers have felt the impact of inflation on both discretionary and essential goods. The survey found that 72% of respondents reported feeling the impact of inflation on essential goods, such as food, water, and healthcare, while 57% reported feeling the impact on discretionary goods, such as clothing, entertainment, and leisure activities (TIFA Research, 2021).

Furthermore, the survey found that essential goods were more affected by inflation than discretionary goods. This is because consumers cannot delay the purchase of essential goods, and they need to purchase them regardless of the price. For example, a study by the World Bank found that during a period of high inflation in Tanzania, households reduced their consumption of non-food items, such as clothing and furniture, but continued to purchase food and other essential items (World Bank, 2015).

3.4 Consumers are finding ways to deal with inflation.

When inflation first hit the country, consumers were a little bit skeptical about their financial situation. A few months later, consumers have found ways to deal with inflation.



According to the research done, 67% of consumers are looking for cheaper alternatives to curb inflation. 46% of the respondents surveyed were searching for sales and promotions, 35% are changing purchasing habits, 33% are changing their lifestyle habits while only 30% are using their savings to pay for their expenses.

This highlights the fact that consumers in supermarket are constantly looking for cheaper brands hence if one retailer is expensive, switching to a cheaper one is more preferrable. Further, the saving culture of Kenyans is quite low as only 30% are willing to use their savings during turbulent economic times.

Studies have shown that Kenyan consumers are price-sensitive and tend to switch to cheaper brands when faced with inflationary pressures. For instance, a survey by the Consumer Insight Kenya found that 72% of Kenyan consumers are price-sensitive when making purchase decisions, with 47% stating that they are willing to switch to cheaper brands when prices of their preferred brands increase (Consumer Insight, 2019). This trend is particularly evident in supermarkets, where consumers have a wide range of options to choose from. According to a survey by Geopoll, 73% of Kenyan consumers who shop at supermarkets consider price as the most important factor when making purchasing decisions, followed by quality at 18%, and brand loyalty at 5% (Geopoll, 2021).

Moreover, the low saving culture among Kenyans has made it difficult for them to cope with inflationary pressures. According to a survey by TIFA Research, only 30% of Kenyans are willing to use their savings during turbulent economic times (TIFA Research, 2021). This suggests that many Kenyans do not have adequate savings to cushion them against inflationary pressures.

4.1 Recommendations

Based on current economic trends, inflation appears to be a persistent issue that is posing numerous challenges for retailers. To remain competitive in such an environment, retailers need to devise effective strategies that can help them retain their existing customers across different age groups. For instance, Millennials and Gen Zers, who constitute a significant proportion of the consumer base, are often drawn to brands that offer sales and promotions. Consequently, retailers targeting these segments need to emphasize such incentives to maintain customer loyalty and attract new clients.

To mitigate the impact of inflation, retailers should seek to lower their bargaining power by reducing the prices of commodities. This strategy can help ensure that manufacturing costs are not borne by consumers, which could discourage them from purchasing goods and services. By offering more affordable options, retailers can attract and retain customers who may be struggling to cope with rising living costs.

Another viable strategy that retailers can implement is repackaging their commodities into smaller units. By breaking down larger quantities into smaller packages, retailers can reduce the prices of products and maintain their market share. This approach allows customers to purchase goods in more manageable quantities, thereby easing the financial burden of rising inflation.

With the changing market dynamics, establishing an online presence can help retailers to maintain relevance. Retailers can create an e-commerce website or use social media platforms to reach customers. An online presence can help retailers to expand their reach, target new customers, and increase sales. Providing excellent customer service is also essential for retailers to maintain relevance. This can involve training staff to handle customer complaints and inquiries effectively, providing after-sales support, and implementing customer loyalty programs.

In conclusion, retailers in Kenya face numerous challenges as a result of inflationary pressures, including increased competition, supply chain disruptions, and reduced customer spending. To remain competitive and retain their customer base, retailers need to adopt proactive strategies that can help them weather the effects of inflation. Such strategies may include offering sales and promotions, reducing the price of commodities, and repackaging goods into smaller units. By implementing these approaches, retailers can position themselves for long-term success in the challenging economic environment.

4.2 Limitations of the report

It is important to note that the report focuses primarily on the consumer perspective and may not fully address the concerns and challenges faced by retailers. While the strategies outlined may help retailers mitigate the impact of inflation, it is important to consider additional factors that may affect their operations.

Furthermore, the data used in the report was collected through surveys conducted in June and November 2022. While this data provides valuable insights into consumer perceptions and behaviors, it may not fully capture the current market dynamics in Kenya. As inflation rates and market conditions are subject to change, retailers should continually monitor and adapt their strategies to remain relevant and competitive.

It is important to note that the survey was conducted exclusively in Nairobi, and as such, the results may not be representative of retailers in other parts of Kenya. Nairobi is the economic and financial hub of Kenya, and as such, the market dynamics in Nairobi may differ significantly from those in other parts of the country. Additionally, the survey may have missed out on key insights from retailers operating outside Nairobi, which could limit the applicability of the recommendations provided in the report. Therefore, caution should be taken when applying the findings of this report to retailers outside of Nairobi.

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