Introduction

The manufacture of shoes is an important sector in any country's economy. Whereas the shoes manufactured may not be exported, they save millions in imports and allow the said economy to roll forward, since without shoes, working and living conditions would be intolerable. In this context, Kenya's shoe and leather accessory sector has developed into a vibrant one, with several firms of both local and foreign origin actively competing. This report seeks to delve into the activities of Nairobi Business Ventures (NBV) as a company involved in the shoe and leather accessory sector in Kenya. it will analyze the competitive environment and provide a corporate analysis of the identified company.

Industry Overview

Leather in Kenya has a number of players involved. There are tanners and companies involved solely in the manufacture of products from tanned leather. Some of the notable tanners in the country are Rift Valley Leather, Gonzala Leathers and Sagana Tanneries, which buy skins directly from abattoirs and process them for sale to shoe and accessory manufacturers. With annual revenues of KES10.6 billion and providing about 22,000 jobs, leather, skins and hides make up an important gross domestic product (GDP) contributor locally. Among the firms actively involved in shoe and leather accessory manufacture in the country are the Limuru-based Bata Shoe Limited and NBV, which is the subject of this report.

Shoe-making in Kenya has largely been dominated by Bata Shoe Limited. In 2012, Pakistani shoe company Servis was forced to shut down its Kenyan operations. Although remaining tight-lipped about its reasons for exiting, the firm which had set up in Kenya in 2010 is believed to have been out-done by Bata. With a range of brands, Bata has established itself as Kenya's most successful shoe manufacturer, but with the emergence of NBV, this dominance has come under some degree of pressure.

Corporate Analysis

About the Company

NBV is a shoe and leather accessory vendor in Kenya, and is located along Magadi Road, Athi River, Machakos County. It has previously traded under the name Kwanza Shoes. The company was incorporated in 2012 and started off business as a wholesaler, importing shoes and selling them to retailers for distribution to final consumers. Kwanza Shoes bought out Servis upon its decision to exit the Kenyan market in 2012, taking advantage of the Pakistani firm's presence in terms of retail outlets.

Brand Distribution

At as March 2016, the company runs a total of 5 stores, all of which are located in Nairobi. Its initial retail outlet was at The Village Market, an upmarket shopping and entertainment complex in the country. The Village Market outlet was acquired in 2012 and is the most prime location. Its other branches which were acquired from Servis are the Ongata Rongai, Kenyatta Avenue and Moi Avenue branches. As at March 2016, the company operates with a workforce of 36 employees.

Product Range

NBV runs the KShoe shoe brand, which was registered in 2014 after the company. The shoe range covers footwear for men, women and children's shoes, including school shoes. Leather accessories that are offered include ladies' handbags, men's wallets, travel bags, golf gloves and belts. It is worth noting that NBV is currently the only firm in the country which is actively involved in a diversified leather product range. The other players specialize in single products.

Financial Performance

The company has, despite its considerably short period of existence compared to its competitors, managed to churn out impressive numbers in terms of revenue. In the full year ending March 2015, NBV recorded a turnover of KES74 million (about $729,000). Following its announcement of listing in the national bourse and an aggressive sales campaign, the company expects the turnover to rise to KES90 million (about $887,000) for the year ended March 2016.

Current State

In 2016, NBV announced plans to list on the Nairobi Securities Exchange (NSE), under the Growth Enterprise Market Segment (GEMS). In the Kenyan bourse, other companies which are listed under GEMS are Atlas African Industries Limited, Home Afrika, Flame Tree Africa Limited and Kurwitu Ventures. If the application for listing is successful, it would make Nairobi Business Ventures the fifth company listed in Kenya under this segment. For purposes of its listing, the company currently has attained the minimum of 25 shareholders and a board comprising of 5 directors required.

Plans for listing on the NSE had originally been scheduled for early 2015. However, this was pushed into 2016 due to concerns raised by the NSE and the Capital Markets Authority (CMA). These revolved around calls for the company to provide details on its governance, its financial performance on which investors could base their decisions and its expansion plans. While the company initially planned to finance its expansion plans using funds from its listing, the bearish state of the Kenyan securities market led the company to abandon this strategy. The management of NBV has announced that it plans on opening 5 outlets annually, with an additional planned opening of a shoe factory in Machakos County. To finance this, the company intends to plough back profits and take up bank loans over a period of 2 years.

Industry Risks

Tastes and Preferences

The shoe and accessory market is dynamic, owing to the rapid changes in trends, which manufacturers need to keep up with so as to remain relevant. Leather shoes in Kenya have a significant market, due to official wear and school requirements. There has been a growing preference for international brands, especially in the accessory segment. Renowned brands such as Louis Vuitton, DKNY and Gucci have overshadowed locally produced brands. Therefore, the company needs to make attempts to match or outdo its foreign competitors if it is to survive and satisfy the changing preferences.

Entry Barriers

As far as competition in the shoe manufacturing sector is concerned, NBV faces stiff competition from only Bata on the local scene. As such, its entry saw the footwear manufacture market become a duopoly, since Bata had operated almost as a monopoly. Despite this, there are international shoe brands seeking to take advantage of the increased Kenyan household expenditure. These include Clarks, Skechers and Mocca. Cheaper and oftentimes lower quality leather merchandise from China has also flooded the local market in recent years, creating an entry and penetration barrier for NBV. There are also minimal regulations that affect the sector, which allows more flexibility and freedom of operation.

The Kenyan government is not involved in exercising direct control over the leather, skins and hides sector in the country. The market is therefore free, and as such, the entry barrier posed by government is absent. NBV can therefore compete actively and fairly with other leather footwear and accessory vendors. the free market aspect also makes entry and exit into the market relatively easy.

Product Substitute Threat

The shoe industry in Kenya, though with minimal competition in terms of local manufacturing, presents the threat of substitutes in the form of second-hand imports. NBV is faced by the challenge of promoting its brand superiority to counter the Kenyan population's increasing preference for cheaper substitute imports. Initially the second hand imports threatened only local clothing, but in recent years the substitute threat has spread to encompass footwear as well.

In addition to imported footwear, the Kenyan market is full of entrepreneurs who make unbranded shoes. These are especially popular with the female clientele, with sandals adorned with traditional African decorations being preferred for their comfort and perceived friendlier price. Traditional shoes for men made from worn out vehicle tires, known locally as *akalas* also present a viable substitute, especially for the middle-to-lower income consumer bracket. Not only are the shoes popular for their stylish look, they are also seen as distinctly African by wearers.

Products other than footwear which NBV offers have also seen new and existing market entrants present viable substitutes to consumers. Companies such as African Lily offer a range of leather accessories ranging from wallets and handbags to folders, key rings, passport holders and even sandals. This presents NBV with a challenge, whereby it has to adopt strategies to market its products in a more appealing manner, or differentiate its products to stand out.

Business Cycles

Shoe and accessories in Kenya enjoy a largely stable market, with business cycles that are not as severe as to affect operations. Although the sector suffers from lack of exposure and aggressive marketing and promotion, there have been no severe cases of booms and bust in Kenya. As such, the company will only be faced with the challenge of ensuring it markets its brand appropriately and endears it to the market to avoid sinking. The company has also not reported cases of financial difficulties that have led it to a bust situation, which is evidenced by its rapid expansion since its 2012 incorporation. The most significant reported downward shift was in 2011 when there was a 12.2% reduction in leather shoe production. In Kenya though, the most significant booms are mostly experienced at the start of the year, when expenditure on new footwear and accessories for use in the course of the year spikes.

Management Analysis

The management of NBV is risk tolerant, a factor that is evidenced by the company's acquisition and expansion streak. Financially, the company's management has been on a positive curve. The KES74 million recorded in the year ending March 2015 paints a picture of a financially solid establishment despite its expansion and acquisitions. In terms of operations, the management has also performed well, keeping the company afloat in Kenya's competitive and dynamic market with a mix of both expansion and product diversification.

The actual figures are unavailable as at March 2016 due to the private nature of NBV. It has yet to be listed as a publicly traded company.

Company Analysis

NBV's source of revenue is from sales of its shoes and leather accessories. It has not published any other additional sources of income. The stability of the shoe market and relative calm in the accessories market makes for a stable revenue stream for the foreseeable future. The risk exposure is moderate, due to the management's high risk tolerance and aggressive expansion strategy. Sustenance of operations is necessary, as well as innovation to retain consumer interest in local leather products. The moderate risk level is further cemented by NBV's product diversification strategy, providing it with a cushion in the event that a single product loses favor with the Kenyan market. In addition to that, its stores are located in high-end locations, increasing the company's brand visibility among the affluent and increasing sales possibilities.

Financial Risk

Profitability can only be gauged based on the 2015 and expected 2016 performance. Turnover has been in positive ground and is expected to improve further with planned expansion. The decision to take up loans may, however, have an impact on the actual turnover realized going forward. The current private nature of the company inhibits the availability of financial statements from which data and information on financial ratios, accurate profitability and cash generation can be derived.

Supplier Superiority

In Kenya, the market gives suppliers superiority, since there are few suppliers and many buyers in the footwear market. As such, NBV is placed in a position of advantage in terms of price setting, and this will be beneficial in its plans to retain its current streak of expansion-supporting turnover. However, the supplier power enjoyed by the company in terms of price setting will be restricted by the fact that there are smaller suppliers in the market who can undercut prices. These include both importers of second hand footwear and makers of cheaper traditional or indigenous footwear. Therefore, any price alterations by NBV will have to be accompanied by quality upgrades so as to retain the market share currently enjoyed as well as attract new consumers.

Rivalry

Due to the presence of few established large scale manufacturers, there is a high level of rivalry especially for entrants challenging Bata’s dominance in the Kenyan market. The degree of rivalry is further stirred up by the slow growth rate of the footwear market in the local scene.

There is a preference to go for imported brands among most locals, and this has stifled the growth of local footwear manufacture significantly. Existing forms therefore compete actively for the market, raising the rivalry in the market. NBV suffers from a very restricted distribution chain, with its retail outlets operating solely in Nairobi. In comparison to its competitors, the likes of Bata Shoe Limited which has national reach, NBV's spread is highly wanting if it is to claim a significant enough market share in the years to come. This provides the drive for its 5 stores annually strategic plan. The company also needs to widen its network of partners who can provide hosting facilities. Currently, only The Village Market hosts NBV in its complex, with the remaining stores being exclusively owned by the company. Competitor brands have established a presence in malls and hypermarkets, allowing them to reach a wider clientele than they would by relying solely on their own outlets. The slimness of distribution channels available to most new market entrants has increased rivalry.

Competitive Environment

Nairobi Business Ventures' main competitors include Bata Shoe Limited in the manufacture of shoes. As has been mentioned, NBV has announced plans to put up a manufacturing plant in Machakos as part of its expansion plan, placing it in competition with Bata. In terms of retail, the company has several competitors. Bata has its own chain of retail stores for its shoes spread countrywide in all major towns and cities. It is also hosted in most malls in the country. African Lily also presents competition in terms of retail, since its manufacturing operations are not on a sufficiently large enough scale. House of Leather is another notable competitor in terms of retail, with its strength lying in its pricing strategy. The entity features a range of leather shoes with prices which are significantly low, endearing it to the masses. Owing to this, NBV needs to evaluate its own pricing policy so as to both be attractive to consumers and protect profitability. Further competition is posed by brands such as Gonzala Leathers, as well as small scale artisans who retail in open air markets such as Nairobi's Maasai Market.

Regulation

The manufacture of footwear in Kenya falls under the broader classification in which all other manufacturing operations fall. There is no specific regulator which exclusively handles shoe or leather product manufacture in Kenya. however, the Kenya Association of Manufacturers oversees manufacturing in general, and is mandated to ensure there is a link between manufacturers and government. Additionally, it ensures that participants in leather, skin and hide processing adhere to set codes of conduct and regulation. The trade in skins, hides and leather in their unprocessed form in Kenya is regulated by the Ministry of Agriculture, Livestock and Fisheries. NBV's purchase of the aforementioned raw materials is within the confines of the law, to avoid dealing with unscrupulous traders.

Conclusion

Nairobi Business Ventures presents an example of a market entrant with a view to dominating its chosen markets. Its acquisition and expansion strategy points at a financially sound and at the moment, low-leveraged entity with an eye for a larger market share. Further analysis of financial statements, once made available, will allow a clearer picture of the company's operations and financial standing to be painted. This will give potential investors a proper feel of the company's performance and the viability of investing in NBV once it is listed on the bourse.