Introduction

The retail sector is undoubtedly one of the most crucial in any economy. Through it, commodities reach the final consumer, and retail businesses act as link between producers or wholesalers and the consumer. Retail takes several forms ranging from stand-alone stores to large scale chains. This report will cover retail in Kenya and present related statistics which will help to paint a picture of the country's performance from a broad perspective. As a middle income economy, Kenya's continued growth depends on several sectors, key among them being retail, and this provides the rationale for examining the state of local retail. The specific focus of the report will be on supermarkets and hypermarkets and their rise to prominence as one of the most important links to the final consumer across the country and across microeconomic income levels. The entity under analysis will be Nakumatt Holdings Limited. The report will cover the supermarket from several angles and include aspects such as its establishment and history, its geographical spread and its product portfolio. Additionally, the report will analyze the supermarket's performance over the years as well as the various levels of risk to which it is exposed in its operations.

General Overview

The Kenyan retail scene has a number of established players as well as smaller regional and town-based retailers. The main retail supermarket brands in Kenya are Nakumatt Holdings Limited, Uchumi Limited, Tuskys Limited, Naivas Limited and Ukwala Limited. In the recent past there has been interest in the Kenyan market from international brands, key among them being Game, which has already set up a number of stores in selected establishments in the country.

Growth of Kenyan retail has been on a sharp upward trend with a number of projects in the pipeline. The total retail space stands at more than 170,000 square feet, with over 120,000 additional square feet expected in the 2016-2017 period. Formal retail in Kenya is about half the size of South Africa's and twice the size of Nigeria's, with a penetration rate of about 30%. Statistically, this places Kenya second in sub-Saharan Africa, and one of the fastest growing retail sectors globally. The establishment of shopping malls has contributed greatly to the growth of retail in Kenya. these formal establishments accommodate business entities the likes of Nakumatt and others. Nairobi has had a number of large scale projects, such as the Garden City Mall, the Thika Road Mall, Greenspan Mall, Westgate Shopping Mall and the upcoming $588.9 million Two Rivers Mall. The same wave of retail real estate development has spread to other major towns and cities in Kenya, Kisumu being a prime example. In 2015 the lakeside city saw the establishment of 3 new malls, including the $24.5 million 27,000 square foot Lake Basin Mall. Growth has also been contributed to by the expansion of previously existing establishments to keep up with increased demand. The addition of 10 storeys to Kisumu's Mega Plaza Mall which was initially built in 1996 is one such example.

Movement of businesses and residential premises to fast-rising satellite towns has also allowed increased expansion without the space restrictions that come with central business district location. Land in these areas has appreciated, with Athi River, Kiambu and Kiserian recording the highest appreciation rates in 2015, at 18.8%,13.7% and 12.3% respectively. With increased interest by real estate developers, retailers have an opportunity to take advantage of new locations and client bases.

Corporate Analysis

About Nakumatt

Nakumatt Holdings, popularly known as Nakumatt, is a supermarket chain headquartered in Nairobi, Kenya. was founded in 1987. Initially it operated under the brand name Nakuru Mattresses from which its current name is derived, and was wholly owned by the Shah family. As at May 2016, it operates as a private supermarket chain, owned in part by the Shah family and Hotnet Limited. Mr. Atul Shah still retains influence over the brand, serving as its managing director and chief executive officer. The Nakumatt brand operates both supermarkets as well as much larger similar establishments known as hypermarkets, stocking a wider variety of goods. Its clientele base stretches to over 250,000 customers daily at its outlets and it stocks over 200,000 products. As at 2016, the supermarket chain has about 5,500 employees across all its branches.

Brand Distribution

Nakumatt has spread its influence from its humble beginnings in Nakuru to become one of the mainstream players in local retail. The brand has both local and international reach within the East Africa region. There are 34 stores in Kenya, spread out across major cities and towns such as Nairobi, Kisumu, Mombasa, Kisii and Nakuru. It is worth noting that Nakumatt is the anchor tenant at the Westgate Shopping Mall, a high end establishment within Nairobi's Westlands area.

Nakumatt is also present in Uganda, Tanzania, Rwanda, South Sudan and Burundi. The extensive East African coverage has served to endear the brand not just to the Kenyan market but has placed Nakumatt strategically as a major African brand.

Product Portfolio

The supermarkets and hypermarkets offer a broad variety of goods and services. Primarily Nakumatt stocks household goods across all its outlets, goods such as cereals, detergents, foodstuffs and so on. There are products by international brands as well, such as Skechers and Clarks. In selected outlets, stocked goods differ, especially in outlets found in high-end residential areas. These are more expansive, and include cinemas, furniture stores and eateries.

Partnerships

The retailer has a number of strategic partnerships. As has been mentioned, it has partnerships with Kids & Company (USA), Clarks (UK) and Skechers (USA) in its stock expansion beyond ordinary supermarket offerings. Nakumatt also engages local farmers who supply select agricultural produce, mainly fruit, vegetables and dairy products. Nakumatt has partnered with Visa and MasterCard, both leading global financial services companies in launching its Nakumatt Global Card. The card awards frequent shoppers with points, essentially serving as a loyalty program avenue, points which can be redeemed at the shopper's pleasure as Visa and MasterCard-branded outlets globally. The card also allows for funds to be loaded in and payments to be made, in a similar manner as an ordinary debit card.

Industry Risks

This section will cover the risks which Nakumatt is exposed to in its industry of operation, the consumer goods to be specific. These will include technology, product obsolescence, business cycles and tastes and preferences.

Product Obsolescence

Since Nakumatt is involved in the retail as opposed to manufacturing in its own capacity, the chain is not exposed to product obsolescence. Rather, it is the brand owners themselves who are exposed to such obsolescence.

Tastes and Preferences

Shoppers' tastes and preferences are swayed by presentation of a brand, its product portfolio and its pricing levels. While Nakumatt strives to cater for consumers across all income levels, a large percentage of its outlets cater to middle to high income earners. The continued success of the retail chain illustrates expertise in its approach to its chosen market segment. In terms of presentation, Nakumatt prides itself in maintaining international standards, appealing to both local and foreign shoppers. Its establishments are strategically located according to the location of the target market, managing to market the Nakumatt brand effectively enough to retain consumer interest. With over 200,000 products on offer, Nakumatt is ahead of its competition in terms of product stocking and variety. There have been cases of foreign shoppers managing to find products which they find in overseas in the Nakumatt supermarkets and hypermarkets, in line with its *You Need It, We've Got It* tagline.

Business Cycles

The retail sector, especially where supermarkets are concerned, is an all-season sector. as such, it is not as significantly affected by booms and busts which make up business cycles as much as other commercial entities are. However, there is a significant surge in demand during specific periods annually. These include during school term openings, at the end of the year and at the beginning of the year. It is worth noting that after these peak periods, the reduction in demand is not substantial enough to affect Nakumatt's profit-making ability.

Technology

Kenyan supermarkets relied on traditional keying-in of goods' bar code numbers at the cashiers' bay. This led to slow service and there were frequent cases of human error. With time, bar code readers have been introduced to help solve this problem. Nakumatt has taken advantage of technology in its stocking techniques as well as security system, both in terms of surveillance and shoplifting control. Hypermarkets with more than a single floor have escalators for ease of access. Through such installments, the retailer has acquired a superior status far ahead of its competition. It thus falls upon management to invest more in technology to improve what is already in existence and introduce new systems to stay ahead of the competition.

Company Analysis

The company analysis section will examine Nakumatt's sources of revenue as well as the stability of such identified sources. For a business entity looking to remain a going concern, it is important to invest in product offerings which yield revenue that can sustain long-term operation.

The regional retailer relies on its regular retail business for its revenue. However, in 2013 the entity expanded its operations to include packaging goods into smaller quantities under its *Nakumatt Blue Label* and *Nakumatt Select* private labels. The all-seasonal nature of retail means that the stability of Nakumatt's chief revenue source is guaranteed, depending on its marketing aggressiveness and campaigns to remain relevant and visible in its markets of operation. The stability is reinforced by the limited scope of activity, specializing in its retail tradition and thus making informed investment and expansion decisions.

Management Analysis

The management of Nakumatt will be assessed in terms of their operational and financial streak. In addition to that, management will also be assessed with regard to risk tolerance or risk averseness. Financial and operational performance is a key indicator of the success or failure of a business entity. In order to ensure a favorable streak, management should ensure that the institution in question is exposed to a suitable degree of risk to avoid falling into debt or becoming insolvent.

Nakumatt's management is centralized in nature. While there are branch managers to oversee individual outlets, central management ensures that decision-making is quick and effective. The centralized management system is further contributed to by the fact that Nakumatt is a private entity and as such there is no shareholder-induced operational pressure. The management can be assessed as being highly risk tolerant, informed by the expansion rate of the supermarket chain. Not only has Nakumatt rented space in shopping complexes, it has also bought out competitors in its expansion strategy. The 2014 KES3 billion buyout of retail outfit Shoprite is one such example, taking advantage of existing infrastructure and consumer location preferences. The expansion across the entire East African region, exposing itself to mixed sovereign and country risks with regard to varying compliance requirements also points out management's risk tolerance.

The chain of stores has had favorable financial performance, an indication of sound operating policies. In 2009, the supermarket was valued at KES13.6 billion, a figure which increased to KES34 billion in 2013. 2013 also saw the retailer attain a market capitalization of KES5.6 billion with an annual turnover of $549.3 million compared to rival Uchumi's $142.6 million. 2014 saw even better financial performance, with sales of $19.8 million from in-house packaged goods with the *Nakumatt Blue Label* Nakumatt private label launched in 2013. *Nakumatt Select* is also a brand under Nakumatt, and management justifies the in-house packaging venture by the fact that goods thus packaged are up to 20% cheaper.

Business Risks

In the course of operation, a business is faced by business risks, also known as company risks. The business risks will be analyzed under operational diversity, financial diversity, asset flexibility and regulations. All these factors interact to present businesses with both opportunities and challenges.

Operational Diversity

Nakumatt has invested heavily in its retail activities, expanding with great success across varying markets. It has focused on the sale of commodities stocked in its outlets, but has also invested in in-house packaging under private labelling. This has in part diversified operations, but has also complemented the core retail business since the packaged goods are stocked in Nakumatt stores. The supermarket chain has also set up a football team, but it is as yet unclear whether the football club contributes financially to Nakumatt's cash flow.

Financial Diversity

A business which has a variety of revenue streams is exposed to significantly less risk compared to one which has very few or a single stream. Nakumatt is reliant on its supermarket and hypermarket sales for its revenue, thus placing it in a position of risk. To counter this limited financial diversity, the chain has expanded over a large geographical area to ensure that dismal sales in one branch do not dent its financial position to a great extent.

Regulation

Retail in the country has no single authority to specifically formulate and enforce regulatory duties. Nakumatt thus operates under the oversight of the Kenya Private Sector Alliance (KEPSA) on grounds of its status as a private entity. The Government is also involved in regulation of retail as is provided for in the Competition Act No.12 of 2010 and the Consumer Protection Act No.46 of 2012. The lack of many regulatory bodies makes it relatively easy for Nakumatt to operate without strict supervision and compliance requirements. On the other hand, it makes entry into retail, especially supermarket operation, equally easy since the barrier to entry created by regulation is virtually non-existent. This has allowed the establishment of many but comparatively smaller retail outlets across the country.

Financial Risk Analysis

Due to Nakumatt operating as a private entity, figures of its income statement and balance sheet are unavailable to the public for review, calculation and comparison of various ratios. Information on profitability, sales and revenue are available based on figures released to local media houses.

Conclusion

Nakumatt's investment in a bid to conform to international standards has yielded one of Kenya's most premium establishments. The management's approach to risk is a mix of tolerance with aggressive expansion, as well as averseness with the decision to invest solely in retail and complementing activities. Location across all Eastern African countries has raised the retailer's profile, allowing it to further mitigate risks associated with lack of diversification. The supermarket chain has made use of technological and architectural advancements to provide premium establishments with the latest in retail technology. The partnerships with Visa and MasterCard not only reinforce the management's technologically sound approach to business, it also illustrates the brand's influence and superiority. Additionally, Nakumatt's financial and operational streak and the public's general perception of the brand is proof of the winning formula which Nakumatt has forged since 1987.