RAMON CASADESUS-MASANELL
PIPPA TUBMAN ARMERDING

Keroche (A): Fighting for Share in the Kenyan Alcoholic Drinks Market

On February 28, 2003, Tabitha Karanja, founder and CEO of Keroche Industries Limited (Keroche), stared in disbelief through the padlocked gates of her company's manufacturing facility in Naivasha, Kenya. The alcoholic drinks company that Tabitha and her husband Joseph Karanja had founded in 1997 and built up from scratch (using all their savings, together with money from family, to do so) had just been raided and shut down by agents of the Kenya Bureau of Standards (KEBS). The government had charged Keroche and its operations manager with manufacturing and selling substandard alcoholic drinks and had revoked all the company's liquor licenses. The shutdown, together with recent news that the long-dominant East African Breweries Limited (EABL) was planning a move into the same low-income market as Keroche, weighed heavily on Tabitha Karanja. As she walked to her waiting car, her mind raced with thoughts of what her next move should be.

Born in rural poverty in 1964 as the first of 10 children, Tabitha Karanja was used to facing challenging times. She noted, "Being the first born, responsible for nine siblings and seeing the hardship around us drove me to work tirelessly for a better life."[1] With this strong and ingrained work ethic, Tabitha Karanja had worked with her husband Joseph Karanja to grow Keroche from a small manual operation producing and selling fortified wines[a] and spirits from their home into the semi-automated manufacturing and distribution company it had become by 2003.

Tabitha and Joseph Karanja had built their business by targeting the large and previously untapped group of Kenyan consumers who wanted safe and reasonably priced alcoholic drinks but could not afford the options that were formally available. By 1997, when the Karanjas founded Keroche, the multinational EABL had long dominated the alcoholic drinks market in Kenya, selling high-priced alcoholic drinks to the middle and upper classes. Many Kenyan consumers of alcoholic drinks, unable to pay such prices, turned to unregulated—and often unsafe—informally brewed alcohol. By entering the market, Keroche provided these previously ignored low-income consumers with safe and affordable commercially produced drinks. Although EABL was the clear market leader with more than

[a] Keroche's fortified wines were made from fermented pineapple concentrate bought from a local juice manufacturer and supplemented with extra-neutral alcohol, which had an ethanol grade of 96% purity or higher and was mainly used as the base ingredient in the production of gin and other alcoholic spirits.

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95% of the formal commercial alcohol market, Keroche was able to carve out a successful niche. Low-income consumers, particularly those in rural areas, responded enthusiastically to Keroche.

For weeks prior to the government raid of February 2003, Keroche had faced an onslaught of negative press and ongoing attacks from members of Parliament accusing the company of producing illicit alcoholic drinks that blinded and killed Kenyans. Tabitha Karanja was convinced that Keroche's success was the reason for such unwelcome attention. Despite the negative press, the abrupt closure of her business came as a shock. She was certain that EABL, which had already shown itself to be ruthless in the face of competition, was behind Keroche's current difficulties.

Tabitha Karanja considered how best to respond to the attack on her business and the closing of the factory. One option was to shut down the business completely and move on to another venture. However, this option was fraught with difficulties. For instance, how would she repay outstanding loans and recoup the significant investments made in Keroche? To date she had invested US$1.3 million in the business and was still paying off US$131,000 in loans secured with both company and personal assets, including the family home. Failure to pay could mean not only Keroche's collapse, but also the loss of her home. Moreover, what message would she send to other Kenyan entrepreneurs by closing this successful, 100% Kenyan-owned business in the face of multinational competition? Finally, how would closing amid such serious and unfounded allegations impact her credibility and reputation?

A second option was to fight these allegations and keep the business going. Battling adversaries as formidable as the government, EABL, and the media, however, would come with high personal and professional costs. Did Keroche have the necessary resources to fight this battle? Moreover, as a 39-year-old mother of four young children under the age of 11, Tabitha Karanja wondered whether she had sufficient personal resources to take on such a difficult task. Would such a fight be worth it, and if so, what was the best approach to take? Should she fight in the courts while simultaneously launching a public relations campaign, lobbying the government, and engaging in community outreach, so that more people would know the truth about Keroche? If so, how would she fund what could be a long and costly battle, especially if the business remained shut down and unable to generate revenue? What was Keroche's competitive advantage against EABL, and how could Keroche best leverage this advantage in responding to what Tabitha Karanja saw as EABL-orchestrated attacks?

Kenya at a Glance

Kenya was a country of 34 million people on the east coast of Africa. It was bordered by Somalia to the east, the Indian Ocean to the southeast, Tanzania to the southwest, Uganda to the west, and Sudan and Ethiopia to the north (see **Exhibit 1** for a map of Kenya). The country was divided into seven provinces (Central, Coast, Eastern, North Eastern, Nyanza, Rift Valley, and Western) and one area (Nairobi Area).

A former British colony, Kenya was a constitutional democracy with an executive, legislative, and judicial branch.[2] The country gained its independence in 1963 through a violent liberation struggle led by Jomo Kenyatta, who served as president from independence until his death in 1978. Kenyatta was succeeded by Vice President Daniel Arap Moi, who ruled Kenya for almost 25 years. Moi's rule was often characterized by political oppression, human rights abuses, corruption, and economic instability. In December 2002, following elections widely viewed as free and fair, Moi stepped down as president and was replaced by Mwai Kibaki. Kibaki inherited a nation marred by weak and corrupt institutions, poor infrastructure, ethnic divisions, a large budget deficit, and a weak economy.[3]

In 2003, though Kibaki's presidential campaign had promised change, the Kenyan judicial system remained weakened by years of corruption and mismanagement under the Moi regime. As described by the country's Chief Justice in a report on judicial transformation, since the early 1990s the system had been "so frail in its structures; so thin on resources; so low on its confidence; so deficient in integrity; so weak in its public support that to have expected it to deliver justice was to be wildly optimistic."[4] Power was highly concentrated among senior judges whose authority largely went unchecked. Under Moi's government, the rule of law was routinely subverted to the interests of the executive branch, senior government officials, and members of the ruling Kenya African National Union (KANU) party and their business associates. One commentator noted: "An aggrieved party cannot expect the rule of law to be upheld by a Kenyan court if the offender is a public official or is connected to the KANU elite. An umbrella of protection covers the illegal actions of KANU and its surrogates."[5] In addition to such political manipulation, the judiciary was further weakened by large case backlogs, bureaucracy, poor case management, inadequate infrastructure, and understaffing.[6]

Although Kenya remained the regional hub for trade and finance in East Africa, 2002 and 2003 were difficult years for its economy. In 2003, Kenya's annual GDP per capita was US$437 (see **Exhibit 2** for select economic and social indicators of Kenya, 1997–2003). This low figure was largely due to erratic rains, low investor confidence, a lack of international donor support, and election-related uncertainty.[7] In 2002, foreign direct investment stood at a paltry 0.2% of GDP, or US$26.2 million.[8] Those multinationals that did operate in the country were a large and steady source of tax revenue for the government. In addition, as in many African countries, multinational corporations were viewed by the Kenyan government as playing a significant role in financing development.[9] As a result, they received a wide range of government support for their businesses, from tax breaks to profit and repatriation guarantees.[10][b]

Kenya's main industries were the production and sale of small-scale consumer goods; the processing of agricultural products; oil refining; cement manufacturing; and tourism. Agricultural exports (including tea, coffee, and horticultural products) and tourism were the largest sources of foreign exchange.[11] According to Kenya's Central Bureau of Statistics, the largest number of people were employed in the informal sector, followed by community, social, and personal services; agriculture and farming; manufacturing; and trade, restaurants, and hotels.[12] The most recently recorded unemployment rate was an estimated 40.1% in 2001.[13]

Kenya's population was mostly rural, with 79% of Kenyans living outside of the main urban areas.[14] According to the 1999 Kenyan Census, the country's largest cities were the capital Nairobi (pop. 2.1 million) and the coastal city of Mombasa (pop. 462,000).[15] In 2003, the percentage of people across the country using basic drinking water services[c] was 48.9%, but this figure was even lower in rural areas, at 38.7%.[16] (See **Exhibit 2** for additional information on Kenya's key economic and social indicators.)

[b] These types of guarantees were intended to attract foreign investment by reducing the risk of investing in a country. A profit guarantee means the government ensures that the investor will meet a certain level of profitability or returns, e.g., by paying the difference if revenues fall short. A repatriation guarantee ensures that the foreign investor can freely transfer funds out of the host country and back to their home country.

[c] This refers to the percentage of people drinking water from an improved source, including piped water, boreholes, tube wells, protected dug wells, protected springs, and packaged or delivered water accessible on premises, available when needed, and free from fecal and priority chemical contamination. See: World Bank World Development Indicators Data Bank, citing the WHO/UNICEF Joint Monitoring Program for Water Supply, Sanitation and Hygiene (washdata.org).

The Alcoholic Drinks Industry in Kenya

In 2003, the total volume of alcoholic drinks sold in the formal market in Kenya was approximately 378 million liters, making it the fourth-largest market in Africa after South Africa, Nigeria, and Cameroon.[17] The alcoholic drinks industry in Kenya was made up of a formal commercial market and a much larger informal market of unregulated and often unsafe traditional brews. In 2003, beer made up the largest part of the formal alcoholic drinks market, with 347 million liters sold. (See **Exhibit 3** for additional data on Kenya's formal drinks market in 2003.) To bring in additional revenue while also aiming to curb alcohol abuse, the government continuously increased its taxation of alcoholic drinks to as much as 40% of the recommended sales price.[18] As a result, prices for commercial alcohol were high. For example, the average retail price of US$0.99 for EABL's 500ml Tusker beer was well beyond the means of most Kenyans, given the country's annual per capita GDP of US$437, or US$1.20 per day. Predictably, Kenyan consumers with little disposable income looked for alternatives.[19] In the absence of much choice in the formal market, many turned to traditional, informal, and often illicit brews.

EABL

EABL was founded in 1922 as Kenya Breweries Limited (KBL) by brothers George and Charles Hurst, who had settled in Kenya from England. From its founding, EABL was the undisputed leader in the formal commercial alcoholic drinks market in Kenya, with a market share of more than 95%. In 1923, the company launched its first beer brand, Tusker (named in honor of George Hurst, who was killed by an elephant while on a hunting trip). In 1935, KBL bought Tanganyika Breweries, and the two merged to become EABL in 1936. EABL went on to acquire additional breweries in Tanzania and Uganda, and in 1987 it acquired Central Glass Industries, a producer of glass containers and bottles for its products and others. In 2000, Diageo Plc (Diageo), a British multinational alcoholic drinks company, acquired majority control of EABL. Through United Distillers and Vintners (Kenya) Limited, a joint venture with Diageo, EABL also manufactured, marketed, and sold alcoholic spirits and imported and distributed premium Diageo spirits brands such as Johnnie Walker.

By 2003, EABL was the dominant player in the formal East African alcoholic drinks market, with operations in Kenya and Uganda. It was the largest company (by market capitalization) on both the Nairobi and Uganda stock exchanges. EABL's Kenyan operations delivered the majority of the company's revenues and profits, bringing in US$339 million in revenue and US$60 million in operating profits in 2003.[20] (See **Exhibit 4** for EABL's financial statements in 2003.) During its many years as a virtual monopoly in Kenya, EABL had built a strong and well-established distribution network, which was primarily focused on major cities such as Nairobi, Mombasa, Kisumu, and Nakuru. Given EABL's long-standing dominance in the market, EABL distributors had been able to build up lucrative businesses while concentrating their efforts on the more easily accessible urban areas. EABL distributors became entrenched in those areas, where they built a loyal and fiercely guarded distribution network for the company.[21]

In 2003, EABL was voted "The Most Respected Company in East Africa" for the fourth consecutive year by the East African business community in a survey conducted by PricewaterhouseCoopers and the Nation Media Group.[22] Winners were chosen based on the soundness of their business strategies, their level of innovation, the strength of their financial performance, and their customer care and management abilities.[23] EABL was also engaged in corporate social responsibility activities, spending up to 1% of its profits on local community projects. These projects, which focused on health, water, and education, included providing beds and equipment to hospitals, constructing boreholes in rural communities, and funding university scholarships for needy students.[24]

The 'Beer Wars' (1998–2002)

EABL maintained a virtual monopoly in the commercial alcoholic drinks market in Kenya until 1998, when South African Breweries (SAB) entered the country with its Castle beer, launching a full scale "beer war."[25] SAB was a global powerhouse, with turnover of US$5.9 billion and an operating profit of US$766 million in 1998.[26] It was Africa's largest brewer and a formidable competitor to EABL. The company's entry into Kenya was part of an extensive international expansion across Africa, Asia, Europe, and eventually North America, with the acquisition of Miller Brewing in 2002.

Since its founding in 1895, SAB had largely been a monopoly in the South African alcoholic drinks market. By 1998, the company had grown into a conglomerate with additional interests in carbonated soft drinks, hotels, gaming, retail, and manufacturing in South Africa and elsewhere on the continent.[27] In 1998, SAB was led by CEO Graham Mackay, renowned as a visionary leader,[28] and by Acting Chairman Cyril Ramaphosa, a leading businessman, former anti-apartheid activist, and trade unionist. Under Mackay's leadership, SAB expanded aggressively into international markets post-apartheid.[29] By 1998, it had more than 55 breweries and 15,000 employees around the world. It was listed on the Johannesburg Stock Exchange and was planning a London Stock Exchange listing for 1999.

By 1998, when SAB entered the Kenyan market, EABL had operations in Kenya, Uganda and Tanzania. Guinness Plc (a subsidiary of Diageo) owned a significant interest in the company and by 2000 had acquired majority control. In 1998, EABL was led by Group Managing Director Michael Karanja (no relation to Tabitha and Joseph Karanja) and Chairman Jeremiah Kiereini, a prominent member of the Kenyan elite who had previously served as longstanding head of the country's public service. By 2000, EABL's turnover had grown to US$174 million. That same year, Patrick Healy, a British national and employee of Guinness Plc, was temporarily assigned to EABL as Managing Director.[30] (See **Exhibit 5** for a comparison of the SAB and EABL businesses.)

EABL and SAB's competition for the Kenyan beer market began with both companies placing expensive billboards in main cities and running daily ads. Things quickly turned ugly, with people destroying billboards of both companies. During these events, the *New York Times* reported: "Near Nairobi's main airport, one billboard for Castle, the South African brand, has been shredded and rebuilt three times."[31]

In response to SAB's entry into Kenya and plans to rapidly increase market share, EABL cut costs and introduced new product and pack combinations. For example, in response to SAB's introduction of Castle Milk Stout, EABL quickly rolled out Pilsner Ice, which targeted the same young urban consumers.[32] EABL also began manufacturing Tusker in cans to match Castle's packaging.[33] EABL used its well-established distributor network to ensure that its products were more readily available than SAB products. As the new entrant with a less entrenched distribution base, SAB struggled to match EABL's distribution. Furthermore, the *New York Times* noted that EABL's "most visible strategy [was] a blatant play to patriotism and fear of South Africa's economic might, in a slogan that equate[d] Tusker with Kenya itself: 'My country, my beer'"[34]—even though at the time EABL was majority owned by the British Diageo.

When EABL tried to sell Tusker in South Africa, it faced trademark challenges. The Kenyan government seemed to retaliate by threatening to apply higher taxes on all imports from South Africa.[35] Many local Kenyan businesses were hostile to SAB, seeing its decision to set up operations in Kenya as yet another example of South African companies taking the Kenyan market from local businesses.[36] According to the chairman of the Kenya Association of Manufacturers, "Kenyans showed strong patriotism to their brands, especially EABL's flagship brand Tusker, […] and Castle brands had poor sales as they were unable to penetrate [the market]."[37]

SAB, with its international experience and financial muscle, focused on marketing, introducing new products, and undercutting EABL's pricing. EABL responded by lowering its prices, and a full-scale price war began. At the height of their competition, prices fell so significantly that both companies were losing money, and Kenyan beer drinkers were the main beneficiaries.[38] Finally, at the end of 2002—after four years of fierce competition and in the face of increasing losses—EABL and SAB agreed to end their competition. The companies entered agreements enabling EABL to continue its dominance in Kenya while SAB led the Tanzanian market uncontested. SAB agreed to close its brewery in Kenya in exchange for a 20% interest in EABL's KBL subsidiary, while EABL closed its brewery in Moshi, Tanzania in exchange for 20% ownership of SAB's Tanzania Breweries Limited.

Informal Alcoholic Drinks

Although EABL was the dominant commercial producer of alcoholic drinks in Kenya, its products accounted for less than half of the country's overall alcohol consumption.[39] Traditional brews, such as chang'aa, dominated the rest of the market. Chang'aa, usually made from maize or millet, was nicknamed "kill me quick," because adulterated versions of the drink (with poisonous substances added to increase potency and hasten the brewing process) had resulted in the highly publicized sudden death or maiming of some consumers.[40] Chang'aa was outlawed in 1980 but remained popular due to its potency and low price. In 2000, a 250 ml mug of chang'aa cost approximately US$0.13, significantly less than the price of commercially brewed beer.[41]

Chang'aa, which could have an alcohol content of up to 50%, was often produced in informal settings, including rural and low-income urban areas, where access to clean water and sanitation services was sometimes limited. (See **Exhibit 6** for images of illicit alcohol production and consumption.) It was sometimes distilled in rivers that could lead to contamination from sewage including fecal matter or decomposing rats.[42] In addition, due to high demand, unscrupulous producers often spiked their alcohol with additives such as embalming fluid, fertilizers, or even stolen jet fuel to speed up the production process or increase the potency of the drink.[43] Often, adulterated chang'aa and other illicit brews became tainted with methanol, 10 ml of which could destroy the optic nerve, while 30 ml could be lethal.[44] As a result, chang'aa was known to cause blindness, put people into comas, and even kill them outright.[45] In 2000, 130 people died, more than 20 were blinded, and almost 400 were hospitalized in Kenya after drinking illicitly brewed alcohol.[46]

Keroche

In 1997, Tabitha and Joseph Karanja ran a hardware store in the rural town of Naivasha, Kenya. Naivasha was a small town in the Rift Valley Region of Kenya, about 100 kilometers northwest of Nairobi. The town was known mostly for its game parks, for Lake Naivasha, and for its horticultural industry. While running their centrally located neighborhood store, the Karanjas were able to observe firsthand the effects that unsafe alcohol could have on consumers.[47] After conducting extensive research on the drinking patterns of low- to middle-income Kenyans, they also became acutely aware of the many people, particularly in rural areas, that did not have access to safe, affordable, and decent-quality alcohol. Tabitha Karanja remarked, "EABL neglected the lower-end consumers, leaving these people to drink anything that was available in the market, whether of good or bad quality."[48]

Aware of the opportunity provided by this gap and wanting to enter manufacturing, Tabitha and Joseph Karanja decided to start their own alcohol business. They founded Keroche in 1997 at their home in Naivasha.[49] The Karanjas invested all they owned into the business, including their life savings of US$5,000, their home, and 30 acres of land. They also invested US$3,500 loaned by family.[50] Their goal was to build a 100% Kenyan-owned company that would produce affordable and safe alcoholic drinks for lower income and rural consumers.[51]

Keroche began operations in 1997 with five employees. The Karanjas were involved in every aspect of the business, from production to finance, sales, and marketing.[52] Joseph Karanja was the company's first salesperson and would drive from one town to the next looking for potential customers. John Nyongesa, Keroche's Corporate Communications Director, recalled: "People in town used to wonder 'Who is this guy?' but Joseph didn't let the fact that he and his products were unknown stop him. He would go to bars and barbecue joints, and although he was not a big drinker, he would drink the product with customers, give out samples, and move on to the next town."[53] In those early days, Tabitha and Joseph Karanja also went directly to shop owners and potential distributors, asking them to sell Keroche products. Tabitha Karanja explained, "When we saw that one store owner had agreed to take on our product and that their customers were buying it, we'd move on to another shop, and another, and this was how we built up our business."[54]

Keroche's initial product was fortified wine, which it sold under various brand names, including Viena, and which had an alcohol content ranging from 8% to 15%. Keroche's fortified wines were manufactured using a secondhand, semi-manual machine that could produce only 100 cartons of wine daily.[55] Viena, introduced midway through 1997, was immediately popular.[56] In 2002, Keroche's fortified wines were sold at an average retail price of US$0.76 per 750 ml plastic bottle. (See **Exhibit 7** for a list of Keroche's products and the prices at which they were sold.)

The Karanjas sold Keroche products only in formal shops, bars, and pubs to make a clear distinction between their products and drinks like chang'aa, which were sold in informal and often unhygienic stores and drinking places. Their goal was to make affordably priced alcoholic drinks available to low-income consumers in the outlets that had previously only sold EABL beer and other expensive drinks.

By 2003, Keroche had 35 depots across Kenya's five provinces, 230 employees, and the ability to produce millions of liters of alcohol annually.[57] Ensuring product availability was a continual area of focus for the company as it grew. In Keroche's early years, its products were mostly available in Nairobi, Kenya's Central Province, and parts of the Rift Valley where Naivasha was located.[58] EABL, in contrast, had distributors throughout the country. (See **Exhibit 8** for a map of Keroche's distribution network in Kenya in 2003.)

Keroche increased the availability of its products by expanding its distribution network. The company began by selling products to retailers and other buyers out of a depot established at the Karanjas' old hardware store in Naivasha. Using a single vehicle, the company's few employees would go directly to stores to sell its drinks. As the products attracted more customers, the Karanjas were able to increase the number of company-owned and operated distribution depots. As sales grew, Keroche outsourced distribution to local businesspeople. Tabitha Karanja explained: "[The company] was able to attract new distributors by showing them exactly how much money they could make and giving them marketing support. When people saw how successful a Keroche distributor could be, they also wanted to join, and this is how we built our distribution network over time."[59]

Keroche focused heavily on direct marketing to bar and pub owners, taking the product to them and highlighting its attributes to their customers. The company also partnered with local organizers to make Keroche products available at large community and traditional events such as weddings, funerals, parties, and agricultural shows. Keroche was able to attract new customers by making affordably priced drinks, which were professionally packaged in high-grade plastic bottles, widely available to low- and middle-income consumers who previously only had access to illicit alcohol consumed in shared containers. From 2000 to 2002, Keroche's revenue grew from about US$740,000 to US$1.08 million, while its profit after taxes increased from US$40,000 to US$80,000.[60]

Keroche Under Attack

Perhaps because of its commercial success, by 2003 Keroche's business was coming under continuous attacks, which Tabitha Karanja and her team viewed as being orchestrated by EABL. After ending its protracted fight against SAB's entry into Kenya, EABL had turned its attention to Keroche. In 2003, it began what Tabitha Karanja saw as an aggressive campaign against her much smaller company. She remarked:

> EABL looked and saw me coming when no one else did. How they saw me, I don't know, but they could see how we started and our professionalism. Most people laughed us off, but EABL did everything to attack us. They went from the public to the Parliament where MPs called our product deadly, saying it should be banned. Our liquor licenses were cancelled, the Ministry of Health ordered our factory closed, and police stopped our vehicles on the road. We were constantly under threat.

As injuries and deaths caused by illicit alcohol became an issue of national concern, the government came under significant pressure to bring the sale of such products to an end. In the process, Keroche—which was virtually unknown to the mainstream media and consumers—was mistakenly associated with those unregulated and informal producers often responsible for dangerous drinks. In a March 2003 parliamentary session, Keroche was accused of making and selling deadly drinks. A member of Parliament from the Central Province called for the factory to be closed and the company's management prosecuted for deaths and injuries allegedly related to its products.[61]

Keroche viewed these direct, very public, and largely unsubstantiated attacks on its business as evidence of the Kenyan government's ongoing support for large, established multinational players like EABL that had been a steady and significant source of tax revenue for many years. EABL was Kenya's largest taxpayer, contributing 6%-7% of total taxes collected.[62] According to John Nyongesa, Keroche's Corporate Communications Director, "The government saw independent local businesses like Keroche, which were trying to service low-end consumers, as so small and unpredictable that they were just interrupting established business and posing a threat to the tax base."[63]

Nyongesa viewed government support for multinationals as an inevitable legacy of the transition from colonialism to independence. He explained:

> At independence from Britain, the existing multinational monopolies sold some of their stakes to local Kenyan politicians and civil servants. So, it was very easy for this group to act on behalf of the companies they now held shares in or managed. In the case of EABL, Jeremiah Kiereini, who had led the Kenyan Public Service (KPS) for over 30 years, became EABL's Chairman and a shareholder. So, when it was time to raise taxes or pass legislation, it was not difficult to see why government bureaucrats who also had a foot in business would protect the established businesses at the expense of newcomers like Keroche.[64]

Keroche viewed examples of other Kenyan-owned businesses struggling to compete without government support against multinational corporations as further evidence of the challenges local businesses faced in the country. A prominent example of this was the Softa Bottling Company, which launched its Softa soda in 1997 to provide more affordable soft drinks to low-income consumers.[65] As recorded in the *Star* newspaper, the company's CEO Peter Kuguru attributed losses suffered by Softa to ruthless competition from global soft drinks companies, noting, "It is hard to compete against an established brand with deep pockets." Kuguru also blamed the government for the company's difficulties, stating, "Local businesses are having a hard time, as they get little or no support at all from the government. Brands that could change the face of the nation are falling."[66]

Looking Ahead

As her car drove away from the factory, Tabitha Karanja thought of the long, difficult years the Keroche team had put into building the company into the successful business it had become, providing an alternative for low-income urban and rural customers to the expensive and not always readily available EABL offerings. She worried for her employees and customers, as well as the distributors and bar owners who would be adversely affected by the factory closing and the subsequent unavailability of product. Once again, she considered how she might respond to this abrupt factory closing.

Option One: Shut Down the Keroche Alcoholic Drinks Business

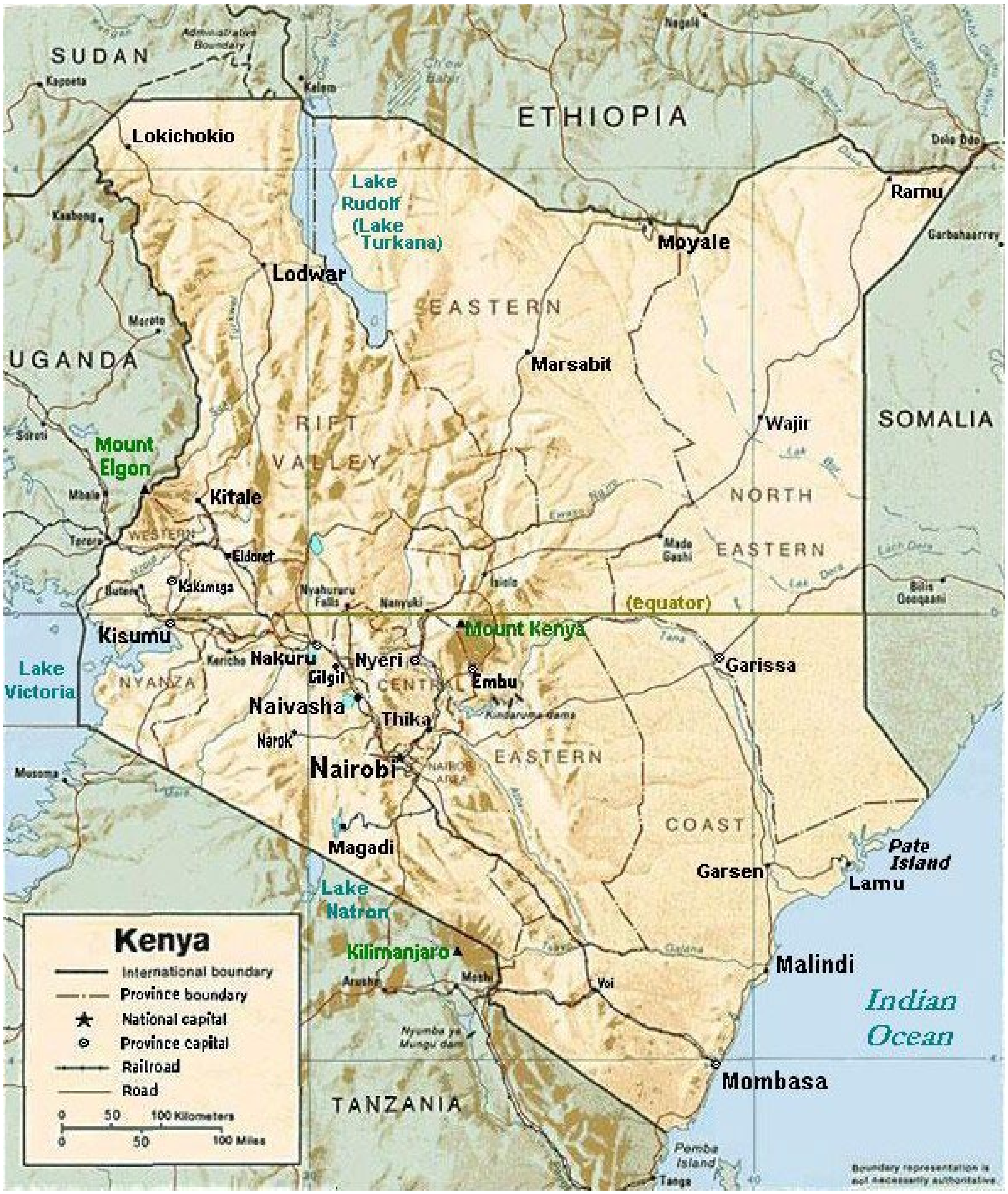
Tabitha Karanja considered whether to leave the KEBS order standing and completely shut down the business, giving up all that she, Joseph Karanja, and the rest of the team had built. Against all odds, they had built a dynamic and successful alcoholic drinks business despite daunting competition from EABL, a powerful and long-standing virtual monopoly. They had invested their personal resources, together with funds from friends and family and recent bank loans, to build a business that had achieved revenues of US$1.08 million in 2003. Keroche provided safe and affordable alcoholic drinks to rural and low-income consumers that had long been ignored.

If Tabitha Karanja chose to quit now, how would she repay the outstanding loans of US$131,000 and recoup the significant investments made so far? What message would this send to other Kenyan entrepreneurs? Finally, how would closing amidst such serious and unfounded allegations impact the Karanjas' credibility and reputation?

Option Two: Fight for the Survival of Keroche

A second option was to fight the allegations against Keroche and keep the business going. Battling adversaries as formidable as KEBS, other members of the government, EABL, and the media came with high personal and professional costs. What's more, Tabitha Karanja had recently learned that EABL planned to develop and introduce a new low-priced beer to target low-income Kenyans. She had seen how difficult and costly the "beer wars" between EABL and SAB had been. Did she have the necessary resources to engage in a similar fight, and would such a fight ultimately be worth it? If so, what was the best approach to take? Moreover, what was Keroche's competitive advantage against EABL, and how could Tabitha Karanja best leverage such an advantage in formulating a response to what she saw as EABL-orchestrated attacks?

Exhibit 1 Map of Kenya



Source: By CIA, modified by Mehmet Karatay (Town names enlarged on image: Kenya Map.png) [Public domain], via Wikimedia Commons, https://commons.wikimedia.org/wiki/File%3AKenya-relief-map-towns.jpg, accessed March 2018.

Exhibit 2 Select Economic and Social Indicators of Kenya (1997–2003)

	1997	1998	1999	2000	2001	2002	2003
Economic Indicators							
GDP (US$ billions)[a]	13.1	14.1	12.9	12.7	13.0	13.1	14.9
GDP (US$) growth (annual %)	8.7	7.6	-8.5	-1.5	2.4	0.8	13.7
GDP Per Capita (US$)[a]	453.0	473.4	421.4	404.0	401.8	395.8	436.7
GDP Per Capita (US$) growth (annual %)	5.8	4.5	-11	-4.1	-0.5	-1.5	10.3
Public Debt (% of GDP)[b]	–	–	–	54.3	51.8	53.2	54.8
Inflation, Consumer Prices (% change per annum/average)	11.4	6.7	5.7	10.0	5.7	2.0	9.8
Official Exchange Rate (LCU per US$, period average)	58.7	60.4	70.3	76.2	78.6	78.7	75.9
Foreign Direct Investment (% of GDP)	0.5	0.2	0.4	0.9	0.0	0.2	0.5
Official External Debt (% of GDP, annual)[c]	–	–	–	–	–	–	32.8
Social Indicators							
Population (m)	29.0	29.8	30.6	31.5	32.3	33.2	34.1
Population Growth (annual %)	2.8	2.8	2.8	2.7	2.7	2.7	2.7
Literacy Rate, Adult Total (% of people ages 15 and above)	–	–	–	82.2	–	–	–
Life Expectancy at Birth, Total (years)	52.6	52.1	51.8	51.7	52.0	52.5	53.4
Urban Population (% of total)	18.9	19.2	19.6	19.9	20.2	20.6	20.9
Rural Population (% of total)	81.1	80.8	80.5	80.1	79.8	79.4	79.1
People Using Basic Drinking Water Services (% of population)	–	–	–	46.4	47.2	48.1	48.9
People Using Basic Drinking Water Services, Urban (% of urban population)	–	–	–	88.5	88.1	87.8	87.5
People Using Basic Drinking Water Services, Rural (% of rural population)	–	–	–	35.9	36.9	37.8	38.7

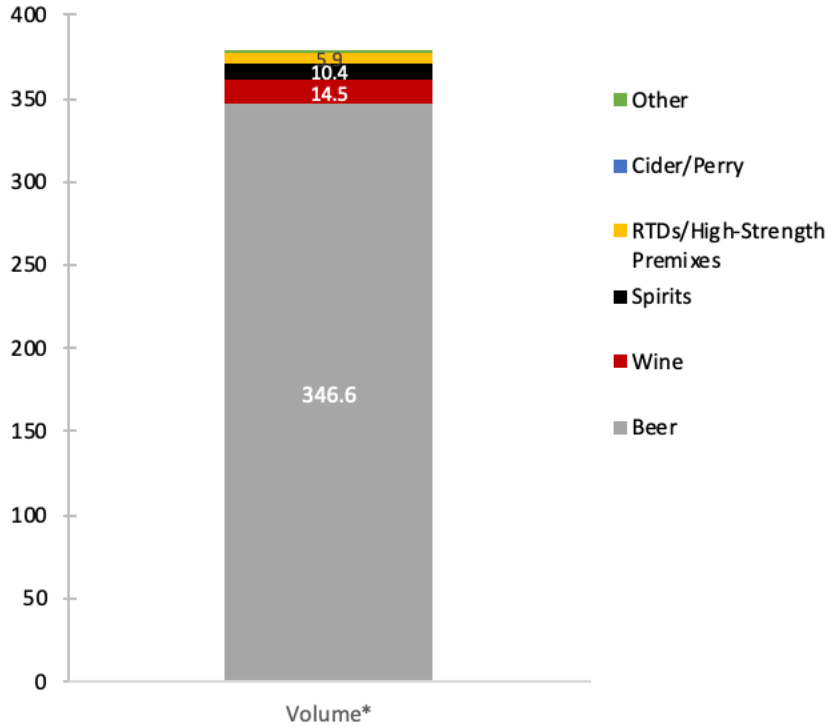
Source: Created by casewriter from World Bank - World Development Indicators, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#: Kenya; Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/KENGGXWDGG01GDPPT, accessed February 14, 2018; International Monetary Fund, Official External Debt: Debtor Based for Kenya [KENDGGDPPT]; Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/KENDGGDPPT, accessed February 14, 2018.

[a] Data reported by the World Bank in prices for each year are in the value of the currency for that particular year. For example, price data shown for 1990 are based on 1990 prices, data for 2000 are based on 2000 prices, and so on.

[b] Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/series/KENGGXWDGG01GDPPT, accessed February 14, 2018.

[c] International Monetary Fund, Official External Debt: Debtor Based for Kenya [KENDGGDPPT]

Exhibit 3 Formal Alcoholic Drinks Market in Kenya by Category (2003)



*In million liters.

Source: Market Sizes – Historical – Alcoholic Drinks – Total Volume – million liters – Kenya – 2003 [Statistics], retrieved from Passport, Euromonitor International, accessed December 2018.

Exhibit 4 EABL Consolidated Profit and Loss Account for the Year Ended June 30, 2003

	Continuing Operations		Discontinuing Operations		Total Consolidated	
	KSh '000s	US$ '000s	KSh '000	US$ '000s	KSh '000s*	US$ '000s*
Revenue						
Gross	28,918,151	381,003	-	-	28,918,151	381,003
Indirect Taxes	(13,687,260)	(180,333)	-	-	(13,687,260)	(180,333)
Net Revenue	15,230,891	200,671	-	-	15,230,891	200,671
Cost of Sales	(5,209,763)	(68,640)	-	-	(5,209,763)	(68,640)
Gross Profit	10,021,128	132,031	-	-	10,021,128	132,031
Other Operating Income	257,500	3,393	-	-	257,500	3,393
Selling and Distribution Costs	(959,068)	(12,636)	-	-	(959,068)	(12,636)
Administrative Expenses	(4,425,198)	(58,303)	-	-	(4,425,198)	(58,303)
Profit from Operations	4,894,362	64,484	-	-	4,894,362	64,484
Net Finance Income	42,388	558	-	-	42,388	558
Share of Associate's Profits	446,527	5,883	-	-	446,527	5,883
Profit Before Integration and Reorganisation Costs	5,383,277	70,926	-	-	5,383,277	70,926
Group Integration and Reorganisation	692,666	9,126	(2,435,159)	(32,084)	(1,742,493)	(22,958)
Profit Before Taxation	6,075,943	80,052	(2,435,159)	(32,084)	3,640,784	47,968
Income Tax Expense	(1,676,638)	(22,090)	-	-	(1,676,638)	(22,090)
Profit After Taxation	4,399,305	57,962	(2,435,159)	(32,084)	1,964,146	25,878
Minority Interest	(464,138)	(6,115)	-	-	(464,138)	(6,115)
Net Profit for the Year	3,935,167	51,847	(2,435,159)	(32,084)	1,500,008	19,763
Basic Earnings Per Share					13.76	0.18
Diluted Earnings Per Share					13.66	0.18
Dividend Per Shares					15.00	0.20

Source: EABL 2004 Annual Report (Nairobi: EABL 2004).

Notes: Amounts captured under discontinuing operations relate to EABL's sale to SAB of EABL's Tanzanian brewery and a 20% interest in KBL, and EABL's acquisition of SAB's Kenyan brewery and a 20% interest in SAB's Tanzanian brewery.

Kenyan Shillings were converted to US$ using the official exchange rate determined by Kenyan authorities (calculated as an annual average based on monthly averages), as reported in Databank, World Development Indicators, citing IMF, International Financial Stats, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#, accessed May 2018. In 2003, 1 USD = 75.9 KSh.

* Except per-share data

Exhibit 4 (continued) EABL Notes to the Financial Statements for the Year Ended June 30, 2003

	Kenya		Uganda		Tanzania		Eliminations		Consolidated	
	KSh '000s	US$ '000s	KSh '000s	US$ '000ns	KSh '000s	US$ '000s	KSh '000s	US$ '000s	KSh '000s	US$ '000s
External Sales	24,013,129	316,379	4,905,022	64,625	-		-	-	28,918,151	381,003
Intersegment Sales	1,700,252	22,401	-	-	-	-	(1,700,252)	(22,401)	-	
Total Sales	**25,713,381**	**338,780**	**4,905,022**	**64,625**	**-**	**-**	**(1,700,252)**	**(22,401)**	**28,918,151**	**381,003**
Segment Profit from Operations	4,531,491	59,703	362,871	4,781	-	-	-	-	4,894,362	64,484
Net Finance Income (Costs)	35,976	474	6,412	84	-	-	-	-	42,388	558
Share of Associate Profits	-	-	-	-	446,527	5,883	-	-	446,527	5,883
Group Integration and Reorganisation	692,666	9,126	-	-	(2,435,159)	(32,084)	-	-	(1,742,493)	(22,958)
Income Tax Expense	(1,404,173)	(18,500)	(129,574)	(1,707)	(142,891)	(1,883)	-	-	(1,676,638)	(22,090)
Segment Results	**3,855,960**	**50,803**	**239,709**	**3,158**	**(2,131,523)**	**(28,083)**	**-**	**-**	**1,964,146**	**25,878**
Minority Interest									(464,138)	(6,115)
Net Profit for the Year									**1,500,008**	**19,763**
OTHER INFORMATION:										
Segment Assets	15,032,357	198,055	2,265,280	29,846	-		-		17,297,637	227,900
Segment Liabilities	3,920,501	51,654	791,996	10,435	-		-		4,712,497	62,088
Capital Expenditure	487,909	6,428	60,244	794	-		-		548,153	7,222
Depreciation Expense	552,409	7,278	135,049	1,779	-		-		687,458	9,057
Impaired Assets Written Down	(14,038)	(185)	-	-	(1,018,721)	(13,422)	-		(1,032,759)	(13,607)

Source: EABL 2004 Annual Report (Nairobi: EABL 2004).

Notes: Segment capital expenditure is the total cost incurred during the period to acquire segment assets that were expected to be used for more than one period. Segment revenue is based on the geographical location of both customers and assets.

Kenyan Shillings were converted to US$ using the official exchange rate determined by Kenyan authorities (calculated as an annual average based on monthly averages), as reported in Databank, World Development Indicators, citing IMF, International Financial Stats, http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#, accessed May 2018. In 2003, 1 USD = 75.9 KSh.

Exhibit 5 Comparison of EABL and SAB Businesses

	EABL	**SAB**
Turnover/Net Sales Revenue – Global (US$ millions)	174*	4,384†
Turnover/Net Sales Revenue – Africa (US$ millions)	174*	2,396†
Listings	Nairobi Securities Exchange; Uganda Securities Exchange	Johannesburg Stock Exchange; London Stock Exchange
Geographic Presence	• Kenya, Tanzania, and Uganda	• Africa: Angola, Botswana, Ghana, Kenya, Lesotho, Mozambique, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe • Asia (China and India); Europe (Canary Islands, Czech Republic, Hungary, Netherlands, Poland, Romania, Russia, Slovakia, Spain); Central America (British Virgin Islands, Panama)
Beverage Portfolio	• Beer brands: Tusker, Tusker Malt Lager, Guinness, Pilsner Lager, Bell Lager, Citizen, White Cap, Allsops • Spirit brands including Smirnoff and Johnnie Walker	• 42 major beer brands, including Castle Lager • Produced seven major sparkling beverage brands, including Appletizer, Coca-Cola, Fanta, and Sprite, primarily through interest in Amalgamated Beverages Industries, South Africa
Other Business	Glass containers, malt and barley	Largest hotel operator in Africa with 10 major hotel & casino brands, including Holiday Inn, InterContinental, Crowne Plaza, and Southern Sun

Source: Created by casewriter from information in EABL Annual Report for the year ended June 2004; EABL financial statements in EMIS database, citing WVB Financial Standard for Industrial Companies; SAB Annual Report for the fiscal year ended March 2001; and Schroder Salomon Smith Barney, "Equity Research: South Africa Beverages," February 14, 2001.

* Figure is for fiscal year ended June 30, 2000.

† Figure is for fiscal year ended March 31, 2000.

Exhibit 6 Images of Illicit Alcohol Production and Consumption


Source: KTN News, "Toxic Chang'aa," YouTube, published September 8, 2012, https://www.youtube.com/watch?v=AkUlqq_26Bc&t=282s, accessed March 2020.

Source: Kenya CitizenTV, "Drama as Police Crackdown on Illicit Brew in Kawangware," YouTube, published June 30, 2015, https://www.youtube.com/watch?v=ie8R5dzN8Ow, accessed March 2020.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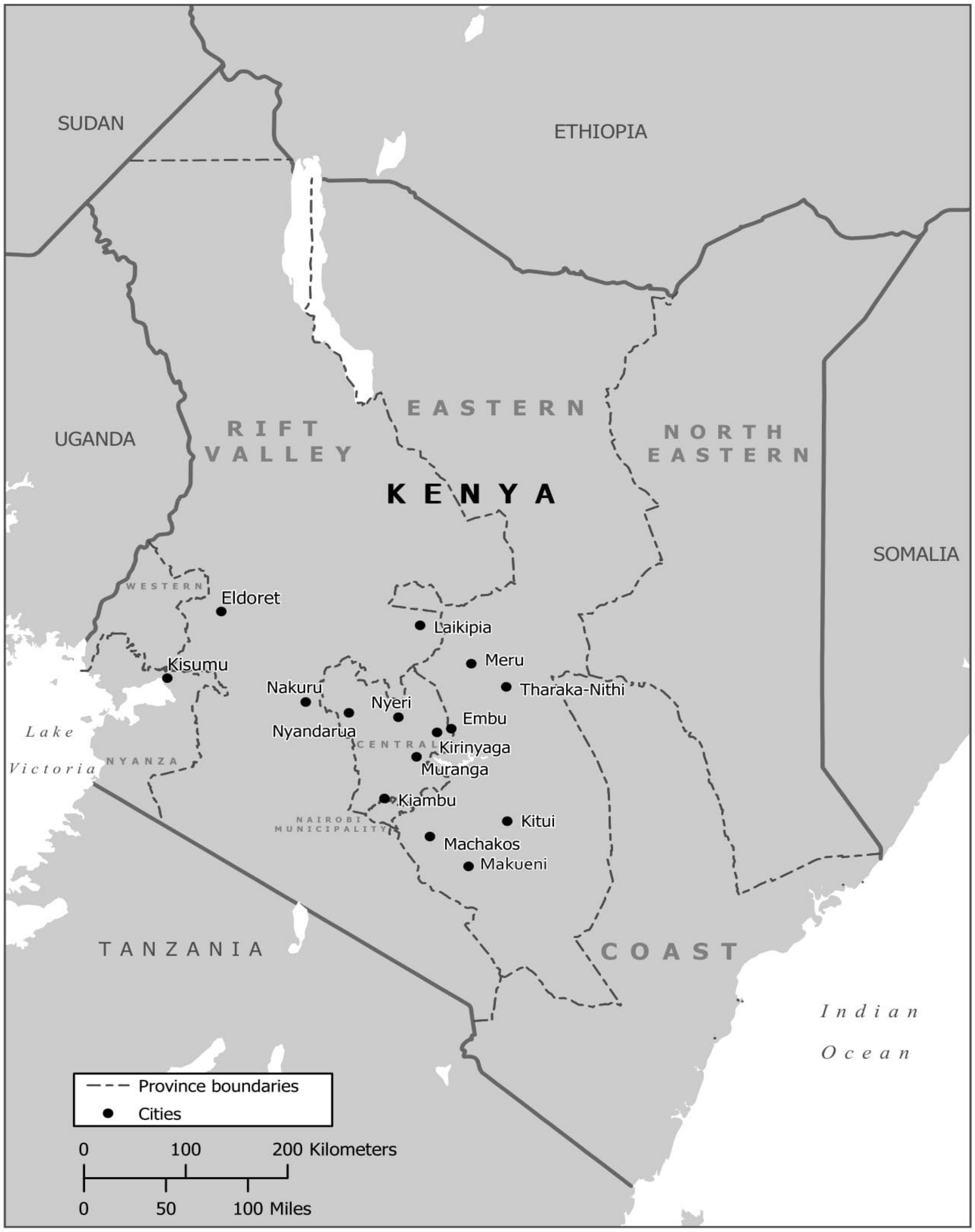
Source: Kenya CitizenTV, "Watengenezaji pombe ya Busaa watahitajika kuwa na leseni," YouTube, published May 2, 2019, https://www.youtube.com/watch?v=AkUlqq_26Bc&t=282s, accessed February 2020.

Exhibit 7 Keroche and EABL Products and Price Points (2002)

Product	Alcohol Content	Company	Packaging	Price to Consumer (average retail price across outlets)	
				KSh	US$
Fortified wines					
Vertkan, Cheers, Viena	15%	Keroche	750ml (PET)	60	0.76
			500ml (PET)	45	0.57
			250ml (PET)	30	0.38
Sahara	8%	Keroche	5L (cask box)	300	3.81
Beers					
Castle	5%	SAB Miller	500ml (glass)	78	0.99
Tusker Lager	4.2%	EABL	500ml (glass)	78	0.99
Pilsner Lager	4.7%	EABL	500ml (glass)	77	0.97
Allsops	4.7%	EABL	500ml (glass)	55	0.70
White Cap	4.2%	EABL	500ml (glass)	88	1.11
Citizen	6%	EABL	300ml (glass)	55	0.70
Guinness Stout	6%	EABL	500ml (glass)	89	1.13
Whiskey					
Johnnie Walker (red label)	37.5%	EABL	750ml (glass)	1,305	16.57
			375ml (glass)	783	9.94
Johnnie Walker (black label)	37.5%	EABL	750ml (glass)	2,422	30.75
			375ml (glass)	1,453	18.45
Vodka					
Smirnoff	37.5%	EABL	750ml (glass)	720	9.15
			375ml (glass)	432	5.49

Source: Compiled by casewriter based on company information and desktop research, including news articles, e-commerce websites, company websites, and market-relevant assumptions where needed. KSh figures were converted to US$ using the average exchange rate for the year.

Exhibit 8 Map of Keroche Distribution Networks (2003)*



Source: Prepared by casewriter from company information.

Note: *According to Keroche, EABL distribution covered the whole country.

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