

Network marketing: Millions, controversies and myths behind it



By Guchu Ndung'u

Perhaps nothing illustrates the controversy in network marketing than a story that a local daily had penned late last year calling the concept 'murky'.

When it hit the streets, phone calls rung from the world's oil centre in Dubai to Asia's financial centre in Singapore and some lawyers in town opened libel files.

Fast forward to January this year, and the daily was hard pressed and ended up penning an apology in one of its prime pages 'clarifying' that some of the mentioned companies were actually involved in legitimate gold business.

That is the controversy that is network marketing.

It is like love; those who have experienced its advantages gloat over its effects, those who have been hurt, dread the mere thought of it and those who have never tasted it, are torn between the experiences of the two.

What is Network Marketing?

Just what is this concept that draws so much ire from its detractors but so much love from its adherents?

Many conventional books and marketers interpret network marketing or multilevel marketing (MLM) as an arrangement where individuals associate with a parent company as an independent contractor or franchisee and are compensated based on their sales of products or service, as well as the sales achieved by those they bring into the business.

"The product must also be able to command repeat sales," says a network marketing consultant who does not want to be named.

Some equate it to pyramid schemes.

Internet encyclopedia Wikipedia, for instance, quoting various pieces of legislation including Canadian laws, offers that a pyramid scheme is one where participants are paid primarily from money received from new recruits, refers and mostly has no products. It is on that thin, if not obscure, line that has many proponents and opponents of network

marketing draw daggers on each other.

How they work

Most Kenyan networking companies, which are currently estimated to be numbering 15, offer a hybrid of the two definitions and trying to place them in either one becomes tricky. A prospective member is required to pay a certain amount of money as registration or enrollment fee before they may become a member. The new recruit for companies like GNLD and Tianshi has to then purchase their products, mainly supplement pills and other medicines.

The products are sold at a 'discounted' rate mostly between 15 to 25 per cent and members make the first round of profit from their sale.

In addition to the commission /profit from their own sales, the new member earns points from recruiting recruit others into the network and from the sale of products of his recruits. The more points s/he earns, the higher s/he moves in the rankings and thus the more money s/he rakes in. Those in the highest levels, commanding thousands of others in their network, get a certain percentage of all the sales.

For instance, if a member has 15,000 other members in his network who each make Ksh 1,000, such a member earns a percentage of the Ksh 15 million generated. The percentage varies from a minimum of 5 to a maximum of 20, which means the member may take home between Ksh 750,000 to Ksh 3 million a month. However, there may be a limit that each can earn every day for every member recruited (also known as account)

Mostly this is what has brought about the network marketing millionaires.

For companies like Goldbiz and Amega Global, an enrollment fee of between Ksh 6,000 and Ksh 15,000 also guarantees a recruitee the product. Then, for every two members who join, the recruiter is given a certain amount which ranges from \$12 (Ksh840) to \$30 (Ksh2,100). Plus, of course, a cut of the recruitees' earnings.

It is often that, once the network marketing syndrome strikes, everything else, including a pensionable job and education, becomes secondary.

After completing her secondary school education, Nancy Warui joined GNLD and it had to take the urging of education conscious parents to convince her to join a college. She is now undertaking a tour and travel course at a city college, but her mind is in GNLD.

"My mind is still in GNLD and even when I study, I do not want to be employed. By the time I am 30, I want to have earned Ksh10 million," she told *The Financial Post* at the GNLD offices located at ICEA Building in the city centre.

The fact that one has to only convince friends and colleagues to join their network and buy some products to start earning makes it a relatively appealing concept, especially for the corporate and civil service cadre. The other perks like free cars and limos also help to internalize the love of MLM.

By the time of going to press, GNLD millionaires were in South Africa for a paid-up trip as a 'reward for their efforts.' "It is very challenging to do such numbers. It takes a lot of interactions," says Nancy, 19.

The Industry

The money involved in network marketing is staggering. Though no official statistics have so far been collected, conservative estimates based on four companies including GNLD, Tianshi, Amega Global and Goldbiz reveal a lot. The first two have a combined enrolment of over 500,000 members in the country and, if each member were to sell an average of Ksh 4,000 a month, this would amount to over Ksh2,000 million per month. If you factor in that some companies' member registration and product prices range between Ksh5,000 and Ksh15,000 and then this figure may double or triple.

The advance in technology which has brought about the Internet is a boom to network marketing. In companies like Goldbiz and Amega Global, one is required to open a 'virtual office' in their website which is activated upon getting a pin number when the new member signs up and buys a product.

From the Internet virtual office, a marketer can not only recruit new members, but also monitor his/her sales and of the members he has recruited.

Payment is made either through an international wire transfer, a posted cheque or in form of more products like PIN numbers for members of Goldbiz and supplement drugs for others like Tianshi.

However, outside the network marketing circles, skepticism and doomsday-like scenarios meet any enquiry about the concept.

Mary Kii, for instance, had joined one of the companies and could not manage to recruit other members to join her network, effectively losing her money in the process.

"The ones that benefit are the ones on top of the pyramid. If you do not have the ability to recruit, then networking marketing is not for you," offers Mary. She adds that even in companies which have products, the bulk of the money is earned from recruiting.

Pyramid schemes?

The line between pyramid schemes and network marketing thus becomes thin.

Kenyan network marketing companies earn money from recruitment, which automatically categorizes them as a Pyramid schemes. But then, they have products which their members can sell thus legitimizing their operations as network marketing companies.

None of them is registered by the Marketing Society of Kenya (MSK) and even by Kenyan laws the concept is alien.

What makes their operations more complex is that they cut across different ministries and departments including the Ministries of Health because of the health products, Information and Communications and Finance as a result of the information technology involved, and the Central Bank of Kenya (CBK) which legalises dealings in gold. Monitoring their activities thus becomes a Herculean task.

According to D.M. Mutie, the head of drug registry at the ministry of Health's Poisons and Pharmacy Board, the organisation is soon cracking the whip on registration of some of the food supplements and drugs being offered by the companies.

"A crackdown is in the offing and some of them have started to bring their products for approval by the board. We will act soon," Mutie told *The Financial Post* in a phone interview.

"Some companies are getting the concept all mixed up. Instead of using their networks to market the products, they have become aggressive sales people. This can sometimes be irritating," says Tom Sitati, the MSK Vice Chairman.

Network marketing, some say, is designed for a 'specific class of people' which has many networks and can thus use their contacts to market a product, not the run on the mills, door to door sales people. The suspicion antennae is raised by the fact the firms behind the businesses are mostly overseas companies and only have 'distributors' and very fluid, if any, management structures in Kenya.

Management positions are held by individuals in the top tier of the earnings ladder, and a manager can be replaced by a member who earns more him.

Past history on pyramid schemes masquerading as network marketing companies does not help either. In 1992, the government banned many pyramid schemes after an entity called the Dollar Jet conned gullible Kenyans of millions of shillings before its directors disappeared. Then, in April 2000, the Canadian High Commission in Nairobi sent a warning that a Toronto-based company that was promising to give people cash was a con. The Canadian Equity Funding, the high commission alluded, was being investigated back home.

In correspondences faxed to various would-be victims, the crooks claimed to give a minimum of Ksh300,000 in cash besides giving away an assortment of other goods worth millions of shillings to every member of the fund. To be a member, one was required to part with between Ksh3,000 and Ksh6,000 as membership fees. The top award was allegedly Ksh1 million.

Last year, a company known as Better Life, also masquerading as a network marketing company, was shut down by the government after various complaints from members of the public. A member would pay Ksh2,500 'registration fee' after which they would be issued with four certificates to recruit other members at the same fee. The amount earned is a percentage of the value of certificates his recruit had sold.

Its boiling point was when almost everyone who fell for it ended up with the four certificates and no one to sell to and, unlike the health products, one could not consume the certificates and replenish the stock.

Its directors are facing charges in court and an attempt by *The Financial Post* to get comments from them was unsuccessful.

Mary, for instance, questions the viability of the concept and the origin of some of the funds to pay all the members. "What will happen once the market becomes saturated? Will people earn any more?" she puzzles.

Paul Mugo, a self confessed network millionaire, offers that apart from sales of the products, payments also come from the amount a company saves in marketing, advertising and related office expenditures. "Monies saved make the product cheaper giving a network marketer more revenue" he explains.

"Kenyans are just being too skeptical. We have this habit of criticising new ideas just because we do not understand them. If one is not able to recruit and sell more products, let those who can make the money," implies George Adulu, the assistant marketing manager of Villa Care and a network marketer with Goldbiz.

Network marketing took root in the '80s as companies began managing the stocking and distribution of products as well as commission payments to their members. Such companies operate legitimately in the United States in all 50 states and in more than 100 other countries. New businesses may use terms like 'affiliate marketing' or 'home-based business franchising'.

Countries like Canada have network marketing regulations and companies contravening the regulations, its directors are liable to imprisonment of up to five years.

As it stands, there are no similar regulations in Kenya and this makes the country vulnerable to fraudsters masquerading as network marketers. While it is strictly the prerogative of individual Kenyans to decide on whether or not to join any one or more of the mushrooming MLM companies in the country, it is prudent to exercise maximum caution.

The network marketing millionaires



Paul Mugo, Tianshi Worldwide

Mugo reckons that he was born to be great. It is just that he experienced some handicaps along the way. In fact, when he was young, Mugo used to ask his mother why others were rich while they (the Mugos) were not. Her response was curt and to the point.

"She could tell me, 'Go to school, read hard and the rest would follow'."

Mugo is now rich, in fact by his own admission, a millionaire. Though he went to school and worked hard, his bucks are as a result of Tianshi, a network marketing company.

"I have over 20,000 people in my network selling Tianshi products like supplementary diets. I am very aggressive, partly because I did not have a rosy childhood."

Mugo had followed his mothers' script to success and attended school but midway, the unexpected happened; his father got sick and eventually passed way.

"I had to drop out of school for almost a year. When I went back and was made a captain, so I could not be sent away for lack of school fees."

Immediately after completing his high school, Mugo came to Nairobi and joined the then America Life Insurance company (ALICO) as a sales representative before going to the University of Nairobi for a Bachelor in Art degree in economics.

"I vowed that I would be paying my own fees, which I did from the proceeds of insurance," Mugo recalls

His breakthrough came in 1999 when a friend told him about network marketing and urged him to join GNLD, one of the networking marketing companies in the country.

"I later joined SwissGarde, which had better conditions than GNLD. "

He had then landed a job as a corporate assistant manager at a pharmaceutical firm and had more than 1,000 people in the SwissGuard network.

In 2004, Tianshi was launched in Kenya by Vice President Moody Awori. And, although Mugo was initially skeptical, but the fact that friends who had less marketing skills than he were earning more than him lead to a change in allegiance from SwissGuard to Tianshi. But he made one pledge. "By the time they have 100 people taking home Ksh1 million, I will be one of them."

And he has kept his pledge.

Tianshi uses the concept of network marketing to sell supplementary diets like vitamins and other health related products.

A member pays \$20 (Ksh 1,480) and is given a badge, and a marketing kit. They buy the products at a 15 per cent discount. A member recruits their network and earns 5 per cent of their recruitee earnings.

One month after joining Tianshi, he netted over 100 people and earned Ksh 23,000. Six months later and working on a part time basis, he had pocketed Ksh 250,000. Mugo quit his job.

Currently, he has over 20,000 people in his network and is rated an eighth star, the highest ranking, and rakes in over Ksh1 million per month.

How does he spend his money?

"Apart from exploring the world, I have also set up a computer software firm, Footprint Computer Solutions Limited with part of my savings," says Mugo.

Among his fleet of sleek cars is a BMW, which was bought for him by the Chinese company.

"I hold meetings with my team which I call the God's millionaire team (GMT) and share ideas on how to meet and convince people. That is how I am able to succeed," he offers.

-GN

Hannington Kataka, GoldBiz Limited

When this 32 year-old former banker talks to you about network marketing, you may mistake him for a bragger, though he swears he is not.

"I have bought a house in Nyali as a result of this business. How many years of paying mortgage would it have taken before I got such a house? Hey, I am not bragging. I am just being honest," says Hannington Kataka, a network marketer from GoldBiz Limited.

Apart from his beach home and alloy-rimmed cars, Kataka also has big dreams. "I will work for five years and then take a break. I will do something different but you can bet it will not be employment."

Kataka bets that his new found wealth was out of an initial investment of Ksh 6,000 in a GoldBiz product, an 18-carat gold watch and has so far earned in excess of Ksh 6.5 million. All within one year.

His act? "I network with people, explain to them how they can make money from GoldBiz and once they join in my network and recruit others, we all benefit."

In GoldBiz, a potential client has to pay \$75 (Ksh 6,000), upon which they are given a pin number, a gold watch and a virtual account in the organization's website. To start earning money, the member must recruit two people, who in turn must also buy the watch. The member earns \$12 (Ksh840) for every two people (accounts) he or his recruits bring to the network. However, one cannot earn more than \$360 (Ksh 25,200) per day from one account. Kataka has several accounts each clocking that figure.

"If it takes you a month to get two 'business partners', then in one year you will have earned Ksh 3.6 million. And if it takes a week, within 12 weeks you can earn that money."

Kataka had attended a motivation seminar entitled 'unleash the power within you' when he met a Kenyan of Asian origin who told him about GoldBiz and, like many others, smelt a rat. "Using my friends in Dubai, I cross checked the company headquarters and verified its existence."

He then did a business plan, where one prepares a list of potential clients to approach and hit the ground running. In 12 months, he had quit his job as a head of credit risk at Kenya Union of Savings and Credit Co-operatives (KUSCO) to concentrate on network marketing.

How does he attract members?

"For every partner that I recruit in my network, I train them how to share the concept and the membership grows increasing the income of all of us."

His hunting grounds include, among others corporate employees and civil servants.

Kataka, who has one of the largest networks in the East Africa with close to 17,000 partners, meets his team at the Jacaranda Hotel, Nairobi, mostly on Saturdays. "We want to produce 300 millionaires in the next 24 months in East Africa," vows the father of one.

He attended Strathmore University for his Certified Public Accountant (CPA) programme and has worked with Barclays Bank, Cooperative Bank and Bank of Tanzania Training Institute before joining KUSCO in 2006.

"When you know what you want, it normally passes around to let you pass," he offers his philosophy.

-GN



Nelson Oluoch, Amega Global

When this writer arrived at Nelson Oluoch's office in Norwich Union in the city centre, it was akin to a market place albeit in a different way.

Kenyan from all walks of life were in deep conversation with their eyes focusing on a studded bracelet lying on the table.

"They are bio-magnetic health products. They improve the blood circulation. When you wear them, iron in your blood becomes polarized. This increases your blood circulation," offers the 32 year-old who is the country leader and founder of Kenya's Amega Global, a network marketing company.

The company is the latest kid in the network-marketing block.

To Oluoch, who has worked in various non-governmental Organizations (NGOs), the opportunity to own part of the global company presented itself in a fate-like manner.

He had met some of the company's representatives from Dubai in his cyber cafe and after exchanging a few pleasantries, they tried to explain the concept to him and though they could barely understand each other due to the aliens' accent, the little he understood was enough to trigger his mind.

He requested for the address of the company's headquarters in Singapore and placed a call to the country. Amega sent their representatives to the country and met Oluoch and four other Kenyans.

"They later invited us to Singapore where we visited and were shown the manufacturing plan and how the concept worked."

With support from friends and family Oluoch bought over 40 products at \$13,500 (Ksh 945,000) and was homebound to start his Amega branch in Kenya.

Members in his network buy products ranging from bio-magnetic to infrared bracelets and anklets at between Ksh 12,000 and Ksh16,000. "For every two people that register and buy the products, one earns \$30 (Ksh 2,100)."

Since he joined in mid last year, he has grossed over \$ 18,775(Ksh 1.3 million).

His products have not gone down without controversy especially on their perceived health benefits and legality in the Kenyan market.

"Magnetic therapy is a world renowned form of cure. But the controversy is because this is the first time it is coming to Kenya," says Oluoch.

Oluoch is an accountant at Strathmore University and is currently doing his Master's in Business Administration (MBA) degree programme at Cambridge University through correspondence.

-GN



Lydia Wanjiru Ndung'u, Uganda GoldBiz

Lydia Wanjiru Ndung'u's story is an inspiring story of self-confidence than a moneymaker.

A Kenyan currently leaving in Uganda, she poured out her story to *The Financial Post*.

"I was a shy woman working for Mercantile Insurance Company for the previous four years when a friend introduced me to GoldBiz in May 2006. At first, I thought it was a con game.

"This seemed to be confirmed when I joined the company and, a week later, had not earned any money. The first month was full of struggles and frustrations since I did not earn and was on the verge of classifying the money as simply a bad investment decision.

"However, I attended a Peak Performance 'unleash the power within me' programme which boosted my self-confidence and self-esteem to levels I have never witnessed before.

"After one week, I had recruited and sold GoldBiz products making \$144 (Ksh 10,080) and this stirred me into action. Within the next one month, I had earned \$720 (Ksh 50,400), which was way above what I was earning at my place of work.

"After realizing the potential in the business, I resigned my job on 24 August 2006 and decided to expand my network to other countries since I got enough travelling time.

"Senior people in the Ugandan government have also enrolled and have recruited others in Tanzania, Rwanda and Congo. Selling the idea is no easy task but through training and marketing skills, I have managed to make between \$2000 (Ksh 140,000) and \$2500 (Ksh 175,000) a month and still growing.

"I am looking forward to expanding to more countries and earning over Ksh 1 million per month," she sums up her determinations.

-GN

The stock market Godfather

One of the earliest retail investors at the NSE, Alloys Chami has invested in nearly every listed company

By Justus Ondari

Clad in a branded T-shirt, cap and handbag hung over his shoulder, he can be seen busy walking across Nairobi streets, popping into one corporate office after another or visiting one of the stock broking firms in the city. Invariably, he is a constant feature at the annual general meetings (AGMs) of many companies listed at the Nairobi Stock Exchange (NSE). Indeed, to many discerning people who attend some of these AGMs, if we may borrow an expression from Trade and Industry Minister Dr Mukhisa Kituyi, Alloys Wafula Chami is an irritant during the AGMs where he frequently takes head-on boards of directors by asking questions on anything under the sun about the companies. While many who attend these AGMs simply dismiss him as one of the many loudmouths in the country, a good section of the directors and shareholders of many NSE listed firms know that Chami is no ordinary irritant. For Chami is not only one of the earliest retail investors at the stock market, but also one who has invested across virtually all the listed companies.

A last born in the late Catechist John Chami and Sophia Auma Obirike's family of 19, Chami first invested in present day British American Tobacco (BAT) and East African Breweries Limited (EABL) shares in 1968. "Honestly, I do not know what drove me into the stock market. Nobody advised me. I just developed a personal interest and through personal initiative, I started investing in stocks," he volunteers.

Then working with the East African Railways and Harbours Corporation under the first East African Community (EAC), Chami took a Ksh 200,000 loan from Reli Sacco out of which he invested Ksh 100,000 at the stock market.

The East African Railways and Harbours Corporation had evolved from the Uganda Railway in Kenya and Uganda and the railways of Tanganyika (later Tanzania) between the World War I and 1977 when the then EAC collapsed. The corporation broke up into the Uganda Railways Corporation, Kenya Railways Corporation and Tanzania Railways Corporation.

But how did the then novice investor feel pumping such a tidy sum of money on what in essence was a very risky venture?

"I was young and, therefore, prone to taking risks. Actually, looking back, I think I was little bit naive and reckless," admits Chami.

What started as a young man's economic near suicide, has slowly but surely turned into a kind of obsession. "With the passage of time, I started developing a desire to be part of every listed company, big or small. Presently, I have shares in every company, safe for a few, particularly the new ones. But as time goes by, even in such firms I will buy their shares," reveals the 62 year-old.

Born in Busia District in Western Province, Chami attended the nearby Mundika Secondary School from where he finished his 'O' Level education to join the EAC in 1963. The community was to sponsor him to the Railway Training Institute, Nairobi, in 1966 for an apprenticeship course, Kenya Polytechnic for a diploma in mechanical and electrical engineering and Royal Technical College, currently University of Nairobi, for a higher diploma in mechanical and electrical engineering.

Irritant

Chami has no apologies to make for being a nuisance at various AGMs. If anything, he sees it as his responsibility. "It is the duty of small investors to keep directors on their toes because the big investors may not question some of the things and decisions because of their stature, huge dividends they earn and not forgetting that they are rich in the first place."

Since his investments are spread across the various counters, he attends AGMs of companies that "have many problems to question their management on what is going on."

"I usually ask as many questions as possible. From the way they reply, I get insights into the kind of management systems that are in place in various companies in which I have invested."

He is quick to add: "Experience has taught me that poor management is the root cause of many problems that have bedeviled many companies in the country. For instance, although I had sold some of my shares before it ran into financial problems last year, I believe Uchumi Supermarkets faced the problems due to poor management."

Choice

While he subscribes to the school of thought that advocates the buying of stocks when their prices are falling and selling to make a killing when they appreciate, Chami feels he is an old hand in the 'game'.

"Over time, I have gained enough experience such that sometimes I do not even need an advisor to invest in a certain stock. Sometimes I take into account a number of factors other than the price of a stock when making an investment," explains Chami who retired from Railways in 1994.

However, from time to time, he consults his 'friends' at NSE, Capital Markets Authority (CMA), stock brokers and some listed company chief executives. "From my discussions with such friends, I get valuable advice on how to go about making my investments. Consequently, in case I sense a problem that I consider could put my investments at risk, I offload some of my shares," he reveals.

The now streetwise investor operates his investments in a kind of revolving manner in which any earnings from one counter are re-invested in other counters. But it has not been all smooth sailing for the father of 14. A long the way, he has burnt his fingers on several occasions. "For instance, the Uchumi shares are currently suspended from trading at the NSE while the Carbacid and BOC are not active after their plan to merge hit a snag. Even if we get dividends, bonuses, right issue or other long-term benefits, we could be earning more from our investments were the two companies trading at the NSE," laments Chami who shuttles between Busia and Nairobi fortnightly. CMA stopped a proposed merger between British Oxygen Corporation Kenya Limited (BOC) and Carbacid Investment Limited and referred the matter to a tribunal. This was after BOC tried to circumvent the target of 80 per cent of Carbacid share hold that it had set in its original offer documents for the deal to go through. Ordinarily, the target meant that at least 80 per cent of Carbacid share holders had to accept the BOC offer for it to sail through, a feat they could not muster hence their opting to bypass it. Subsequently, the shares of the two firms were suspended from the NSE till now.

Value

Given that he has been investing at the stock market for over three decades now, is Chami not a millionaire? Put differently, how much is he worthy?

He is cagey: "I cannot put a value on my investments because I shift them across the various counters coupled with the usual price fluctuations. For instance, today I may have Ksh 1 million worth of shares that could increase or decrease in value tomorrow depending on the market performance of the individual counters and the stock market in general."

He adds: "I am not very rich but I am not struggling either. Except for a little farming and a small shop I operate in Busia, I mainly survive on my earnings from the stock exchange."

Although does not divulge much, Chami is contemplating gunning for directorship in boards of some of the companies he has invested in by increasing his shareholding in them.

"Once you have more shares, especially be among the top ten shareholders, you can seek a seat in the board of directors," adding, "Provided there is no tribalism, nepotism and everything is done above board, I believe I could soon become a director in one of the companies," says Chami who has some properties in Nairobi.

Advice

Contrary to popular perception that the stock market is an elitist club, Chami maintains that the stock market is just like any other market.

"Like any market, the stock market is not a preserve of the rich. The mix between the super rich and retail investors is what brings excitement to the exchange. Unless the retail traders buy and sell their shares at the market, say, where will the rich get them given that most of them hold onto their shares for ages?" poses Chami.

However, he calls for critical sense of judgment. "As in any business venture in life, one must be very careful. In as much as your stock broker or company executive may be giving you much of the information, try to develop your own knowledge base by consulting various people like other stock brokers, company executives and even fellow shareholders, besides reading widely such as carefully studying the financial results and prospectuses provided."

Chami is a staunch supporter of the Kenyanisation programme. "Local investors, whether big or small, should be supported by the government because this is the only way we can put the economy in the hands of Kenyans. Although they are equally good for the economy, however, we must reduce the influence of foreign investors in our economy but in a just way."

Reforms

He feels the current NSE setup gives stockbrokers and dealers at the stock exchange undue advantage over investors. He calls for its overhaul.

"Although there is no concrete evidence, the present system gives the dealers undue advantage such that they can trade on an investor's money at will. It needs to be looked into," says the investor who always goes out of his way to assist other retail investors in his rural home with important information about the stock market.

"I have assisted some retail investors, especially Mumias sugar farmers, who could otherwise have sold their shares to middlemen at throwaway process. I have managed to bring some to the NSE to get true value for their stocks."

But what is the secret behind his youthful looks despite being in retirement?

"I have avoided indulging in excesses like drinking. Also, I have always been contented with my life by being frank to all. Always, I pray for wisdom and not riches. Above all, I am careful with what I do or say."

So - busy, yes; successful, may be. And rich? Obviously Chami cannot reveal.

Retail investors: Why the sudden stock market craze?

By Staff Writer

Long perceived as a citadel of the elite and the rich, the Nairobi Stock Exchange (NSE) has lately witnessed even the ordinary in society swamping its corridors for business.

The most recent initial public offers (IPOs) such as Kenya Electricity Generating Company (KenGen), Scangroup and Eveready Batteries East Africa have been hugely oversubscribed, a situation to which the retail investors account for a large part of the initial takers.

NSE Chief Executive Chris Mwebesa attributes the trend to negative real estate interest rates and access to credit, a situation which fuels demand for new investments.

"The oversubscription in the IPOs highlights the fact that the Kenyan investor is now aware of equity securities as an investment asset and an alternative to real estate. It also highlights the lack of investment opportunities in the country," says Mwebesa.

Mwebesa says increased demand for NSE products like equity, debt (bonds) and market data, the government policy on privatisation through the stock market and continued economic growth will spur more listings. "We expect more listings to happen even from the private sector, as firms who need capital to expand production, tap into demand by local and foreign investors for viable investment opportunities," submits the NSE boss.

Suntra Investment Bank Managing Director James Murigu feels that the revival of the economy, backed by initiatives such as the Free Primary Education programme, Constituency Development Fund (CDF) and Local Authority Transfer Fund (LATF) account for some of the investors' excitement.

"You cannot buy shares unless you have some surplus or disposable income. That is money beyond the three basic needs of food, shelter and clothing. Economic improvement and various intervention measures such as Free Primary Education and CDF means Kenyans have more money in their pockets to invest in shares," says Murigu.

Murigu also cites an increasing number of youthful and well-earning class who, unlike the older generation, do not view positively traditional investments like property.

"They are investing in shares. Indeed up to 60 per cent of those buying shares are the youth."

The two argue that a lot is being done to sustain the small investors' interest in the stock market that has been generated by the IPOs. Apart from creating awareness through workshops and an up-to-date website, the NSE is going out in a big way.

"In the near future, we intend to have a wide area network which will eventually enable investors to access their brokers' offices remotely," says Mwebesa.

NSE and the Capital Markets Authority (CMA) are 'taking the stock market to the people' through international trade and agricultural shows held countrywide.

"Retail investors also have the option of participating in the stock market through purchasing units in collective investment schemes such as mutual funds and/or unit trusts which are professionally managed by fund managers –CMA licensees," explains Mwebesa.

Through the units, investments are professionally managed and investors can own a wider basket of shares and, in that way, diversify their risks; something they would not be able to afford if they invested on their own directly in stock market. They may also own shares indirectly when their pension schemes take up shares as part of their investment portfolio.

The Suntra Investment Bank MD feels more IPOs hold the key "Having started, we need to maintain the stock market excitement by having several IPOs queuing up just like in advanced markets. For instance, when I visited Malaysia recently, they had 100 IPOs in the queue."

He feels project development should be another source of IPOs.

"Many competitive businesses in the world do not expand with bank loans. If we can have a situation where we have two or three IPOs in a month, the stock market will be vibrant. We have the capacity to support such projects; there is demand for the jobs and wealth creation which demand many IPOs."

Finance

Finally, financial guarantee for women

A multimillion fund is set up to guarantee women's access to loans

By **Guchu Ndung'u**

Agatha Oturi rejected a career in nursing and opted to pursue her lifelong dream of being a designer, a choice that even her immediate relatives termed as madness.

Nevertheless, she stuck to her guns and attended a design and tailoring course at a local polytechnic in 1989.

After graduating with a diploma in apparel design, she plunged into the ruthless world of business.

But the proprietor of Intrinsic Falconry was in for a pleasant surprise. For when she set up a tailoring shop in Komarock in Nairobi's sprawling Eastlands area, the business simply took off and business grew at an unprecedented rate.

However, lack of capital was her major hindrance, and the verdict from all the three banks she approached was the same – no collateral, no loan.

Almost a decade later, Agatha has managed to shine; not only becoming one of the designers of the moribund Kenyan national dress but also counting, amongst her clients, the likes of the Nairobi Stock Exchange (NSE).

"It would have taken me half of the time to grow if I had access to a loan. I lost many orders that I could not service," reminisces Agatha who plans to start a design school.

Unlike Agatha, women entrepreneurs seeking expansion funds may not relive her experience, thanks to a programme financed by the African Development Bank (AfDB) on behalf of the World Bank's private lending arm, the International Finance Corporation (IFC) and Private Enterprise Partnership (IFC- PEP) for Africa.

The Growth Oriented Women Enterprise (GOWE) aims to provide guarantee facilities to women entrepreneurs running growth oriented small and medium enterprises (SMEs) in Kenya. The five year programme is financed to the tune of US\$10 million (Ksh 700 million).

"Our research shows that women businesses start and remain small year in year out. That is the glass ceiling we want to break," says Mary Njoroge, the GOWE programme manager.

Then a budding accountant at an international accounting firm, she quit the life of balancing corporate books to assist women balance the hassles of entrepreneurship. Her brief currently entails accelerating the growth of women SMEs through provision of the loan guarantees.

"We are targeting businesses that are owned and managed by women and have been in operation for over two years," adds the programme manager.

Requirements

She explains that for an enterprise to access the fund, at least 51 per cent of the business must be owned and managed by women. Such enterprises must also plan to borrow between \$20,000 (Ksh1.4 million) to \$400,000 (Ksh28 million) to benefit from the facility.

And for a country where majority of businesses owned by women are micro-enterprises like kiosks, is the figure not too high?

"Our target is what is commonly known as the missing middle. Those women who have qualified from the micro-finance institutions yet they are not able to access finance through the main commercial banks."

However, Mary clarifies that the programme will not be offering loans. Essentially, a qualifying enterprise will have to apply for a loan at the three participating banks, CFC Bank, Commercial Bank of Africa (CBA) and K-Rep Bank. The application, like any other, will have to go through the normal due diligence carried by banks for their loan applicants.

If the woman does not have all the required collateral, she will be placed under the programme.

"We will provide a partial guarantee to the maximum of 50 per cent of the amount advanced. But the money will be advanced by the banks and the entrepreneur has to make an effort to repay it back."

She adds: "In essence, we are pre-empting a situation where a woman entrepreneur is requested to provide land or any collateral, which she may not have."

They can use assets that belong to the enterprises, including what is being financed by the loan, as collateral. But instead of asking for collateral outside the enterprise like a house or land, we will provide such a guarantee."

The former accountant says that studies by IFC show that women own only one per cent of the land in Kenya and the figures in joint ownership are not impressive either.

"Jointly with their husbands, they own six per cent and with land being a major collateral factor in Kenya, they are automatically disqualified."

Though the programme commenced in November last year, the ball in some of the institutions is already rolling.

In K-rep Bank, 15 women-owned enterprises who want loans totaling Ksh 30 million have been approved and may receive the funding anytime soon.

"We require them to be our account holders, with viable projects. The loan approval takes seven days," offers Moses Banda, the K-Rep Bank Chief Manager, Credit and Business Development, offers.

Banda says that over 100 other applications are pending. K-Rep Bank lent out over Ksh 5.6 billion last year, 40 per cent of which went to SMEs. In total, 52 per cent of the money lent was advanced to women.

The programme, which is in partnership with the International Labour Organization (ILO), will also incorporate training for women entrepreneurs.

"We are bringing in business development service providers and management consultants to train women on how to grow and expand their businesses," explains Mary.

This, she adds, will ensure the continuity of the business even after the cessation of the programme.

"In the next five years, we hope to have availed credit to at least 400 women enterprises besides generating enough interest in women in the banking circles."

Mary adds that women have a repayment rate of between 97 to 98 per cent even in the backdrop of high interest rates and are thus 'a good bet.' Her statistics tally with those of Dr. Jennifer Riria of the Kenya Women Finance Trust (KWFT). Dr Riria says the organization has recorded loan repayments of over 98 per cent, only dropping to 96 per cent during famines.

"In 2005, the organization lent Ksh 2.4 billion to low income women," the KWFT Chief Executive told *The Financial Post* in an earlier interview.

Agatha of Intrinsic Falconry, while welcoming such guarantee facilities and urging women to go for them, also calls for mentorship and networking to provide a forum where women entrepreneurs can interact and source for business from each other.

"Crucial information on business deals is sometimes done in exclusive clubs and bars where women do not have access to or cannot frequent for family reasons," laments Agatha.

Though no statistics are available on the number of women SMEs, KWFT figures show that the organization is servicing 125,000 entrepreneurs and if only 10 per cent graduate to a position where they can qualify for the guarantee, much more funds will be needed.

All agree, however, that the guarantees are like a bridge; they will assist SMEs cross the credit river in the journey of entrepreneurship but for rest of the journey, more will be required.

Management

KWALITY wines and spirits for all

The country's premier wine importer and distributor strives to recapture its lost market

By **Samwel Kumba**

When Uchumi Super- markets hit the rocks in June last year, speculation was rife that related institutions, Industrial Commercial and Development Credit (ICDC) and Kenya Wine Agencies Limited (KWAL), being major shareholders in the chain store, would take a knock.

No wonder, the government moved in fast and launched a rescue programme for Uchumi. This would not only save the shareholders' investments but also maintain investor confidence for the country.

In an almost identical move, the government effected changes at KWAL that saw Gerald Makau Masila become managing director to steer the once iconic firm in the face of the challenges that it had faced especially the last decade brought about by liberalization.

Before liberalisation in early 1990s, KWAL was the sole importer and distributor of wines and spirits in the country since its incorporation in 1969. It was started by ICDC and the Industrial Commercial and Development Credit Investment Company Limited (ICDCI) as a government policy of establishing enterprises and putting them in the hands of indigenous Kenyans.

The policies were formulated and implemented because, before the independence, the white settler community dominated all the major business sectors, including the wines and spirits. So KWAL's mandate was to import, bottle and distribute wines and spirits in the country. This saw the consolidation of many smallscale importers who were doing bits and pieces from different parts of the world.

"Things started getting tough in the early 1990s when the wines and spirits business was liberalized alongside the rest of the liberalisation of the Kenyan economy as part of the Structural Adjustment Programmes (SAPs)," explains Masila.

The liberalisation opened the floodgates that saw every interested importer joining the wine industry. A lot of products, some of questionable quality, came in quite cheaply, eating into KWAL's market.

Challenges

Worse still, KWAL's finances took another stumble in 2004 when the government banned the sale of spirits packed in sachets.

"A lot of our competitors were able to adjust and change quite easily to new developments as they adopted new packaging methods that could be afforded by the bottom end of the market. Failure by KWAL to follow suit meant a substantial loss in market share and revenue," the MD regrets.

At the same time, the company had leadership problems that also affected its performance, especially in management and corporate governance. "But for the last one year, I can say with a lot of confidence, we have made a lot of improvements and managed to turn around the company. In the year 2005/6 we managed to post a profit of about Ksh40 million up from a loss in the excess of Ksh400 million posted the previous year."

"And today, we handle wines for up to about 50 different countries from around the world, mainly Europe and South Africa," Masila explains.

Apart from holding the agencies of well known international brand names such as Pushkin Vodka, Hunters Choice Whisky and Amarula Cream liquor, KWAL also manufactures and distributes local brand names such as Simba Cane spirit and Papaya wine.

The company is re-focusing its market reach as it eyes to the bigger regional consumers in Uganda, Rwanda and Eastern DRC. Masila projects an even better performance this year. His goal is to re-capture KWAL's lost market share.

"We are halfway the year yet we are well above our targets in most of the line items. Definitely we will exceed last year's profits," he vows.

Masila started off his career in 1996 after his Master's of Science (MSc) degree from Egerton University. He brings to KWAL a wide experience gained at the British American Tobacco (BAT), where he had joined as a sales representative before rising through the ranks to become the area merchandising manager for Eastern Africa, a position that saw him serve 13 countries.

In 2002, he moved to the cigarette manufacturer's Corporate and Regulatory Affairs Department as the external affairs manager after which he joined New Kenya Cooperative Creameries (KCC) in 2004 as the head of sales and marketing.

Tax proposals

In his Budget speech for 2005/6, Finance minister Amos Kimunya adjusted and increased the taxes on wines and spirits, a move that hit under the belt the industry, including KWAL.

"The taxation regime in this country is a hybrid one. It is one that has both minimum and *ad valorem*, that is, levying taxes in proportion to the value of the goods or transaction concerned," Masila says.

From Kimunya's speech, the minimum specific tax was proposed at Ksh120 per litre and an *ad valorem* of 65 per cent whichever is higher.

"This has actually negatively affected our operations because it has increased the cost of production and reduced our margins, forcing us to adjust prices of our products. I feel there is a tax threshold beyond which the government should not go because if does, it obviously affects the pricing of businesses. This makes the quality products inaccessible to wananchi, pushing them into illicit brews whose impacts we cannot overemphasize," argues Masila.

However, Masila commends the government for the recent introduction of tax stamps. "These would ensure accountability in quantity produced and taxes due from manufacturers making tax reconciliation easier. This will curb unscrupulous businesses thereby creating a healthy competition. We are also happy with the minimum specific taxation. This is because it helps in leveling the playing field," explains the MD.

He warns that when the government goes for *ad valorem*, the unscrupulous traders who often understate pro-former invoices to pay lower duties can easily supply cheaper products into the market.

But what tax percentage would be acceptable in the industry?

Masila elaborates: "When we talk about Ksh120 per litre as tax that is a lot of money by any standards. It means when we buy spirits from, say, Muhoroni Sugar Factory at Ksh47 for a litter then we pay the government a duty of, say, Ksh200. There is a mismatch."

Masila hopes that with the East African Community (EAC)'s Customs Union taxes in the region will be harmonized, since neighbouring countries Uganda and Tanzania have much lower rates.

The MD is optimistic of the future.

"We thank our customers who have stood with us through thick and thin. With their support, we hope to regain leadership in the wines and spirits category in the next three to four years," he explains.

As Kenyans' purchasing power improves with the upswing of the economy, KWAL has witnessed growth in the wines and spirits sector, where there seems to be a shift from the traditional alcoholic beverages to more trendy and classy ones.

And that is music to Masila's ears as he pilots KWAL through the rough waters of business and competition, and gives Kenyans and the region KWALITY wines and spirits.

Investment

Investment: Individual versus mutual fund investing

By **Mwangi Maingi**

It was a success story for Millicent Maina, a 27-year-old banker based in Nairobi. At the beginning of June last year, Ms Maina walked into a stock brokerage firm apprehensive of the possible consequences of her decision. All she could show for the three years she had worked was the KSh210,000 in her account. She had decided to invest in stocks.

Through her broker, she put her savings in Kenya Airways (KQ) shares, which were then selling at KSh17.15. Little did she know that 11 months later she would have made KSh700,000 from the investment. KQ shares stood above KSh80 when she cashed her fortunes.

The story of the stock market is however less delightful for Francis Irungu, a retired civil servant, who had lost nearly his entire retirement package in less than 10 months. In January 2004, he had purchased KSh800,000 worth of Dunlop shares at KSh44, only to be forced to sell them at less than half the price five months later.

This is an example of an adventure in the investment jungle an investor muddles through when playing the stock market. It is dangerous, and you can lose, may be not your life, but the shirt on your back.

Mutual Funds

Many people do admit that it is possible to invest as an individual and succeed. In Kenya today, there are variety of investments that can easily convertible to money within a short time depending size of investment. You may invest in real estates, treasury bonds, stocks and the more mundane bank savings and deposit accounts.

While an investor may decide to venture individually in any one of the above, he must be aware of the effort required and the risks involved. As noted above in the case of stock markets, if you do not know your way, the investment jungle can swallow you up. Many of us know of persons who have lost their life's savings to what the thought of sure fire schemes. Either because they have entered the game too late or someone has fleeced them.

However, it is different with mutual funds. Mutual funds are managed by professionals, who would normally be qualified and experienced in the business of investing. They know about the returns and the risks associated with each type of market. They can tell you the success of not only the industry but also the individual players in it. Though their returns may be less than if you did invest directly yourself, your money is more secured. In addition, you would know your money with them is safe because they maintain reliable records of your transactions. It is their policy to diversify their holdings in investments to reduce the risk in any one company or industry. And if you need your money quickly, they are big enough to accommodate you.

The choice on whether one to handpick securities on their own or hire managers is often illustrated by the analogy of hiring a qualified professional to repair a door lock or do it yourself. The upfront cost is lower if one repairs the lock. The outcome, however, is more assured when a profession is hired.

The same analogy implies that an investor may get excellent returns on self-managed investment though the chances of steadfast success in future may be slim. For instance, accountants as professionals may have a good grasp of financial principles but unlike investment managers who devote their entire time keeping track of the markets, investment is only secondary matter to them.

Fund Managers

Investment fund managers are a group of persons specialising in the investment of a portfolio of assets and securities on behalf of individuals and institutional investors, subject to the guidelines and directions of the investor. Institutional investors include corporations, pension funds and insurance companies.

As investment companies, mutual funds pool money from many investors and put in real estates, stocks, bonds, short-term money market instruments and other securities. Mutual funds also may issue redeemable shares that investors purchase directly from the fund or through a broker for the fund, instead of purchasing from investors in a secondary market.

Factors to consider

In general, all investments carry some level of risk. One may lose some or all of the money you invest because the securities held by a fund goes up and down in value. In this regards, investors need to consider the following factors in preference to individual investing.

Diversification

Diversification is an investing strategy that can be neatly expressed by the old adage "Do not put all your eggs in one basket". There are cases where a given sector one invests fails due to bankruptcy; this might lead to loss of the entire investment. A mutual funds are more likely spread their investment portfolio to minimize the risk.

Professional management

Mutual fund managers have time to watch, research on the trend of the market on a daily basis as compared with individual investor. The managers also take the time to research on the market before deciding on the type of investment to get into or maintain. The mutual funds managers do what they know best; research, selection of feasible product, and monitoring the performance of the investment.

Buildup factor

Mutual fund investment companies pool the money of small investors together and invest in a variety of securities, including fixed-income securities and money market instruments. Since the sum is bigger and more powerful than its parts, the fund acquires leverage on the market and may obtain a product cheaper than the individual. This brings better returns to the small investors. Moreover, the few transaction costs associated with the investments are spread around among a larger number of fund shareholders.

Liquidity

Depending on the period of time when one would need to convert his or her investment into cash, mutual funds are easily convertible into money at the shortest time. One needs to simply put in an order during the day and when the market closes and a cheque would be sent or one can have it wired to a bank account.

Stocks can be much more difficult to convert into cash within a day, since the decision depends with the stockbroker one is dealing with. Some tends to prefer transacting when the stocks seems to raise more of the commission, thus may gets to a hide and seek game with the investor. And real estate sales do take a long time to complete.

In some countries, mutual funds even carry cheque-writing privileges, which means one can actually write cheques from the account.

Cost

Stock investing carries high transaction fees making it difficult for the small investor to make money. There are usually a minimum number of stocks to invest at a given time, for example during the Initial Public Offers (IPOs).

However, mutual funds are excellent for the new investors because one can invest small amounts of money and at regular intervals with no trading costs. For instance, if an investor wanted to put in KSh 100,000 a month into stocks and the broker charged 2 per cent as a commission per transaction, their investment is automatically down every time they invest. This is not the best way to make money.

Large stock investors get special treatment from brokers as wealthy bank account holders get special treatment from the banks, but mutual funds are non-discriminatory. It does not matter whether you have KSh5,000 or KSh10,000,000; one gets the exactly same manager, the same account access and the same investment.

Overall then, you may make marginally less return on your money than if you do it yourself, but you are sure of the survival and success of your investment if you place it with professionals, the mutual fund companies.