THE Financial Post

Supporting Business

Kenya's future money makers

Meet entrepreneurs in outsourcing and the big cash involved

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Kenya's next big money makers

By **Guchu Ndung'u**

Although Zeddah Sambu has never set foot in America, he speaks in the English language with a twang that can be the envy of many an American.

Young, single and living it up, the advertising graduate is among an increasing number of youth working in Business Process Outsourcing (BPO) companies in Kenya.

BPO is the contracting of a specific business task to a third-party service provider.

It is implemented as a cost-saving measure for tasks that a company requires but does not depend upon to maintain their position in the marketplace.

Most Western-based companies outsource their non-core operations to third world countries where the cost of labour is cheap and to free their employees to concentrate on their core activities. These activities can range from customer care, transcribing, editing to any other services that are not a core activities of the outsourcing organization.

The Financial Post managed to track some of the top four outsourcing companies and the entrepreneurs behind the Information Technology companies and their stories are a pointer of the changing global economy and Kenya's stake in it.

Though they are no wild eyed revolutionaries, these Kenyan entrepreneurs have invested millions of shillings in Business Process Outsourcing, with a belief that this is where the future is.

"This is going to be Kenya's next biggest foreign exchange earner," says Nicholas Nesbitt, the proprietor of Kencall, a call centre and the biggest outsourcing firm in East Africa and one of the over 15 BPO enterprises in the country. Others are Skyweb-Evans, Preciss International and Oriak digital.

Nesbitt should know the potential of the industry better.

From a 25-seater in 2004, Nesbitt's Kencall has grown to a 250-seater employing over 300 people and planning to put up 600 seats by the end of the year.

Another outsourcing company is Oriak. According to its MD Francesca Kairo, the company has within a year grown from a four-seater employing less than ten people in 2005 to over 20-seats, employing 40 people and planning to double this year.

Joe Kigara's, a director at Preciss International says the company begun operations as a five-seater company computers and has clocked 20 computers with plans for a call centre that will, if all goes according to plan, double the company's operation.

But the fastest growing area in outsourcing, if the interviews by the entrepreneurs are anything to by, is financial database processing and editing.

Nesbitt for instance says that its financial services division, which creates databases for credit reference companies in America, is the fastest growing at almost 200 percent while in Kairo's Oriak, financial editing is driving the company's revenue lines.

Peres Were, an outsourcing consultant, offers that the cost of setting an outsourcing enterprise ranges from Ksh 1.8 million for a 20 seater BPO for data processing to Ksh 21 million for a call centre that can handle customer interaction via voice calls, web chat, email and text.

That notwithstanding, most entrepreneurs start with a computer, internet and lots of determination. Once they land on a contract, the price is something to write home about.

On average, outsourcing companies earn USD 35 (Ksh 2,555) per audio hour of material transcribed while a customer service centre can generate revenue at a rate of USD 12 (Ksh 876) per agent per hour.

The figures, however vary per contract and may appreciate or depreciate by mutual consent.

The returns though are after hardboiled entrepreneurial odysseys journey that have seen many start from scratch and as most have put it, 'grow organically.'

Though most Kenyan entrepreneurs started with transcribing—which involves typing of audio files to data- most are venturing into other areas as transcription becomes crowded and eventually low paying.
It cannot be lost to any observer that most of the entrepreneurs either conceptualized the ideas abroad or worked abroad.
Nesbitt for instance was jogged into action by the profits the multibillion dollar organization he was working for churned through its sales in India, an outsourcing giant while others like Joe, a change of government and goodwill was enough to make him catch the next flight home.
Gilda's venture in outsourcing was after an encounter with a Canadian while in South Africa and it is only Kairo whose concept was mooted after a marketing stint with a local IT firm though she has also worked at a British law firm.
Three of the top outsourcing namely Kencall, Sky web-Evans and Oriak Digital are led by former marketers whose conversion to IT was as fast as the growth of the sector.
How the entrepreneurs made it and where they are heading, is read the profiles on a later segment of this paper.
But one thing is true, they are providing the likes of young graduates like Zeddah and other IT savvy young Kenyans, an opportunity to be part of, rather than a victim of globalization.

Outsourcing: Challenges and opportunities

Despite its rapid growth, the outsourcing industry in Kenya is facing numerous challenges, top among them the high cost of licensing. For instance, to be registered, a call centre to pay a Ksh 100,000 license fee to the Communication Commission of Kenya (CCK).
Notable industry players say this is driving most of them underground. However, during an ICT exhibition last month, CCK Commissioner General Michael Waweru hinted at the probability of lowering this fee to a minimum of Ksh 10,000.
Further, commercial banks have not joined the outsourcing bandwagon and financing, if the entrepreneurs' experiences are anything to go by.
CFC Bank Managing Director Madabhushi Soundarajan, who is a native of India, puts the reason for this lack of interest from banks to doubts about viability of the business.
"Like any other business, we are willing to look at any viable outsourcing venture for financing. Kenya has a lot of potential and with time, the industry will blossom," notes the MD, whose Indian homeland is leading in outsourcing.
This has, however, not hindered the development of outsourcing business. Most players are starting with a few computers, internet links and rays of optimism and still making it.
Start- ups have to bear the cost of training personnel on outsourcing operations; a cost they opine is heavily eating into their margins. This is because while there is an army of trained graduates in the country, few are trained in specialized services like transcribing or working in a call centre. Outsourcing has however received a boost following reports that the government, through a credit extension of US$ 114.4 million (Ksh 7.8 billion) from the World Bank, will subsidize the calling costs of call centers operating in the country.
The monies will also be used to support E-government initiatives and facilitate high-speed connectivity.
"About 80 to 90 percent of our telephone cost will be subsidized by the World bank. To put 25 agents on the phone, it costs us close to US$17,000(Ksh 11.3 million) a month. Elsewhere, it will only cost US$600-900(Ksh 40,200-Ksh 60,300) a month. We need the subsidy to compete," says Nick Nesbitt of Kencall.
While lack of training in outsourcing operations may appear like one of Kenya's handicaps, the country's over 30,000 per year graduates are also touted as its main advantage over India and other non-English speaking countries.
While Kenya has a quality and an accent advantage over India, India still beats the country on low prices.
Kenya's biggest competitor in Africa is South Africa, which though well known and with good infrastructure, it has high costs of operation compared to Kenya.
Some, however, are urging for caution.'"We should not try to be an overly cheap destination. We should try to beat India on quality and South Africa on costs. Then we can work from there," advises Kigara.
These outsourcing companies are now looking forward to the upcoming fibre optic cables, expected to not only bring down the cost of Internet connections, but also make incoming and outgoing calls to call centres clearer and echoless.
Currently, two parallel cables are in the offing. The African Union (AU) spearheaded East African Submarine System (Eassy), which involves 23 African countries and the Kenyan government led USD 110 million (Ksh 7.9 billion) East African Marine Systems (Teams), to connect Kenya to the Middle East international fibre-optic cable.
Though uneasy with the Eassy project due to what it refers as 'South African dominance', the Kenyan government insists it has not pulled out of Eassy.

Ironically, Kenya's minister of information and communication Mutahi Kagwe, during the opening of a BPO conference last year reiterated that the government had invested USD seven million (Ksh 504 million) in Eassy and would not backtrack on it.
The cable, whichever comes first will reduce their operations by half. Add in the economic growth of 5.8 per cent in 2005, political stability and an increasingly liberalized telecommunications sector, the Kenyans outsourcing industry like the others, will become one of the key drivers of growth.

Kenya on the verge of economic take-off

By **FP team**

The release of Kenya economic growth figures for last year continues to generate debate among policy makers, politicians and stakeholders.
Arguments revolve around the question of whether this growth, of 6.1 percent compared to 5.7 per cent in 2005, is trickling down to the middle and lower-income groups of the population.
One fact is clear though. After decades of depressed and negative growth rates, the country's economy is slowly emerging out of the woods and is already on the launching pad, ready to be cleared for take off.
Among the key sectors that have driven this growth is the hotel and restaurant business, wholesale and retail, transport and communications, manufacturing, building and construction, financial sector and the agricultural and forestry sectors.
Over the past three years, local companies in Kenya have been making huge profits, especially those listed at the Nairobi Stock Exchange (NSE), transferring huge dividends to shareholders.
Further, the business community has been resilient, ignoring all the heat and pandemonium on the political front, to get on.
One of the main drivers of this growth is the tourism industry, with hotels and restaurants recording a massive 14.9 per cent growth. The country's tourism industry has experienced a turn-round after years of poor performance, owing to the massive investment and marketing campaigns.
A rise in earnings from the tourism sector has now flowed into hotels, airlines and travel agents, creating jobs and incomes for thousands involved in this sector.
The wholesale and retail business also recorded significant improvements over this period, leading to an increase in investments on outlets by major players, including Nakumatt, Uchumi and other large retail outlets. A few weeks has seen major super market chains stepping up investments in more spacious outlets as competition in this sub-sector reaches new heights.

The increased activity in the wholesale and retail business is one of the indicators that the economy has indeed expanded and grown over the past three years.
Despite the challenges posed by a poor infrastructure, improvements of the country's road network, especially over the past two years, has led to improved environments for the manufacturing sector, especially SMEs and MSEs.
In the light of vision 2030, the government's objective of achieving double digit growth by pumping an estimated Ksh 500 billion into key sectors of the economy is achievable.

Agriculture sector

This sector's performance declined from 7 per cent in 2005 to 5.6 per cent in 2006. Despite the decline, one of the best performers was the dairy industry.
The 2007 Economic Survey report indicates that the quantity of marketed milk rose by 6.2 per cent to stand at 361 million litres last year.
This has been attributed to the revival of Kenya Cooperative Creameries (New KCC), which has in the recent past engaged in aggressive buying and marketing of milk products.
"New KCC has so far paid out over Ksh 3.3 billion to farmers across the country,
an increase of more than 200 per cent, compared to last year. This has gone a long way in transforming the lives of million of Kenyans," says the company's Managing Director Francis Mwangi. Over the last 18 months, New KCC has increased the producer price per litre of milk to around Ksh 20 from Ksh 8 paid out previously.
Meanwhile, the poor performance in Agriculture has been attributed to unpredictable weather conditions and poor infrastructure, leading to delays in transporting both inputs and outputs.
Peter Muthoka, Managing Director of Sasini Tea and Coffee attributes the decline in the tea industry to climatic conditions. Figures indicate that the tea industry recorded a decline, with production falling from 328,500 tonnes in 2005 to 310,600 tonnes in 2006, a 5.4 per cent drop.
Muthoka says the decline was also due to the continued strengthening of the shilling over the past few months.

"The overall tea production and turnover has been higher than the previous period. Profitability has, however, been affected by the strong shilling and the continued rise in costs of labour and farm inputs," he says.

Figures indicate that smallholder sub-sector production declined by 3.3 per cent while the estate sub-sector's production declined by 8.7 per cent, between 2005 and 2006.

However, Muthoka says that better prices of tea were realized in 2006 with the value of tea exports rising to Ksh 47.3 billion in 2006 compared to Ksh 42.4 billion recorded in 2005. The production of coffee was also much higher, a 6.9 per cent increase, to 48300 tonnes in 2006 compared to 45200 tonnes in 2005.

Muthoka attributes this to the government's effort to boost productivity in the coffee sub sector through streamlining management of cooperative societies and writing off of non-performing loans advanced to societies.

"Favourable weather conditions in coffee growing areas and low prices of fertilizers have also boosted coffee production over the last two years," he adds.

Retail sector

The 2007 Economic Survey report indicates that the wholesale and retail trade sector's performance improved considerably, from a 5.5 per cent increase in 2005 to 10.9 per cent in 2006.

This growth is attributed largely to the rise in the wage and salaried income, leading to high consumer expenditure on food and related retail commodities.

Samson Mutisya, a retail shop owner along River Road in Nairobi believes that Kenyans love shopping. "Retail purchasing is one of the leading extra-curricular activities in our society today," he observes.

Aziz Virani, the proprietor and Director of Sir Henry's Limited says that as a result of a rise in the cost of living, people tend to change their expenditure patterns to basic items, including food, education and transport.

" The high cost of living has led to low sales, though not a drop in the business. The effects of second-hand clothes has also contributed to a decline in the clothes retail business," he explains .

Virani now urges the government to increase tax on imported second-hand clothing to ensure a level playing field in the industry.

Mwaniki Wandore, a retail and wholesale distributor in Murang'a says intense competition from large supermarket chains is hitting the small retailers, especially in the rural areas.

Manufacturing sector

Karanja Kabage, chairman of Kenya Private Sector Alliance and Federation of Kenya Employers (FKE) believes that the high growth rates recorded is due to the prevailing high expectations in the economy.

"There was a high expectation in the economy coupled by a rise in the purchasing power of consumers. This has been reflected in the growth figures that the ministry has released," says Kabage. However, the biggest challenge that the government needs to address is the issue of infrastructure," says Kabage.

"In my view, the government should address that issue as a matter of urgency because currently it is the weakest point of Kenya's economic growth and yet transport and communication is one of the key contributors to the Gross Domestic Product growth (GDP)," he says.

Soft drinks sub-sector sector

Dr Nelson Githinji, Head of Corporate relations at Coca Cola, East and Central Africa says the company's contribution to Gross Domestic Product (GDP) has more to do with new players entering the industry.

"We probably only feature as an old player, who has been there for a long time," he says.

He explains that in terms of growth, the company has been experiencing a stagnation and are already looking at ways of performing better.

He says that for the country to achieve the Vision 2030 goals and targets, every sector to be at its best. "This is not a good place to be at when everybody else is talking about over 6 per cent growth. This is because we have always kept our prices constant, despite everything else going up. We feel that if we can be exempted from excise duty, we shall be able to maintain profitability," explains Dr Githinji.

He further adds that the soft drinks industry is also faced with infrastructural challenges, including poor roads leading to wear and tear of their trucks. The company has also had to deal with rising cost of inputs and the high cost of doing business in Kenya.

"We appeal to the sugar industry to enhance their operations and possibly produce refined sugar for industrial use. We know it is a challenge because sometimes the country has to import from other COMESA countries. We would like to address these problems because we are here to stay hence the reason we do not want to be part of the problem," says Dr Githinji.

Hotels and Restaurants

“These statistics are an indication of growth in the sector. The performance has been due to a concerted effort by the government and the tourism board to market tourism,” says Mike Macharia, Chief Executive of Kenya Association of Hotel Keepers and Caterers (KAHKC).
Out of the Ksh 56 billion earned from tourism, the hotel industry raked in Ksh 35 billion.
Part of the growth has also been attributed to a rise in conference tourism, with most hotels fully booked, not only in beds but also facilities. “Hotels are expanding to accommodate this growth and by the end of this year, 200 to 300 more rooms will have been built by hotels within Nairobi,” says Macharia. He, however, mentions that the hotel industry needs to train more personnel to cater for increasing and diversified needs of the hotel business.

Survey: Economic status and living standards up

A survey conducted at the end of March by the The Steadman Group indicates that public optimism in the economy, in so far as Kenyans’ standards of living are concerned, remains very positive.
In fact the research shows that 4 in every 10 Kenyan adults think that their current economic status is better than it was 1 year ago. Moreover, almost 60 per cent think that their living standards will improve in the coming year.
Encouragingly, only a tiny minority think they will be worse off in the year ahead. The companies Group Managing Director George Waititu says that based on the results, there is high consumer confidence in the country coupled with high optimism in the coming year.
“This general public position is well collaborated by the Business Leaders Confidence Index survey which recorded a high business confidence,” he explains.
Consumers in Kenya view the short-term outlook of business conditions with a relatively high degree of optimism. Those anticipating business conditions to worsen in the next one year are only 8 per cent, indicates the report as opposed to almost half.
“Although less than a third of Kenyans think that there are now more employment opportunities than a year ago, they do have a very positive outlook of the labour market. About 46 per cent of those interviewed are upbeat about future employment opportunities. Only a quarter anticipate that fewer jobs will become available in the coming year,” reveals Waititu.
Confirming their positive impressions about the economic situation of the country, two thirds of Kenyans are very upbeat about the purchase of high ticket, capital items and expect the trend to continue into next year, according to the Consumer Confidence Index which is carried out quarterly among 2000 adults across the whole country in both rural and urban areas.
The MD says that Kenya consumers are also very optimistic on spending on household durables.
He explains: “Again two thirds thought it had increased in the last two years and would continue to increase in the coming year.”
Equally, Kenyans expect that their spending on basic products will continue to increase in the coming year, shows the research which trends the public’s views of their economic status, business conditions, purchasing of capital items, durables and consumables as well as employment opportunities.
Arguing that the information from this research is an invaluable companion when assessing the trickle down effects of changes in Gross Domestic Product (GDP) and when predicting short-term consumer purchasing behaviour, Waititu discloses that for credibility, a sample size of 2,027 respondents was drawn to achieve a 35:65 urban to rural ratio.
This survey was conducted in 53 administrative and geographical districts in Kenya with face-to-face in-home interviews being done at household level to allow further probing as respondents have more time to respond to questions as compared to street interviews.

Portland cement to double its capacity

By **Samwel Kumba**
When the minister for Planning and National Development Henry Obwocha released this year’s economic survey, last week, he indicated that the building and construction as well as the manufacturing sector were among the key contributors to the impressive 6.1 per cent Gross Domestic Product (GDP) growth.
The survey demonstrates that the manufacturing sector contributed 6.9 per cent while the building and construction 6.3 per cent. Similarly, transport and communication contributed 10.8 per cent.
The Financial Post (FP) caught up with one player, the East African Portland Cement Company (EAPCC) Limited, to establish if the said growth is in conformity with the company’s fortunes.
Undeniably, the company’s General Manager-Commercial- discloses that the company was not even able to meet the demand of cement in the market.
“We have been under immense pressure from customers who have been asking for more and more cement to extent that we had to cut down on our export business by half,” says Caleb Kapten, the company’s General Manager-Commercial division.

It also since emerged that the growth in the demand for cement was not confined to Kenya. It was a regional phenomenon including in Uganda, Rwanda, Democratic Republic of Congo (DRC) and Southern Sudan.
Neither was it unexpected as Kapten explains: “The pressure has been building since early last year but it reached the crest this year. However, we are first obligated to satisfy the domestic market before we can export. This is despite the fact that we have a huge demand from the regional market.
As a company we anticipated this growth. And from our own installed production capacity we knew that it was not going to be possible to meet the growing demand. We therefore came up with strategies on how to cope with that.”
They met huddles along the way. Their biggest constraint was to acquire a clinker to assist in the production process. Evidently, in their strategic plan, the company has embarked on importation of the clinker as part of a solution to meet rising demand.
“We encountered challenges along the way and we are not able to import it. Because of that we have had a sales opportunity loss of up to Ksh 600 million,” indicates Kapten.

Profitability
From the year 2003 EAPCC has been improving in terms of profitability. That year, the company recorded a net loss of Ksh 269 million.
However, the company showed some improvement the following year when, as at December 30, 2004, the half-year results recorded a net profit of Ksh 252 million from the previous net loss of over Ksh 355 million for the half year results.
Despite this improvement, the company made a net loss of Ksh 191 million for the year 2004 which was, however, an improvement compared to the previous year’s performance.
Kapten told *FP* that the company was to make a turnaround the following year-2005- when it registered profit before tax of Ksh 1.086 billion resulting in a net profit of Ksh 607 million.
The year-2006 was also not quite impressive. The company posted a decline in the profit margins registering profit before tax of Ksh 924 million and a declined net profit of Ksh 411 million.
The GM says that following this year’s half results which the board approved in mid February this year, the company should record better performance given that the half year results before tax as at December 2006 stood at Ksh 1.039 billion as compared to Ksh 857,413 million recorded over a similar period the year before.
“In general, the trend has been impressive on the upward. This means that our sales volume has been improving which translates to better asset utilization. Similarly we became more and more efficient. We controlled our cost of production,” explains Kapten.

Demand
The current demand of cement in Kenya is 1.8 million metric tones per annum with projection ripe that it will increase to 2.2 million metric tones per annum-an increment of 400,000 tones.
Out of this, EAPCC commands a 37 per cent market share. The rest is shared between the other competitors-Bamburi Cement and Athi River Mining.
Kapten explains: “The projections in the cement growth over the past two years have always been surpassed by almost 50 per cent. Even this year, it may turn out to be the same. This poses a major challenge in terms of our preparedness to meet the demand. For example, last year we projected an 8 per cent increment but it turned out to be 12 per cent. The other year the projection was again 8 per cent but it turned out to be 15 per cent.”
And unfortunately in the cement manufacturing industry, it takes a while for the expansion to be felt. FP learnt that it takes almost two years to conclusively record an expansion.
Take EAPCC, for instance, which initiated an expansion programme in October. Kapten projects that the effect will be felt late next year. And he is convinced that once the expansion is concluded, the company will more than double its production capacity from the current 700,000 metric tones per annum to about 1.3 million metric tones.
It is expected that a new player is to enter the market in the name of Tororo Cement, to be located next Bamburi Cement.
“As a company, we are widening the production. The pressure we have experienced in the past is the inability to project what is likely to happen even in the region. Take Southern Sudan for instance. There is no knowing what is likely to happen since there are no well structured systems in place,” explains Kapten.

Housing and construction
He says there is evidence that the economy has grown, given the number of real estate development projects springing up in the country, creating a huge demand for cement.
This massive construction creates demand for cement and can only be possible if people have more incomes.

Another indicator is in the financial sector where banks are awash with cash. He explains: “This means there is idle capital which must have come from growth of the economy. This means people are earning more and businesses are making more profits. This also means at individual level either the salary of employees has improved or the individuals are in business.”
Similarly road construction is ongoing across the country with major roads either being repaired or expanded. In all these construction, there is cement involved. “We want the government to increase usage of cement in road construction. So far, we have demonstrated this on Nairobi’s Mbagathi road, which is purely done on concrete.

Southern Sudan
This has become a major investment attraction because it is virgin and the world thinks that it owes Southern Sudan an apology. Unfortunately, it is in the formative stages.
Kapten explains: “A lot of structures have not been put in place but once they are, Southern Sudan will emerge as the most attractive business destination. Evidently, profit margins in Southern Sudan will be higher.”
The common challenge for business people today in Southern Sudan is communication. As it stands, it is fairly expensive to move products into Southern Sudan. However, the road network is being improved.
And the businesspeople operating there are feeling the improvement. “When we started sending cement to Southern Sudan, we were paying Ksh 17.5 thousand ($250) per tone as transport. The cost of cement then was Ksh 3.35 thousand ($105) per tone. But as the road network kept improving, we are now in the region of Ksh 11.9 thousand ($170) per tone. And I am foreseeing this coming further down to about Ksh 9.8 thousand ($140) per tone.”
Lack of proper governance structures and proper licensing and taxation procedures are some of the trade barriers in Southern Sudan too. Currently, it is only the government and non-governmental organizations (NGOs) one can deal with since the private sector is yet to develop.
According to Kapten, there is also fear that peace in Southern Sudan might not have been fully integrated. However, he argues that the government is trying to put the infrastructural ingredients in place including electricity.
The other major barrier, he says, is the fact that there are no courts.
He explains: “This means there are no structures for arbitration and this is unfavourable for business. There is also the issue of the Islamic law and a mixture of the English law which the new Southern Sudanese government is embracing.”
Also adding that there is no proper accommodation in Southern Sudan, Kapten reveals that getting a suitable office structure is also a herculean task. There are no hospitals and banking institutions except Kenya Commercial Bank (KCB) and two other Arabian banks.
But he confesses that every month one goes to Southern Sudan, there is an improvement and there is a lot of goodwill from the business community.

Strategic Plan
Taking cognizance of their constraints, EAPCC in its strategic plans has incorporated the need to improve production. Their main challenge remains acquiring a clinker.
“In the short term, we are trying to fine-tune our equipment in order to exceed our installed capacity. We have achieved this in the past. In the long term, we have also embarked on an expansion programme since last October. We hope that by next year, we will have doubled our capacity,” explains the GM.
The cost of production continues to be a major challenge for the entire cement industry. And one of the strategies used in the cement industry is pricing. Price is usually determined by the cost of production. This means that failure by any company to control and manage the cost of production can easily drive a company out of business.
Kapten explains the case for EAPCC: “As we speak, almost 50 per cent of our cost of production is power related. This is in terms of electricity and furnace oil. We are lobbying the government to waiver tax on industrial power.”

Coal in Kitui
The company uses furnace oil, which it feels should be converted to coal.
This is because the cost of coal is currently half that of furnace oil. EAPCC faces the challenge of acquiring the right technology to achieve this conversion.
Further, the company has to deal with transportation of coal, given its bulk size. The most logical supplier of coal is either South Africa or India.
FP has since established that there could be coal deposits in Kitui.
“In the event that the coal deposits are found, the company plans to marshal financial resources to exploit it by acquiring the new firing technology.

This will result in substantial reduction in the company's cost of production and a fall in the price of cement," he says.
Under the aegis of East African Cement Manufacturers Association, cement manufacturers have made budget proposals to the government, covering issues affecting the industry, including research and cement standards. When *FP* inquired on the company's drop in exports to Uganda, Kapten says the company had to satisfy the local demand first.
"Although we cut our exports to Uganda, it is not that we are unwilling to sell more there. It is because of the demand pressure here at home," says Kapten.

Coffee farmers in South Nyanza region step up production

By **Omanga Oirere**
Buoyed by the government's move to write off millions of shillings they owed a local bank, coffee growers in South Nyanza have stepped up production of the crop with a record 30 percent increase in the amount delivered to different millers over the past five months.
The over 50,000 coffee growers in Kisii, Nyamira, Gucha and Rachuonyo increased their output from 8 million kilograms by the end of last year to slightly over 12 million kilograms last month.
Several coffee farmers' cooperative societies that collapsed over the last ten lean years are now being restored to life as coffee deliveries start trickling following the scrapping of the stifling loans they owed Cooperative Bank.
"The notable increase in coffee production is linked to the fact that the coffee societies' bank accounts are no longer being held to ransom by Cooperative Bank over unpaid loans and this has made it possible for all coffee earnings to go direct to the farmers," says David Mwangi the Kenya Planters Cooperative Union (KPCU) regional manager.
By the time the government announced the cancellation of the Ksh 3.2 billion owed Cooperative Bank by coffee farmers in the country, the 25 coffee societies in South Nyanza were sagging under a Ksh 72 million loan, being part of the total that was written off in favour of growers countrywide.
With only Ksh 12 million Stabilization of Exports (Stabex) loan arrears yet to be paid, the societies in the region have now only to grapple with staff salary arrears and which are being settled gradually from the 20 percent of the total income allocated for their operations.
"There is no way this money would have been repaid by these societies and the hope of reviving coffee farming in the region had been dashed by the huge loan," adds Mwangi.
The KPCU regional office in Kisii, Mwangi says, has in the first four months of this year received 30,000 bags of parchment coffee up from the 10,000 bags received for the entire period of last year.
According to Mwangi "Writing off the huge debts now leaves the management committees of these cooperative societies to focus on the medium and long term strategies to sustain the achieved growth in 2006/2007 production year."
The latest development in the coffee sector, which had remained dormant in the region for over a decade, has seen some stakeholders in South Nyanza express optimism at the possibility of the quality and quantity of the crop maintaining a steady improvement.
Increased earnings are expected over the next one year to correspond with the marked improvement in the amount and grade of the crop, which has been ranked fourth in prominence in the region after tea, horticulture and food crops.
Although the societies can now breathe following the debt write off, they still have to repay some Ksh 12 million advanced to them under the Stabex program.
Says Mwangi "The 79 factories of these coffee societies are in a deplorable state and in need of urgent renovation so as to improve their capacity to process coffee."
The quality of the coffee, the KPCU official says, " is compromised right from the factory level where processing is poorly handled and this, added to the poor husbandry of the crop, may work against efforts to revive this vital sector of our economy."
As a first measure to sustain the tremendous 2006/2007 growth of the coffee sector in South Nyanza, Kendagor of CBK suggests drastic change in personnel recruitment and management. "It is true the loan burden has been reduced and phenomenal growth realized in the region's coffee sector especially during the 2006/2007 period but unless factory managers are trained, there is a possibility of the sector stagnating again," Kendagor predicts.
Three years ago, the European Commission had, in a report, called for measures to turn coffee cooperative societies into credit worth institutions if the coffee sector was to be revamped again. The report titled Assessment of the Value-Adding Opportunities in the Kenya Coffee Industry; the EC proposed the rescheduling of the loans owed by the cooperative societies as one way making them attractive to creditors.
The government may have heeded the advice three years later but for the coffee growers of South Nyanza, the cancellation of their loans would not have come at a better time.

Access to high quality pay-TV

By **Samwel Kumba**

It all happens at one time or the other in almost everybody's career. This is finding yourself in a job that is uninspiring and a drag, with a lack of friendly working atmosphere and all.

Come Monday, the only reason pushing you to report to work is perhaps a mortgage, rent and other bills to pay as well as lack of a better thing to do.

But matters become even more complicated when a high profile, six-figure job, complete with all the privileges of a manager's office suddenly become unappealing and lacklustre. Anybody intending to give up a high managerial job is viewed as crazy enough not only by colleagues but also close relatives and dependants. It is under the above circumstances that, one Julian McIntyre, found himself five years ago.

McIntyre was convinced that he could no longer be an employee and opted out. Earlier on, armed with a first class degree in computer science and business from the University of London, he secured a comfortable job at a financial institution. But at the back of his mind, he always wanted to be an entrepreneur.

He rose to become Vice president- Global Markets division of Deutsche Bank, where he held various responsibilities, including trade and research. This was between 1997 and 2000. At a youthful age and a whole life ahead of him, Julian started his career as an options broker for Chase Manhattan, where he worked from 1996 to 1997 before moving to Deutsche Bank.

Gateway Communications

Having held senior positions and responsibilities in these organizations, Julian finally made a decision to quit. He relinquished his job, pay and privileges and co-founded Gateway Communications in 2001.

He is currently CEO of the company, running its financial, commercial and business development lines.

At Gateway, Julian has been behind the company's huge capital raise, estimated at over Ksh 17.5 billion ($250 million). The company has also made a number of acquisitions, including First Net, Link Africa and GS Telecom. Presently, he is director at all these companies.

The 32-year old Julian, owns the multi-billion Gateway Communications- a company that is soon to launch GTV, a pay television. It intends to roll out this product in Africa, using Kenya as a launching pad in East Africa.

Today, Gateway Communications- pan African telecommunications company-services some of the leading blue chip companies in Kenya and the world over. Some of the big names on its list include Barclays, Celtel, Coca-cola, ExxonMobil, MTN, Procter and Gamble (P&G), Shell and Unilever.

Well over 20 per cent of all African satellite cellular backhaul services are carried over the Gateways network.

Julian is considered one of the key players in the telecoms industry in Africa, especially over the last five years.

Asked why he preferred starting his own business, giving up a well paying job, he says:

"While I was working, I learnt a lot but I always saw entrepreneurial skills as more exciting. I wanted to work on new markets. My experience in Africa has been so rewarding that I have never turned back."

In Kenya, the introduction of mobile phones has led to an increase in telephone penetration, paving way for the successful development and growth of a multibillion shilling industry.

According to Julian, this phenomenal growth in communication indicates what will happen in pay television sector.

"There is a huge potential for
pay television considering that a few years ago communication was not accessible to the extent that even getting a fixed line was difficult. Communication was very expensive and people were not aware it was available. Such is the potential of pay TV," explains Julian.

GTV-a dynamic new Pan-African pay TV service delivering choice, quality and innovation to a new breed of TV viewers, according to Julian, will redefine pay-TV in Africa.

He explains: "GTV is committed to supporting local content as well as offering major international programming ideal for the whole family viewer ship. It will be available from the end of this month, with a phased roll-out across sub-Saharan Africa. The service, being provided by Gateway Broadcasting Services (GBS), a subsidiary of Gateway Communications, will substantially reduce the cost and ease of set-up for customers."

GTV: Why Kenya and why now?

Julian says that for the Kenyan market and by extension Africa, this is the right time because consumer electronics, satellite broadcasting, payment mechanisms, premium content as well as accessible pay TV are now within reach.
He expounds: "It is the most exciting market I have ever explored. I know the market has been waiting for this and it will obviously grow. We have seen similar growths in the mobile and telecommunication sector. All we need to bring is a workable business model. The country and the continent are undergoing a significant economic cycle and is the right time to launch such products."
Africans, like everyone in the world wants to be entertained. They want rich TV content both local and international as well as movies, comedies and news. Very few people today have pay TV. Maybe because it is expensive, not accessible to them and the companies that are offering the services have not done a good job in making people associate with it.
According to Julian, this partly explains why he came up with the idea to utilise this opportunity to get into Africa.
Listen to him: "To me this is so fundamental and so compelling because everywhere in the world there is a double digit and growing penetration rates in pay television. Africa is the only market that has a single digit and highly underserved."
African Media Development Initiative: Kenya Report, 2007, indicates that less than 1 per cent of television-owning households in sub-Saharan Africa currently subscribe to pay-TV services, compared to 15 per cent in Eastern Europe, 36 per cent in Western Europe and 93 per cent in North America. In Kenya, of the 2.2 million households with televisions, only 23.1 thousand subscribe to a satellite service.
This leading independent research bears out this historic under-performance and lack of value for consumers. Growth in Kenya's TV sector has been slow over the past five years. Satellite subscriber numbers have not shown any great growth, with monthly subscription costs remaining beyond the means of most. The TV market in Kenya faces challenges revolving around financing, low quality production, presentation and lack of local content.
However, Julian is convinced that if his company launches a product that is highly reliable with the content that people want and make it available at the right price, it will have broken substantial market that will easily earn him millions of subscribers.
Julian has so far invested about Ksh 3.5 billion ($50 million) in the first phase of the project.

Challenges
The biggest challenge Julian faces is convincing the market that a high quality choice of service in a TV that is affordable is within reach.
"Our major task is to get rid of the idea that pay TV is unaffordable. People would like a few more specific channels but they consider it way too expensive," he explains.
Arguing that his own mother could accept to pay for TV when she could access a few channels for free, Julian is not surprised that currently, she buys over 200 channels from 2 different providers. Julian does not believe that a market with a 1 per cent market penetration like Kenya poses any competition.
"We are only coming to grow the market. A number of people are not serviced with Pay TV yet they have the potential," he argues.
While appealing to young African entrepreneurs to rise up to the occasion, Julian points out that a strong entrepreneur can be known from how one behaves not when times are good but when they are bad.
"I believe that all successful businesspeople have absolute determination and this is what I expect of young African entrepreneurs. They should learn to fight back," he asserts.
Among GTV's own channels will be 'G Prime', an exciting entertainment and movie channel, and 'G Sports', showing the best in live international and African sports including European football.

Race on for drivers of local motor market

Kenya's motor industry, a mere dot on the world motoring map, punches well above its weight. However, the demand in the local market has led to the battle for the growing consumer base for motors, **Mwangi Maingi** writes
Five years ago, things looked murky for the automotive industry due to the depressed economic environment and increased competition from second hand vehicles.
However, amidst the constraints facing the motor industry including continued rise of fuel prices on the global market, competition from cheap second-hand imports and poor state of roads, the industry is said to have experienced a boom as indicated by the 2007 Economic Survey report.
The survey report indicates that the number of road vehicles registered in 2006 increased to 52,817 vehicles from 45,653 registered in 2005.
This growth is attributed to the entry of more players in the industry with the most established being Toyota (East Africa), Cooper Motor Corporation (CMC), General Motors, Simba Colt and DT Dobie.

Another report by the Kenya Motor Industry Association (KMIA) shows that 52,817 units have been registered in the past one year with 14,829 saloon cars, 12,631 station wagons, 6,721 vans, 3,610 trucks, 856 buses, 3,714 matatus, 6, 250 motor cycles.

Overall, KMIA says that motor industry is finally on the fast lane after a decade of difficulty.

According to the General Motors East Africa (GMEA) Marketing Director, Rita Kavashe, growth in the construction industry over the last one year has led to the increase in demand for pickups and trucks, used in the transport of building materials.

Further, the works and general repairs being done on the road infrastructure in the country has created more demand. This, according to Rita, has seen the company market share rising to 17.8 per cent compared to 15.3 per cent in 2005.

"For a period six months, as from January to April this year, we have registered a significant growth in almost all segments of the market. Public Service Vehicles (PSVs) business has grown by 106.3 percent, especially the 25-51 seater segment. For heavy-duty trucks and prime mover segments, the business has grown by 33 percent and 36 percent for pickups," Rita says.

Kenyans especially in the transport business are investing in bigger capacity buses for better returns.

On the other hand, Toyota East Africa for the last five years retained its leadership in the market position, with the current milestone record share of 20.7 per cent. In 2006, TEA sold a total of 2506 units both in domestic and export, with the number expected to be much higher today.

According to a source in the company, it has managed to become a market leader and remain profitable because of the careful choices made on the cars to launch and a good understanding of the East Africa market.

According to a publication on global index of illicit market, *Horoscope* Kenyan motor dealers have lost 65 percent of their market share to counterfeits in 2006, up from 50 percent in 2005. In addition, the publication reports that over 80 percent of Toyota parts in Kenya were found to be counterfeit.

However, a source in the industry confirmed that Toyota East Africa has dispatched detectives to establish the source of the counterfeits since all its imports are inspected at the Mombasa port and other ports of entry to ensure that they are up to standard.

"New vehicle sales per month is well within the market's purchasing power, especially in the current boom. However, fewer people are investing in new vehicles," he says.

In 2006 GMEA sold a total of 1,938 units both in domestic and export. For the last six months of 2007, GMEA has sold 777 units.

"With the rise in demands for minibuses and lorries, the company is collaborating with local banks and insurance companies. The objective is to ensure that its clients get supplies of essential goods such as tyres and flexible attractive packages during this transition period to higher capacity buses," she says. GMEA is the leader in this segment at 66 per cent market share.

Mike Duder, the Sales Manager of Mercedes Benz (a product by DT Dobie), concurs with Rita that the country's motor vehicle industry can develop if there is a level playing field for new and second-hand motor vehicles.

"There should be uniform duty for all. Motor industry stakeholders have been lobbying the government to address this issue," he says.

Both Toyota East Africa and DT Dobie have benefited from huge government orders as the company largely undertakes the supply of government and parastatals vehicles, with Toyota exclusively supplying the police force.

CMC Motors Group, listed on the Nairobi Stock Exchange and franchise holder for Land Rover, Mazda and Ford Ranger has recorded lower new car sales in the last few years.

The motor industry in Kenya has been facing numerous challenges over the years, including the flooding of the market with used vehicle imports.

Rita says other challenges include the *mungiki* menace on the PSV business, which has led investors to panic leading to a drop in sales. This, according to her, has been made worse by the issue of unleaded fuel.

"The introduction of low sulphur fuel will open up great opportunities for the automobile industry," says Rita. "Currently majority of the models on the world market cannot be offered in Kenya as their engines are too advanced for the low quality fuel."

The industry nevertheless has received support from the financial institutions especially on motor vehicle financing.

Customer-care by the players in the industry has also taken centre stage as players evolve new strategies to survive in a depressed market. One such innovation is the 'full maintenance leasing,' whereby companies can pay in installments but the dealer undertakes to maintain the fleet. Fleet owners are said to prefer the leasing to cash or hire-purchase schemes.