

Republic of Kenya

**Preparatory Survey on BOP business on  
High-Value Added Skin Care Product  
Business by Using Surplus  
Agricultural Crops to Benefit Small  
Scale Farmers and Women**

**Report  
(Summary)**

**January, 2016**

**Japan International Cooperation Agency (JICA)**

**ROHTO Pharmaceutical Co., Ltd.**

**Alliance Forum Foundation**

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# **1 Survey Overview**

## **1.1 Background and Objective of the Survey**

### **1.1.1 Survey Background**

Having 60% of the workforce engaging in the sector, agriculture is the important drive contributing to socio-economic development of Republic of Kenya (hereinafter “Kenya”). In order for the growth of the agricultural sector, the small scale farmers who produce about 70% of the agricultural products in the market are the key players. Especially, it is essential to improve the productivity and to add values to their products. However, their productivity remains very low. Additionally, most of the small scale farmers typically suffer from low management capacity on productivity and quality control, monoculture production that is greatly affected by seasonality and lean harvesting, unequal buying price lowered by middlemen, and wastage generated by lack of storage or disqualification to the standard. There are some efforts to add values to the products by introducing food processing, but most farmers could not market their products effectively since they lack the knowledge on the market trends to make the packaging or branding attractive. As a result, product development or the sales itself have remained restrained.

Therefore, in order to contribute to the income generation of the small scale farmers, the support to improve the productivity as well as the support to make them understand the needs of the market are important. In that sense, the assistance has to be provided through the entire value chain system, from production to storage, processing, and sales.

### **1.1.2 Survey Objective**

This survey was conducted to develop skincare or haircare products that are made from the agricultural products of Kenya, especially those which will be disposed otherwise. Through the sales of such products, Rohto Pharmaceuticals Co., Ltd (hereinafter “Rohto”) especially focuses on involving the low income small scale farmers into the value chain so that they can be benefited by increased productivity or income. Additionally, in the future, Rohto aims to provide employment opportunities to women at its factory so that the business can contribute to women’s participation in the society as well.

## **2 Summary of the Survey**

### 2.1 Summary of the Survey

#### 2.1.1 Outcome of the survey and its evaluation

This survey was undertaken by taking the following steps: 1) examine the potential demand in haircare and skincare market with special focus on awareness and perception of Kenyan women toward health and beauty by understanding social and economic situation which surround them, 2) design and develop products for test marketing to examine if they meet market demand, and 3) identify surplus crops that can be used as ingredients from the perspective of availability, marketability, and social impact.

The result suggests that there is potential for high demand of haircare products in Kenya. Supporting macro factors include high economic growth rates of the countries, rapid increase in the number of youth and middle-income households, and women's social advancement. In addition, high share of hair dressing expenses in total household expenditure as well as strong relationship between women's hairstyles and social status are also considered to be the driving force for the market growth. Products designed in this survey are expected to propose a new value to Kenyan women, which accords with the mission of Rohto called "Happy Surprise<sup>1</sup>". The business model developed through the survey could also work as a stepping stone for the future expansion of Rohto to the East African Region.

Several challenges are also identified through this survey. For instance, ensuring the profitability of the business is not easy because the size of economy is small and the number of the wealthy class is still limited compared to Asian countries where Rohto conducts business. Also, as the business concept is new, it requires some time to establish a brand and concept to penetrate the market. Finally, as a result of production survey and test marketing, lack of human resources in production and sales is recognized.

Based on the results of the survey, it is decided that the business goal should be set to achieving profitability in the medium term rather than seeking short term profit as it may not be realistic considering the time required to create the market. As the first step, Rohto will establish its brand in the luxury haircare product segment in the country. Then the profit will be sought by progressively expanding the segment in Kenya, and at the same time, transplanting the business to other Eastern African countries. The business will be launched in 2016 by importing products from Asia, some of which are prescribed for Kenyan women, and if the brand is successfully built and also market is found to be promising, new products in different customer segments may be sold, and in the meantime local production and raw material procurement will be explored.

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<sup>1</sup> Rohto is committed to the spirit of this slogan as it aims to become a constant source of surprise and happiness for customers and society at large.



### 2.1.2 Evaluation for Commercialization

The major reason for commercialization is high potential demands of the market and strong connectivity with the regional strategy. In Kenya, it is a tradition for women to weave their hair, and this constitutes a major part of women's fashion and social status. Recent economic development changed the lifestyle of urban women dramatically, and the importance of stylish hair is increasing due to the social advancement of women. However, many women suffer because such customs like weaving puts stress on the scalp, which causes dandruff and itchiness leading to a receding hairline and hair-volume. Therefore, scalp care is indispensable for women who wish to enjoy their hair style in a long term. Haircare and skincare market in Kenya is very competitive as the products from the EU, United States, Middle-East and India flow into the market. In order for Japan brand, new entrant, to successfully establish itself in the market, either the massive advertisement or development of innovative products that can create new market segment is needed. Although the concept of scalp care is still not known in Kenya, there is a high potential if the market is successfully created. Also, development of functional products is the specialty of Rohto, and the products backed with evidence gained through medical research in its lab will convince customers the effectiveness of the products which can differentiate them from those of other brands. Since the potential of such new market cannot be evaluated just by financial indicators, the business will start in small-scale and gradually expand by reflecting the feedbacks from customers and improving the product.

### 2.1.3 Initial Business Model and Assessment

In this survey, potential demand of scalp care was first identified through interviews and questionnaire surveys, followed by designing of marketing channel and product concept. For effective development of scalp care product market, close communication with potential customers to make them familiar with the concept of scalp care and stimulate demand for scalp care products is essential. Therefore, it was assumed that beauty salons in Kenya could be an effective marketing channel because Kenyan women receive information and advice on their hairstyle as well as hair care at beauty salons. It was also hypothesized that the provision of spa service along with the sales of the products could facilitate customers' understanding of the concept and value of the products. Finally, the feasibility of local production was examined to explore the potential of making social impact. This survey focuses on haircare market and does not include the skincare market because at the early stage of the survey haircare market was found to be more promising. The assessment result is summarized as follows:

	Hypothesis	Verificaion Methodology	Result
1	Potential Demand of Scalp Care in Kenya	Shop survey, Salon Survey, Customer Interview, Questionnaire Survey	<ul style="list-style-type: none"> <li>➤ Kenyan women suffer from hair loss, dandruff, itching</li> <li>➤ Products available in the market alleviate the symptom of dandruff and itching, but do not improve the condition of scalp</li> <li>➤ Kenyan women accept the trouble as inevitable and their needs are not obvious</li> </ul>
2	Marketability of Scalp Care and Hair Growth Products	Salon Survey, Customer Interview, Household Survey, Focus Group Interview, Test Marketing	<ul style="list-style-type: none"> <li>➤ Working women in their 20s-30s are concerned about receding hairline</li> <li>➤ Hair dressing represent social status and their interest in hair growth is high</li> <li>➤ Many expect immediate effect and their understanding about the necessity of continued scalp care is low</li> </ul>
3	Viability and Effectiveness of Providing Spa Service at Salons	Salon Survey, Test Marketing , Questionnaire Survey	<ul style="list-style-type: none"> <li>➤ Salonists are the source of information and fashion advisor for Kenyan women</li> <li>➤ Acceptance of spa services at salons is high</li> <li>➤ However, training Salonists is difficult and alternative measure is needed to promote the products</li> </ul>
4	Feasibility of Local Production	Raw Material Survey, Oil Refiner Interview, Cosmetic Producer Interview, Packaging Company Interview	<ul style="list-style-type: none"> <li>➤ Procurement cost is high and the stability is low for oil</li> <li>➤ Purification technology is limited and oil refining with a small lot is difficult</li> <li>➤ Technical level of cosmetic producers and the package manufacturers is insufficient to produce high-end hair care products</li> </ul>

**Figure 1: Assessment Result of the Proposed Business Model**

#### 2.1.4 Assessment Result 1: Potential Demand of Scalp Care in Kenya

The results of the questionnaire survey shows that Kenyan women suffer from hair loss, dandruff, itching, and they also recognize the damages to the scalp. There are products to alleviate the symptom of dandruff and itching, but they do not improve the condition of scalp. Some products claim on the package that it makes hair grow but no such hair growth component is found on the ingredient list. Although Kenyan women accept the trouble as inevitable and therefore their needs are not obvious, the survey result shows a strong interest in the product that prevents hair loss. Therefore, it is assumed that if the measures are taken effectively to make the needs visible, the demand will increase.

#### 2.1.5 Assessment Result 2: Marketability of Scalp Care and Hair Growth Products

In the focus group interview targeted at working women in their 20s and 30s, many are found to be concerned about receding hairline, and the problems of scalp damage. Moreover, since hair dressing represents social status, their interest in hair growth is high. On the other hand, many expect any product to show immediate effect, and their understanding on the necessity of maintaining healthy scalp is low. Thus, a close communicate with customers to make them understand the importance of continued scalp care is essential.

### 2.1.6 Assessment Result 3: Viability and Effectiveness of Providing Spa Service at Beauty salons

Test marketing undertaken in several beauty salons using prototype products confirmed that the customers' acceptance of spa services is high, and the procedures of spa service given by persons in charge of shampoo is also found to be feasible. In addition, by giving incentives to Salonists, they actually recommended the target products to the customers. However, since Salonists are self-employed working on commission-based, beauty salons which actually buy the products cannot order Salonists to recommend particular products, and therefore it is difficult to ensure the communication with the customers. Direct training to Salonists is not practical at an initial stage because learning how to describe the concept of the products and explain the features to the customers will take too much time for the Salonist whose main service is hairdressing, and unless financial return is clearly shown, there is no incentive for her to learn a completely new concept. Therefore, it is concluded that the sales representative needs to be trained by Rohto itself to establish the sales channel through beauty salons.

### 2.1.7 Assessment Result 4: Feasibility of Local Production

According to the results of the raw material procurement research, surplus crops can be best utilized as the form of oil because it only requires simple technology which can be realized in Kenya. After examining several crops, soybean oil was selected based on cost, efficacy, novelty, adaptiveness to scalp, and effect on hair growth. Then research was conducted to verify the potential of producing refined oil using locally produced soybean.

There were major conditions that have to be overcome to realize local production, which were 1) stable raw material procurement for the production, 2) purification technology of oil that can be used as cosmetics, and 3) the production of cosmetics. First of all, although the procurement cost is high the stability of the procurement volume is low. In addition, manufacturers with adequate level of purification technology are limited. Edible oil manufacturers with high purification techniques are reluctant to work as Original Equipment Manufacturer (OEM) with a small lot Rohto requires for its products. Furthermore, technical level of cosmetic producers and the package manufacturers is found to be insufficient to produce the luxury haircare products. Therefore, it is decided to first introduce the products by importing from Rohto's other global facilities. However, since the import cost of finished products is high, the possibility of local production will be continued to be sought to be deployed in the business expansion phase.

## 2.2 Area of Potential Cooperation with JICA

### 2.2.1 Necessity of Cooperation

As explained in the previous chapters, for Rohto to shift the production to Kenya, it is fundamental to be able to procure high quality refined oil in a small lot which can be used as cosmetic products. Although the quality level can be fulfilled by existing oil refiners, the procurement in a small lot can be a challenge. Therefore, building the production system in cooperation with the research institutes such as JKUAT and KEFRI would be one option. Although there is a need to train engineers who conduct oil refining, it is difficult for Rohto itself alone to offer training while creating production system on site. Especially, it needs certain period to install equipment and train engineers on basic knowledge and handling of equipment. The collaboration with research institutes could be a way to overcome such limitation of capacity.

Another challenge for the local production is the stable procurement of soybean which is one of the main ingredients to produce cleansing oil. The bottleneck for stable procurement is weak organizational capabilities of soybean farmers. Therefore, there is a need to support the organization of the farmers and facilitate soybean production and procurement system.

### 2.3.2 Potential Business Cooperation with JICA

To build oil refining system in cooperation with local research institutes, it is desirable to align with JICA's training programs in Japan. The selected staff from the institutions such as JKUAT and KEFRI will be invited to Japan by JICA and will have training on oil extraction and refining skills and handling of equipment especially for cosmetic oil. After they return to Kenya, they will produce cosmetic oil under the guidance of Rohto. Since JICA has an experience on supporting JKUAT, KEFRI and other institutions as counterparts, it is expected that cooperation with these organizations can be a realistic approach.

To organize the soybean farmers, collaboration with JOCV is desired. In cooperation with JOCV who work for the improvement of farming production, detailed study on incentives of farmers, and the measures to involve in the business will be considered. Also, JOCV will offer guidance to soybean farmers on production. The oil refiners or research institutes will purchase soybeans, and Rohto will purchase refined oil.

## 2.3 Social Impact

The social impact this project aims to generate is to improve the low and unstable income of small scale farmers by involving them into the value chain of the proposed business. The small scale farmers will participate in the proposed business as the producer of the soybeans, which will be used as one of the raw materials of the newly developed haircare products. Soya

will be used in an oil format, which most likely to be pressed by Rohto's contractors. Rohto aims to contribute improving their living in a long term by providing a stable income generating opportunity.

### 2.3.1 Situations of the BOPs

The production of soybeans in the Western Region of Kenya started in the late 1990s. The area became to known as "Soya Belt" especially after 2010s when Promasidor or Dominion Farms, large domestic soya processing companies, started to domestically procuring soybeans actively. Today, since the volume of soya production is lower than the demand, its buying price is comparatively higher than the global market. This is encouraging many farmers to increase the soya production in the future. However, business-wise, this high buying price is exactly the cause of impeding the soya farmers to be included in the value chain of Rohto's proposed business since it decreases the cost-effectiveness of the product.

Both producers and buyers are the cause of this high buying price of soybeans. As for producers, the cost of producing soya is relatively higher than other products, such as maize or sweet potatoes. Therefore, many of the farmers cannot take a risky step to produce soya unless the buying price is high. The high cost of production is due to the lack of soya seeds that is certified by Kenya Agricultural and Livestock Research Organization (KARLO), and the labor-intensive production style. The current buying price of soybeans in Kenya is 50Ksh/kg, which is about 10-15 Ksh/kg higher than the global price in 2015<sup>2</sup>.

As for buyers, the lack of experience in organizing small scale farmers increases the cost of procurement. In Kenya, it is very rare to sign a contract between the individual small scale farmers and buyers on the buying volume and price. In the past, there was an effort to limit farmers to sell their soybeans only to certain buyers in exchange for loaning the seeds or fertilizers<sup>3</sup>. However, since the concept of "contract" was not understood by the farmers, many of them just sold to whoever came the first, or simply sold at the local market<sup>4</sup>. As a result, many buyers wasted the cost of providing seeds and fertilizers and gave up introducing the contract system. This learning led to the situation of unpredictable production size of soybeans. In other words, every season, both producers and buyers cannot be sure on how much soybeans

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<sup>2</sup> Index Mundi (<http://www.indexmundi.com/commodities/?commodity=soybeans>) [accessed on November 18, 2015]. 1.00USD = 104Ksh (November 18, 2015)

<sup>3</sup> The cost of seeds and fertilizers were supposed to be deducted from the buying price of soybeans after the production.

<sup>4</sup> This is known as « Side Sales ». Soya processing companies used to provide soya seeds and fertilizers based on the land size CBOs collected. However, in reality, some farmers reported a false land size in order to receive more seeds and fertilizers than they needed, and sell in the market. Buyers could not procure the planned volume but none the less imposed the cost of loaned seeds and fertilizers to individual farmers. Farmers suffered from the debt they could not return. Some who did not understand the concept of loaning even got angry and did not trust the buyers after. Today, it is more typical for the CBOs to loan the seeds or fertilizers to farmers since they know the situation of individual farmers in the community better than outside buyers.

would be provided or purchased in the market. This skepticism for uncertainty and unforeseeable future holds many small scale farmers back from soya production.

### 2.3.2 Social Impact Scenario and Performance Index

In the proposed business, the social impact would be pursued by solving the challenges of involving small scale farmers, the high cost of production and organizing farmers, into the value chain as producers. In detail, the proposed business aims to 1) contribute to maintain the number of soya farmers by increasing the market value of soybeans, 2) build stable contract relationship between buyers and farmers by enhancing the organizing capacity of CBOs, and 3) promote the efficiency of soya production by applying cost reduction strategies.

In order to realize the social impact scenario, Rohto plans to conduct the above mentioned strategies one by one. As for conducting strategy 1), Rohto will utilize its rich knowledge and experience in marketing. As for the conducting strategy 2) and 3), the partnership with JICA is essential to maximize the impact. However, since the recognition of Rohto brand in Kenya's haircare product market is limited, and since the local human resource with adequate level of skills is scarce, Rohto will not start the local production immediately after this survey is completed. Rather, it will first introduce its products by importing them from existing global production sites of Rohto. The domestic procurement of soybeans will also start after the local production is realized. As a result, the social impact of conducting strategy 2) and 3) will come after it as well.

By involving small scale farmers into the value chain, the proposed business intends to enhance the productivity, income, and living standard of farmers. To evaluate the social impact, the following performance index data will be collected at the start of the business. The same index data will be collected periodically to see if the assumed scenario is realized. The baseline data in the following chart is the reference collected during this survey. The number shall be replaced by the correct baseline data when the local production of the proposed haircare product is decided.

**Table 1 : Baseline Data of the Performance Index**

#	Performance Index	Baseline Data (or method of collecting baseline data)	Assumed Scenario
<b>1) Contribute to maintain the number of soya farmers by increasing the market value of soybeans</b>			
1	Acceptability of the haircare product using soybeans to target consumers	Collection Method) Awareness survey to target consumers	The recognition of soybeans contribution to health and beauty increases at the midline and endline than the baseline
2	Percentage of soya farmers among the entire farmers in the procurement area	Collection Method) Data collection from CBOs which contract with soya oil processing company	Percentage increases at the midline and endline than the baseline
3	Number of years continuously producing soya among the procurement area	Baseline at Survey) Average 4.2 years among 20 sample farmers in Bungoma, Kakamega, and Siaya (reference)	Number of years increases at the midline and endline than the baseline
<b>2) Build stable contract relationship between buyers and farmers by enhancing the organizing capacity of CBOs</b>			
4	Number of trained leader farmers among the procurement area	Collection Method) Data collection from CBOs or JOCVs involving in capacity development of soya farmers	Number of leader farmers increases at the midline and endline than the baseline
5	Percentage of soya farmers who is in a stable contract relationship with the buyers in the procurement area	Baseline at Survey) Average 35% among 20 sample farmers in Bungoma, Kakamega, and Siaya (reference)	Percentage increases at the midline and endline than the baseline
6	Percentage of soya farmers who has sold soya to buyers in the procurement area	Baseline at Survey) Average 40% among 20 sample farmers in Bungoma, Kakamega, and Siaya (reference)	Percentage increases at the midline and endline than the baseline
<b>3) Reduce production cost of soya by introducing efficient production methods</b>			
7	Soya production volume per farmer in the soya procurement area	Baseline at Survey) Average 75kg per season among 20 sample farmers in Bungoma, Kakamega, and Siaya (reference)	Soya production volume increases at the midline and endline than the baseline
8	Cost of production per total soya sales price in the soya procurement area	Baseline at Survey) About 50% in Bungoma (reference)	Percentage decreases at the midline and endline than the baseline
9	The difference in the buying price of soya per kg between the procurement area in Kenya and global market price	Baseline at Survey) Average is 50Ksh/kg among 20 sample farmers in Bungoma, Kakamega, and Siaya. The difference with global price	The gap between the price in Kenya and global market is reduced at the midline and endline than the baseline

		in 2015 is 15Ksh/kg (reference)	
<b>4) Stabilization of the living among small scale farmers through soya production</b>			
10	Percentage of soya sales among the household's total income in the procurement area	Baseline at Survey) Average is 6% among 20 sample farmers in Bungoma, Kakamega, and Siaya (reference)	Percentage of soya sales increases among household income at the midline and endline than the baseline
11	Average household income per month in the procurement area	Baseline at Survey) Average is 9,037Ksh/month among 20 sample farmers in Bungoma, Kakamega, and Siaya (reference)	Average household income per month increases at the midline and endline than the baseline





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