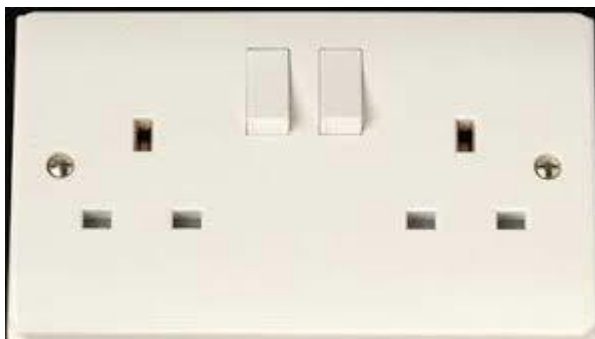


Light Up!



A Quick Guide on the Electrical Parts Retail Business



By Crack A Business Kenya

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Overview

This guide looks at the business of selling electrical parts at a retail level. This generally includes parts and equipment used to connect power to buildings; residential, commercial or otherwise. It also includes electrical utilities used by those who are already connected such as bulbs, sockets and heaters.

From conversations with players in the industry the electrical parts business has been enjoying positive growth for the last 15 years or so. This is as indicated by the increase in the number of players at all levels of the business from manufacturing to retail.

The growth of the business has been driven by a number of factors. One by the expansion in real estate. This has been due to some positive economic policies since the Kibaki era, access to credit, tenderpreneurs, devolution and public works which opened up previously inaccessible areas.

Secondly is government policy which seeks to connect as many households, hospitals and educational institutions as possible to the national grid. As a result of this demand for electrical parts from rural households and businesses has positively impacted the business.

Thirdly, but to a lesser extent, has been the on off security situation in Kenya. The threat of terrorism and even common thieves has seen many especially business units install CCTV cameras. Parts for these are either supplied by specialist CCTV equipment shops or by general electrical shops.

The Future

Although recent data from KNBS generally indicates the growth of the real estate sector has been slowing down specific areas are still enjoying growth. And the shrinking of the sector is not to such an extent that it has slowed the electrical retail business such that it's not profitable.

Competition in the business will continue increasing. To start with the business has low barriers to entry both in terms of capital and licensing.

Moreover from the outside the business looks attractive to many would be an entrepreneur who will then invest in it. And as long as real estate developments occur at whatever level there will be need for power connections, this is reason enough to attract investors to the business.

Lastly as long as consumers, be it households or businesses, are connected to power they will need utilities such as bulbs, sockets and switches.

Is it a business to invest in at the moment? Generally yes but where you locate, who you target and how you source will be the specific factors that will determine the success or failure of the business. For the truth is despite the overall rosy picture of the business there are electrical shops which fail and then for a variety of reasons which will be clear as you read this report.

Set Up – Who is your target?

How you set up and stock your electrical retail shop will depend on who you are targeting. And the decision as to who to target will depend on your location, your capital, networks and access to suppliers.

Generally you can target:

- a) Households (Domestic consumers)
- b) Developers – These can be consumers constructing residential or commercial houses.
- c) Both domestic consumers and developers.

Domestic Consumers

Households mean consumers who are living in houses where power is already connected. The house could be own or rented. Household consumers will buy utility electrical parts and then once in a while. The items to think of when specifically targeting households are fittings such as bulbs, sockets, bulb holders, switches, extensions and the like.

As you will see later in the report these items have low margins hence you need high foot traffic to breakeven and sustain your business. It follows your business should be in an area with a high number of households connected to power or an area with low population but little competition.

One of the biggest challenges with electrical shops targeting households only is competition from supermarkets. More and more supermarkets are opening close to residential areas. Given that supermarkets tend to enjoy economies of scale and efficiencies often are cheaper. And sometimes consumers will go shopping for other items in the supermarket see the display of electrical items and remember oh I could do with an extension cable.

Your value if you are targeting the household consumer should be in convenience and variety. As much as supermarkets may offer cheaper items their variety is often limited simply because they are not specialist electrical shops. However you should be awake to the fact this is gradually changing especially in supermarkets located in areas with lots of construction activities going on and where it has attracted a lot of foot traffic of construction personnel say because of having an advantage in some 'hardware items' say paint mixing or such other. This entices them to invest more in the electrical department seeking to capture both households and developers.

Developers

Developers connect power to buildings they construct. When targeting them think of all that could be needed to connect and distribute electricity in a building. Therefore beyond what is stocked by household leaning retailers you will also need to think of items like cables, trunks, cable cups, micro gaps, meter boxes, wires, patresses, showers, earth rods, sub meters, chokes and such. And not only do you need the extra items but a wider variety in

quality, brands and more so higher quantities. For this reason you will require relatively more capital.

The purchasing habits of developers is different from that of households.

Most developers often outsource wiring and electrical connections to a skilled contractor. The contractor will be an electrical technician, engineer or otherwise. Often such an electrician will give a quotation to the developer after accessing the needs in terms of sizes, facilities like cookers, showers and the like.

The quotation will be based in two parts; the costs of the materials required and secondly professional fees. The materials required will depend on the quality the developer is seeking and the amount of capital at his disposal. For example if a developer is building a house she plans to sell at Kshs.15 million then she will naturally go for relatively higher quality items to make the house attractive to buyers and justify the selling price.

Conversely a developer constructing houses which he plans to rent at Kshs. 5000 he will go for relatively low cost items so as to quickly recoup his investment. Again with low and mid end rental houses developers don't want to invest in expensive items, knowing that if the tenant destroys the item the landlord will have to replace before a new one rents the house.

On the other hand an individual construction a house for his family will go for items based on what budget she has.

Look at developers not as just one group of consumers, they too can be segmented. And this segmentation will help inform the kind of items you will stock. Whereas products from China, Dubai, India are ideal for the budget developer, they are not necessarily attractive to the high end developer, and in such cases you need to think Europe or high quality from China and India. More on this will become clear in the next section.

Large developers will often leave the purchase of items, wiring and installation to the electrical contractor. Individual developers and at times smaller contractors will be involved in the purchase of the materials. Because they are not highly skilled in electrical items they will often be accompanied by their electrical contractors or electricians as they shop. The impression, which is sometimes true, is that the electrical contractor will inflate prices so as to make some extra cash.

Understanding the purchase habits should guide you in locating, marketing and operations of your business. For instance you can take advantage of economies of scale and locate in a section of the town known for electrical or hardware items. Despite higher competition in such areas you are assured of high foot traffic of the right kind of customer; the one already in the construction business.

Again if you are targeting developers you don't necessarily have to sit in your shop and wait for customers to walk in. You can be more aggressive making links with foremen, contractors, owners or anyone else who has the power to influence purchase decisions. Indeed if you are targeting developers it's advisable to be more aggressive and outgoing

when seeking customers. Of course if you in a strategic location that guarantees you visibility and high foot traffic of developers and electrical contractors then you can take the risk of sitting and waiting.

You should also be open to the crude relationships in the business with electricians or electrical contractors. Sometimes they will quote prices to the developers which are higher than what you are selling to them, and they will want a receipt to show for it. In such a case you produce two receipts; one which is 'fake' and the real one for your records and accounting purposes.

At times the contactor will approach you a day or so before and tell you he will be coming to buy electrical parts accompanied by the owner, and such he had given the owner a price higher than what you are selling at. When they come with the owner you sell at the higher price and give the fundi all of the extra or part of it as per the agreement.

Needless to say such habits are a little crooked and whether you implement them or not will depend on your personal principles. But at the end you cannot ignore the influence of the contactors and electricians of whatever level; somehow you need to build a relationship with them.

Although targeting developers will require you to invest more capital in terms of cash, time and marketing the returns are higher

Stocking

There are a hundred and one electrical items. At times because of capital limitations and at others because of low demand it's not possible to stock each and every item. Differentiation is not in terms of broad categories and use but variety. For instance in lighting we could have ceiling lights, wall lighting, outdoor lighting and so forth. Under each we could have up to ten more based on design, brand, price and such other attributes. For most items there is a variety tied to brand, source, design or prices.

What you stock will depend on who you are targeting and of course your capital. We have touched on target in the previous section. But to add a little more on it consider the 'classes' of the customer. For instance customers in rural areas irrespective of income are more price sensitive. And although they might not necessarily always go for the cheapest of items they will negotiate more, have less information on variety and when cornered go for the cheapest. So if you are in the rural areas then you should have a bias towards cheaper items.

So what should you stock?

Your capital and target market should dictate. When low on capital, unsure targeting both developers and domestic users you can have enough of all the standard basic items. Enough could mean items enough to wire 15 one bedroom houses, and each item with some variety.

So you could think of items like:

- Cables
- Cable Cups
- Sockets
- Switches
- Cable chips
- Patresses
- Meter boxes
- Bulb holders
- Junction boxes
- Chokes
- Instant showers
- Earth rods
- Microgaps
- Pipes
- Variety of bulbs
- Circuit breakers
- Tapes
- Fluorescent tubes and fitting
- Sub meters
- Cable clips
- Extensions
- Multipliers
- And more

This is a basic but enough set up whether you are targeting developers or households'. But as you will see customers will demand variety, not necessarily based on costs but design. If you are targeting households then you don't need all the above.

Like we mentioned electrical items can be classified by their sources thus:

- China
- Dubai
- India

- Europe
- Local

China and Dubai products are the most common in the market. They are also the cheapest. Chinese products consist of generics, counterfeits and anything that is available. The quality of Chinese products varies from the very poor to those of decent quality. Whereas some have brand names other are nameless. Chinese products include the range from very basic like bulb holders to the more advanced like consumer units.

The attraction of Chinese is price and availability. Still Chinese have a reputation for counterfeit products. You thus find some of the European brands coming from China. These are counterfeits. We will look at counterfeit in the next section.

Europe products are reputed to be of a higher quality but more expensive. It's instructive that more European companies are officially coming into Kenya. There is demand for high quality items although not all consumers are willing to pay for it. The reason the Chinese thrive. Because of their good reputation in terms of quality, European products are the most counterfeited. This has made some consumers skeptical whether the products passed for as genuine actually are.

Among the common electrical brands are:

- Havells – Respected brand from India
- Hager – UK
- MEM- UK
- BG -UK
- Star
- Crabtree - UK
- Metsec
- Linier
- Oxford -UK
- Phillips – Netherlands
- Andeli - China
- Star
- Many more

As you can see the brands and varieties are numerous. For the same items prices will vary and so will the quality. For this simple reason you should stock a variety so as to satisfy the price, quality and brand loyalty needs of various consumers.

Let us illustrate with a small number of products. The prices are from a wholesaler and retailer in Nyamakima, Nairobi. Note this is just a sample and not an exhaustive list of prices, items and varieties. At times prices vary in such a major way between two suppliers. We will come back to that a little later.

Switches				
	BG	Hager	Belmax	Star
2 gang	55	60	60	80
3 gang	60	65	90	120
4 gang	-	-	-	200

Submeters		
	Liniear	Oxford
	620	600

Bulkheads	
Plastic	Glass
260	370

Micro Circuit Breakers	
Hovels	120
Hager	120
Andeli	120
Star	250
Belmax	150

Electric Chokes		
	Star	Phillips
2 ft	150	120
4 ft	150	120

D Poles	
Havelis	250
Hager	250
Andeli	250
Star	450

Cables		
	Kenya	Star
2.5mm	2600	2400
1.5 mm	1600	1300

Pipes Heavy Gauge	
20mm	63
25mm	90
32mm	130
38mm	170
50mm	270

Sockets						
	Belmax	Havells	Hager	MEM	Crabtree	Star
4 Way	1300	1250	1250	680	780	1450
6 Way	1350	1300	1300	800	950	1550

Patress	
Single	17
Turn	30
Shallow	17

A Note On Counterfeits

Counterfeits are a part of the electrical parts business. Indeed they have become accepted as a norm. You cannot fully escape selling counterfeits because it's a major parts of the supply chain. There will be times when you will purchase counterfeits without knowing they are actually counterfeits. And well some customers will ask for counterfeits because of their lower prices. Or you might offer a customer a genuine product and they complain about the price and you offer a counterfeit of the same brand or another which is cheaper.

As a newbie in the business and without real experience you might not have the full knowledge to tell counterfeits from originals. But with time you start noting differences in features such as packaging, weight and performance.

At other times wholesalers will give you an option of either going for the original at the higher price or the counterfeit lower prices. At other times your own greed will motivate you to go for counterfeits. After all there will be customers who are not able to differentiate and will buy a counterfeit item at the price of an original.

Sometimes it's not greed per se but business pressure. Last two months sales are low and you can barely meet your expenses. Yet you know that if you sell counterfeits the margins will much higher and you will breakeven. Nudged by the need to survive you find yourself knowingly selling counterfeits and happy about it. This is despite swearing never to touch counterfeits. Still at other items the genuine will be out of stock, you are yet to go for more supplies and there is a customer waiting, the decision to go counterfeit will be easier than you think.

Still stocking and selling counterfeits is not without consequences. First there will be the risk of unsatisfied customers discovering you are selling counterfeits. Gradually or sometimes even very fast your shop develops a bad reputation and this negatively affects sales. And some fakes are actually dangerous; they don't perform as required and can cause electrical faults which result in fire.

Secondly there is the risk of falling foul with the law. Occasionally agencies such as Kenya Revenue Authority (KRA), Kenya Anti Counterfeit Agency (KACA) , Kenya Association of Manufacturers (KAM) , Kenya Bureaus of Standards (KEBS), Kenya Industrial Property Institute (KIPI) conduct inspections or raids as they like to call them . If found you with counterfeits you can be prosecuted or have your business license revoked. Although sometimes it's possible to wiggle out of such situations with a bribe, it will be a handsome one both in cash, time and reputation. Worse still your whole stock can be confiscated and destroyed.

The most counterfeited items are Phillips products, Lorezzoti showers, sockets and switches, crabtrees, minis, extension cords, circuit breakers, wires, fittings, surge protectors and generally European brands in high demand.

In Summary:

- ✓ You are likely to handle counterfeit products either knowingly or unknowingly
- ✓ The chances are higher if you are purchasing from small to medium independent importers.
- ✓ The chances are lower if you are purchasing from authorized resellers or reputable companies.
- ✓ As a newbie in the business with no electrical experience you are likely to unknowingly purchase counterfeit items. As much as you could have sworn not to deal with counterfeit products your wholesaler might trick you into purchasing. Some wholesalers will include two or so counterfeit items in a group of ten genuine items.
- ✓ The more you grow in the business the more comfortable you will become identifying and perhaps buying and selling counterfeit items.
- ✓ At times the temptation to sell counterfeit items will be driven by customer demand and the need to survive in the business.
- ✓ Some electrical contractors and electricians know that their clients are clueless when it comes to electrical parts, brands and even prices. Thus given an opportunity they will seek to knowingly buy counterfeits but charge the clients for the original then pocket the difference. Such electricians will actively seek electrical shops which stocks counterfeits.
- ✓ At times it becomes difficult to compete with a shop selling counterfeit products in the same neighbourhood. This could force you to stock counterfeit items or close shop. This is more so if you are targeting the same clients, and the clients don't give a hoot whether the products are genuine or not as long as the price is right.
- ✓ There will be customers who will discover what you have sold them is not genuine and return the item. Don't be quick to admit fault unless the customer is very crucial. This is more so if you sold the counterfeit item unknowingly. Even if you sold it knowingly be

hesitant to admit direct guilt even if you plan to exchange the item. Be empathetic not rude.

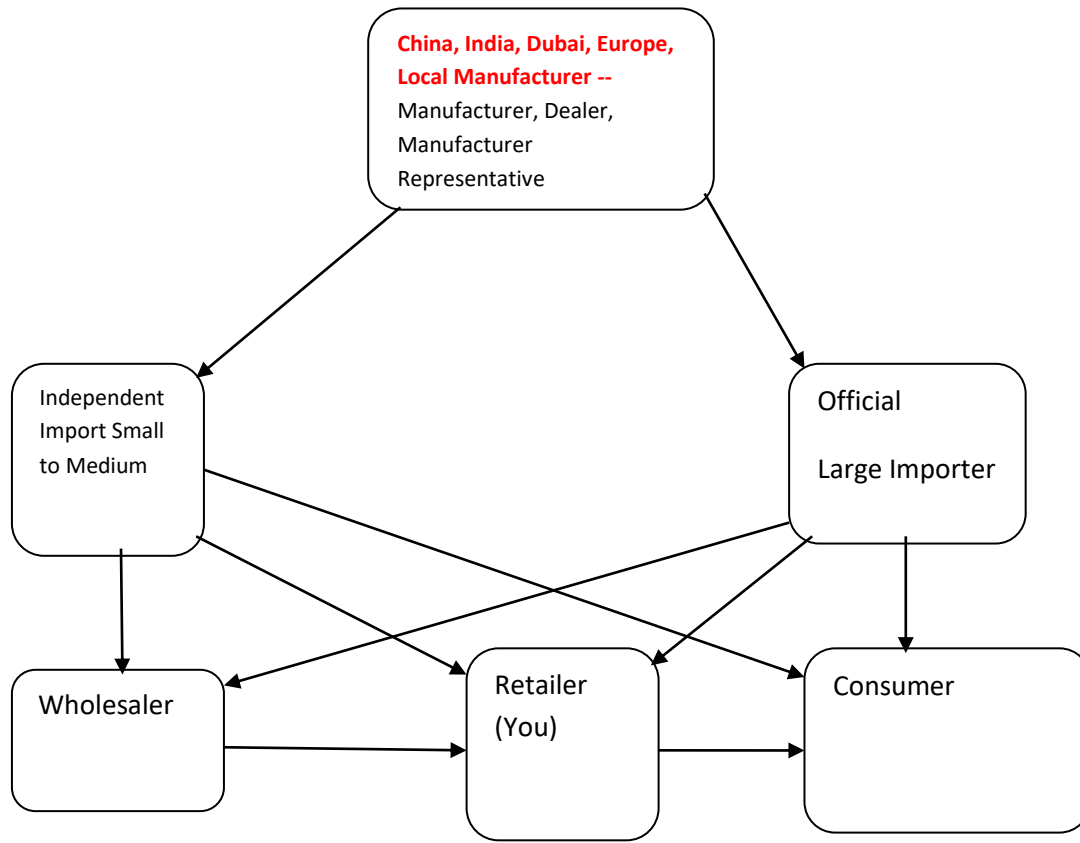
- ✓ In cases where you didn't know the item was fake approach your wholesaler. Many will be hesitant to admit guilt but at least let them know that you are aware.
- ✓ There could be consequences for selling counterfeit items. Some of the consequences could be dangerous. Items could short circuit resorting in fire or equipment damage. Whereas this does not happen always you never know when it will.
- ✓ Selling counterfeit items is also against the law. Agencies involved in monitoring counterfeits include KEBS, KAM, KIPi, KRA, and KAA among others. Occasionally they will raid shops looking for counterfeits.
- ✓ The penalties are prosecution, fine, jail or confiscate and destruction of your goods. Sometimes it's possible to get out of it by bribing the officers involved.
- ✓ Be sure what your potential customers want. And stock genuine and counterfeit as need be. Don't get the impression that it's a must that you stock counterfeits but then again be real to the needs of the business and adjust accordingly. There are still many customers who want genuine products and are ready to pay for them.
- ✓ A big part consumers want genuine are those building their own residential. Whenever they can such customers will invest in genuine but affordable items. However there are still many among these who can't tell genuine from counterfeit. Also many entrust their electricians to purchase items, do the wiring and connection. The latter do not care as much about genuine as the actual owners. Those constructing high end buildings also prefer genuine quality items even if these come at a premium. Such hire real electrical engineers who have a good reputation. And such engineers will buy from suppliers with a good reputation too.
- ✓ Counterfeits are part of the electrical retail business. Be prepared for them.
- ✓ Don't be eccentric not everything is counterfeit; a lot is genuine and safe.

Wholesalers

Like we have stated electrical goods sold in Kenya are largely imported whereas are from local manufactures.

Supply Chain

The chain of distribution is thus:



The above diagram is not as complicated as it perhaps looks. You are the Retailer and there are several places where you can source your supplies:

The Various Wholesaler Categories

1. **Small to Medium Importers** – These will offer “wholesale “prices if you are buying large quantities or identify as running a retail shop. Here prices are more negotiable and the variety wide since they have no loyalty to particular brands. Here you find both genuine and counterfeit products. Some in this group of suppliers are very helpful when you indicate you are starting a business.

The largest concentration of such small and medium importers is found in Nyamakima, Nairobi. Nyamakima is sandwiched between Kirinyaga and River Road in downtown, Nairobi. It's the area covering Cross Road, Duruma Road and Sheikh Karume Road. Although we refer to them as small and medium they are not exactly small and some have turnovers of millions of shillings. Indeed many electrical shops all over the country depend in one way or another on Nyamakima. The traders and brokers send all over the country.

There is no bureaucracy. You walk in get quotations and your items. It's advisable to shop around. The best thing is to show some skill, go with someone skilled in electrical, have a list of what you are seeking, get a variety of prices, and you don't necessarily have to buy everything from one shop. A shop could have item A cheaper but item B expensive compared to the next shop.

There also many tricks, such as to do with quantities, brands and quality. You have to be on the lookout. These traders mostly source from China and Dubai, and sometimes Europe.

Some of the reputable Nyamakima traders are

- Cost Wise Electricals , Usalama / Mariam Arcade, Cross Lane, Nyamakima, 0722 906366, 0727093644 . They are best known for Carl & Gilberts Products.
- Marksy Electricals
- Cindy Electrical
- Dackmart
- Chinc
- Sirgill Electricals
- Frapper
- Jonka Electricals

There are tens of wholesalers in this area, you will be spoilt for choice. Some are representatives of reputable brands and distributors such as Powermax.

2. **Official Representative or Large Importers** – These are shops which are the official representatives of particular brands. The large importers operate in a more formal way relative to the small and medium importers. They will have bigger shops set up in a proper manner unlike some of the smaller wholesalers in Nyamakima. The large importers are not necessarily loyal to particular brands hence they could also source from China, India or even Europe.

This group of traders sells both in wholesale and retail. Terms vary from one trader to another. Among these are:

Schneider Electric	Mombasa Road - 0703 069000
Nex Power	Bandari Road ,Industrial Area (off Dunga Road) 0719 328 375 or 0732 328 307, info@nexpower.co.ke
Electric Link International	Electrical Supermarket Branch, Kijabe Street

	020 2214974/5 Electric Link House, Mombasa Road, Head Office Branch esupermarket@electric-link.com http://www.electric-link.com Mombasa Branch, Archbishop Makario's Road, Off Moi Avenue
Carl & Gilberts	Isiolo Road
Powermax General Electrical Merchants	Sheikh Karume Road – CBD 0710342283 / 0724896456 sales@powermaxea.com
Nabico Enterprises Ltd. (Represent Hager)	74 Enterprise road Industrial area 0 20 253 1366/7 E-mail: info@nabico.co.ke
Metsec cables – cables and other products.	Metsec Cables Ltd, Doshi Complex, Mombasa Road,
ASL Cables	Old Mombasa Road, Near Syokimau Railway Station, Mombasa Road. 0735 433-358 / 0773 509-415 / 0719 767-149 Email: info@aslcables.co.ke Website: www.asl.co.ke/wire-and-cable
Devsons	

3. **Wholesalers** – Wholesalers in this case purchase in bulk from the importers then resell to smaller retailers. Wholesalers especially thrive in areas outside Nairobi or where there is no major importer. Reasonably your margins will be reduced when you purchase from wholesalers. Go for them when your access to importers is limited.
4. **Local Companies** – There are local companies which are involved in the manufacture of electrical items especially cables. These companies include East Africa Cables, Coast Cables, and ASL cables. Often these companies sell through appointed distributors.

However as competition increases they are starting to become more flexible if a retailer is buying significant quantities.

So from where should you purchase items? Start by checking Nyamakima, you should get a very good idea of the market and what you need. Get prices from Nyamakima but before the actual purchase visit some of the major dealers and compare. Although its likely Nyamakima can satisfy your needs in the end you might have to purchase from a variety of suppliers to take advantage of prices and variety.

Licenses

Licenses	Details	Cost
Single User Business Permit	This is issued by the county government to all businesses operating within the county. The fee will depend on the county and the size of the business. This is the one license you cannot do without. You apply for it at the county offices. Some counties have taken license application online. For instance in Nairobi you can apply for all the licenses through https://epayments.nairobi.go.ke/sbp/reg_new	For a shop such as will fit a decent electrical shop budget at least Kshs. 15,000 for the license.
Fire License	All businesses operating are supposed to be prepared in case of fire. Thus they require a fire extinguisher. The county government inspects if you have the right kind of extinguisher and whether it's certified. If in the right you are issued with a fire clearance certificate. The cost will depend on the county and the size of the building. Budget at least Kshs.2500.	Kshs.4500 (Average)
Sign board License	Most likely you will require a signboard to market your business. You have to pay the county government to put up your signboard. The cost of the license will depend on the size of the board and county. For instance for a sign fixed on wall/canopy face or hanging under canopy the county government used to charge Kshs.1400 application fee and if one square meters or less Kshs.2730. The fee could be higher depending on the size and type of board. (Confirm present charges)	On average budget at least Kshs.5000 for the license. It will cost more if you have a number of signboards.

The above are the basic documents that you need to start and run a basic electrical shops. If you want to pursue tenders, perhaps get credit from the bank and have a more formal setting then you will need to register a company. This will cost you an average of Kshs.11, 000 and Kshs. 20,000 or so depending on whether you do it yourself or have a lawyer set it up for you.

Although registration of companies is still done by the register of companies at the attorney general chambers, nowadays you can apply for registration online through the government's ecitizen portal (www.ecitizen.go.ke) at standard fees of Kshs.10, 650. On successful registration you get a certificate of incorporation, KRA pin, NSSF and NHIF numbers for your company.

Another certification that you could need is registration as a contractor by the Energy Regulatory Commission, this is if you are a qualified electrical engineering profession and want to pursue contracts to wire and install power in buildings. You don't need this if you are just selling electrical equipment.

Capital Breakdown

Item	Breakdown	Total (Kshs.)
Licenses		
Single User Business Permit	1	15,000
Signboard License	1	5,000
Fire License	1	4,500
Sub Total		24,500
Equipment		
Fire Extinguisher	1	8,000
Signboard	All	15,000
Furniture	1	8,000
Receipt and Record Books	All	2,000
Fittings	All	5,000
Sub Total		38,000
Premises		
Rent	2 months deposit + 1 month rent. Will depend on location. (@ Kshs.15,000 per month)	45,000

Branding and Renovation	All	20,000
Sub Total		65,000
Stock		
Stock	All	400,000
Working Capital		
Salary	3 months @ Kshs.14000 per month(1employee)	42,000
Marketing	All	10,000
Miscellaneous		30,000
Sub Total		82,000
Grand Total (Adding all the above sub totals)		609,500

Capital Notes

This is a capital breakdown based on figures from an electrical shop. Use them as a guideline to help you make an estimate of how much you need.

One of the key figures here is in the stock. The amount can be much lower or higher depending on the capital at hand. That said an amount of at least Kshs.300, 000 in stock is reasonable to set up a decent electrical shop with a variety of items. Even if you have lots in capital you don't need to spend the whole amount on stock. You can increase the stock gradually as you learn and understand the demands of your market.

Then the market keeps changing, sometimes without notice. This means that you need capital to restock at short notice. Then sometimes you could get an order for large numbers of one quantity of items that you have not stocked. For instance you could just have in your stock five rolls of wire then a customer comes who wants 30 rolls and is ready to wait for a day you will need capital to go to buy the extra rolls. If you are dealing with developers it's especially important that you have working capital for you cannot exactly predict the quantities they will demand.

You are also unlikely to break even in the next six months, meanwhile you will need money to pay rent, pay employees and generally keep the business running.

Others figures like cost of rent and licenses will depend on the location and could vary as need be.

Revenue and Margins

Overview

Margins in the electrical parts business will depend on where you have bought the items and how much you are selling in your shop.

Wholesalers and more so the independent like in Nyamakima, have what could be described as acceptable range of prices, and the exact amount they sell to you will depend on how they 'gauge' you.

Wholesalers will look at how knowledgeable you are in terms of electrical matters, how confident you look, how much you want to spend, whether you are a new or returning customer and other such factors.

Still in a place like Nyamakima, with all the electrical shops, they know that you are almost spoilt for choice, you can get a quotation from one shop and move on to even ten other shops to see whose price and terms are better before settling on one or a couple of wholesalers. Hence as much as some will try to overstate the prices they will reasonably do so.

So to insist and as a first timer it's important to shop around and compare prices. The more formal set ups tend to have stable standard prices. And the more you buy items the more you build your confidence and know where to get the fair prices for various items.

Let us illustrate the margins in the business. We are going to do so using a number of products from different wholesalers and retailers. Just note the prices below act as guidelines. Then different wholesalers could give you slightly different prices. And as usual in this business prices will vary. These are random prices.

Case Study One

Items	Wholesale Price (Kshs.)	Retail Price (Kshs.)	Margins (Kshs.)
Single sockets (Carl & Gilbert)	110*10=1100	170*10=1700	600 per packet
Sub board plastic	70 per piece	150 per piece	80 per piece
20 amperes water heater	130 per piece	200 per piece	70 per piece
Energy saver bulbs cg	150*12=1800	250*12=3000	1200 per dozen

Fluorescent tube(4ft)	75*4=300	150*4=600	300 per box
Horizon shower	900 per piece	1500 per piece	800 pp
Eathrod (small, medium, heavy)	90, 150, 200	160, 250, 300	70, 100, 100 pp
Ceiling rose holders	80*12=960	150*12=1800	840 per carton
Linear submeter	650 per piece	1100	450
Bulkhead glass	370	600	230
Straight holders (Star)	50*6=300	100*6=600	300
Jbs china	12*12=144	30*12=360	216 per box
Chokes (Phillips)	130 per piece	220 per piece	90 per piece
Industrial socket	400 per piece	700 pp	300 per piece
Metsec patress (Single)	20*50=1000	40*50=2000	1000
Tapes Globe small	250 per carton of10	400	150 per carton

Case Study Two

Items	Wholesale (Kshs.)	Retail (Kshs.)	Margins (Kshs.)
Consumer Unit 4 Way Crabtree	650	1050	400
Angle Hollder	45	90	45
20mm Pipe	63	85	30
25mm Conduit	90	140	50
MCB (Belmax)	150	270	120
Electric Chokes (Star)	150	220	70
2ft Floursecent Fitting	350	470	150
4ft Florescent Fitting (Belmax)	380	550	170
Cooker Unit (Star)	320	400	180
Cooker Connector (BG)	80	150	70
Double Pole (Andeli)	200	300	100
Top Plugs (Star)	50	80	30
Earthrod 4ft Small	90	150	60
Patress (Single)	17	30	13

Submeter (Linear)	580	700	120
Bulkhead	350	550	200
Cable 1.5mm Single (90meters roll)	1300	1700	400
Cable 1.5 mm Twin	4200	4900	700
Cable 2.5mm Single	2500	2800	300
Junction Boxes	15	30	15
Switches	1 Gang, 2 Way	60	100

From the above you see that margins range between 20 % and 80% with most items having margins between 20 % & 40 %. These are relatively good margins for a business but at the end it comes to actual sales but it means nothing if you are not making sales.

Please also note the above list is from a random sample of wholesalers and retailers. There is a lot of negotiation and large number of suppliers such that you for every item you are likely to get a variety of prices. Despite this and as we have noted before there a range of what considered accepted prices. Some wholesalers are in for a quick kill and will sell to you at almost retail prices.

Success in the business will depend on the ability to source intelligently, variety and actual sales.

Case Study 3 – Small One Bedroom House

Now what quantities will a fundi buy at a go? This will depend on what he is actually working on but let us assume the fundi wants supplies for a small one bedroom house. From a case study these are the main items that he will likely buy:

- 11 20mm Conduit Pipes
- Consumer Unit
- 3 rolls each of live, neutral and earth 1.5mm cables
- 20 meters each of live, neutral and earth 2.5mm cables
- Patresses – 12
- Junction Boxes – 12
- Main Trunk – 3
- Switches -6 – 2 Twin
- Sockets – 6
- Bulb Holders – Straight Holder – 6, Angle 1
- Bulbs – 7
- Double Pole – 1
- Cooker Unit – 1
- Cooker Connector
- Instant shower 1
- Instant Shower switch

- 2 Tapes
- Miscellaneous Items -

Before we go into price and margin details simply the process of electrifying a house is in three main processes:

- **Pipe work** – This is laying the conduit pipes through which the wires will pass. This is the initial process.
- **Wiring** – This involves passing the wires through the conduit pipes. Here is where you also fix items like consumer units.
- **Fitting** – This is fixing things like bulbs and sockets.

Of course this is an oversimplification because there such processes like planning and designing. But for purposes of the guide this is sufficient.

Now the purchase processes will in a way or another follow this process. The electrician will buy the conduit pipe first then might even stay for several weeks or even months depending on the capabilities of the develop before coming for wires and fittings. In some cases though an electrician will buy everything.

There is no guarantee that if an electrician buys conduits from you he will go ahead and buy pipes and fittings from you. A lot could have changed between buying the conduits and the wire but even more common some shops end up building certain reputations. For instance a shop could be well known for conduits mostly because they are relatively cheaper, have them in plenty or one of those reputations which builds for no particular reason. Another could be known for cables (such as Jonka in Nyamakima) or another for fittings. Talking of fittings there are now shops which specialize in particular items the most common being light items such as holders, chandeliers and bulbs.

All this means that you don't have to assume because a customer bought some items say pipes from you then they will automatically buy all else they need from you. You have to make some effort to make sure they come back. If a customer is buying conduit pipes then you can give him a good offer for wires and fittings. You have to be proactive.

Going back to the example above let us see how much you are likely to make if you sell most of the items needed by the electrician for the one bedroom house . We will use a sample of wholesale prices and retail prices quoted by the electrician and some retailers:

Item	Quantity	Wholesale (Kshs.)	Retail (Kshs.)	Margins (Kshs.)
Conduit Pipes (20mm)	11	63*11 =693	85*11=935	242

Consumer Unit	1	650	1050	400
Cables	3 rolls each of live, neutral and earth 1.5mm cables	1300 *3=3900	1700 *3=5100	1200
Cables	20 meters each of live, neutral and earth 2.5mm cables	2500 (28/meter) (20*28)3=1680	(20*40)3 = 2400	720
Patresses	12	17*12 = 204	30*12=360	156
Junction Boxes	8	8*15 = 120	8*30 = 240	120
Main Trunk	3	3*65 = 195	3*100=300	105
Switches	4 single, 2 twin	90*4=360 2*165=330	150*4=600 2*230= 460	240 130
Sockets	6	6*100 = 600	6*150=900	300
Straight Holder	6	6*50 =300	6*100=600	300
Angle Holder	1	6*50 = 300	6*100 =600	300
Bulbs	7	7*150 =1050	7*250 = 1750	700
Double Pole	1	200	300	100
Cooker Unit	1	320	400	80
Cooker Connector	1	80	150	70
Instant shower	1	900	1500	600
Tapes	2	25*2 = 50	40*2=80	30
Miscellaneous Items			6000	20% average Margin=1200
Total Margins				6993

The miscellaneous items account for what is not listed but what the fundi factored in his budget.

In this case the owner of the house gave the fundi a freehand in picking the material to buy and where to buy them. He didn't buy everything from one shop.

But even a fundi buys all the items from you, the eventual sales will depend on how many fundis you are able to attract in a day, week or month. In cases such as these where the developer is building a house for the use of his family rather than for commercial purposes then more than not the developer will have a big say in picking the fittings.

Like we hinted where the house is for commercial purposes the developer will most likely for the item that fits the rent that he is planning to charge or amount he wants to sell.

Factors Influencing Revenue

All in all revenue in the business is determined:

Location – If you are located where the economic activities support the business then you are likely to make more sales. Thus if you are in an area where there is a lot of development you are like to make more sales than in areas where there is no development.

Suppliers – Where you source determines your margins. Where here has more to do with prices than location. If you are able to source at a relatively lower price then you are able to offer more competitive prices which then attract more customers and keep them coming.

Networks – Like we also mentioned previously the networks you have with those who make purchase decisions will eventually determine your purchase decisions the quantities that you are sell. The wider your networks and the more you are able to use them the more sales and repeated sales you are likely to make.

Variety – The wider your variety for the target customer segment the more you are likely to sell. Variety does not mean having everything possible for that could be a strain on capital but looking at your target customer and as offering as much as possible in terms of design and prices.

The breakeven point in this business average s 9 months.

Competition

Competition in the electrical retail business has been growing. Like we mentioned at the start this as a result of low barriers to entry and more motivation to join the business. The motivation is a result of the growth in real estate.

Competition will continue to grow, and as the market matures in the end what happens in many centers is that there emerges a few dominant players, another layer who are making good profits and the bottom level who are barely surviving or making profits. The above factors which determine revenue have an influence on this.

Factors Influencing Competition

Competition almost like revenue is based on:

Location – See in revenue

Variety and Quantity of stock – See in revenue

Working Capital – This enables you to offer short term credit say where an electrician or fundi requests for items and promises to pay after he gets paid by the developer. The credit period

depends on the agreement you have with the developer but try keep it as reasonably short as possible. If you don't have working capital to restock after giving credit then your business suffers. There are businesses which compete by give by having enough capital to give all manner of credit to contracts a. But as with any credit you have to be careful how you dish it out.

Customer Service – Great service helps maintain customers and pull me more through word of mouth. The advantage of good services is that sometimes even if your prices are higher customers are blinded by the price such that they don't note it

Sales Strategy – An active sales strategy rather than a passive one is more effective. Rather than sitting and waiting for customers to walk in you at times to go look for them where they could be. There are shops which employ salespeople who go out and look for sales based on commissions. Others advertise actively on online forums, print media or using clear visible signage. Often it pays to actively market.

Specialization – Some electrical shops compete by buildings strengths in certain products or out rightly specializing. This is a way of building reputation as being in certain products. Specialization requires that you have actual strengths in particular items. These strengths start with a wider variety and more stock, and better prices. Specialization could require skilled knowledge and variety of items.

Networks – See in revenue

Supplies – See in revenue

The critical success factors are a good sales strategy, intelligent sourcing, location and pricing.

Manpower

Although it's great if you have a skilled electrician running your shop it's not a must. There are shops which survive comfortably with workers who are not necessarily trained electricians but with enough interest to understand products and how they work. Still you cannot get someone with no some experience or interest in things electrical.

There will many times when customers will seek the advice of the attendant to help make a buying decision. At the end you should balance between a skilled worker and a good salesperson. And of course someone who is honest enough. It is sometimes not possible to prevent 100% theft by employees but you can manage it. Start by having a honest person as you can, random stock taking and records. As is the norm nowadays some shop owners install CCTV cameras. These do not fully prevent theft but deter.

Key Steps To Starting

- Identify location

- Decide on who is the ideal target market
- Decide on what products to stock based on the target market
- Research on the prevailing retail prices in your location
- Go to different suppliers and get quotations
- Identify which suppliers to purchase from
- Acquire premises and renovate as need be
- Acquire licenses
- Look for shop attendant
- Buy and stock
- Establish control measures
- Open and advertise

Licenses

Capital Breakdown

Revenue, Prices and Margins

Competition & Survival

Consumer Behaviour

Manpower

More

A Note on Counterfeits

Suppliers

Licenses

Capital

Revenue and Margins