

**The 2014 Global Retail Development Index™**

# Full Steam Ahead for Global Retailers

In developing markets from South America to Southeast Asia to southern Africa, international retailers and their regional rivals are expanding, buoyed by a more upbeat economy and growing retail environments.



*ATKearney*

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Fifteen years ago, global retailers in developing markets were true pioneers: either they held the deed to a beautiful tract of land and a future of growth, or their best-laid plans moldered in a foreign grave. It was a true risk-reward play: global expansion could bring tremendous growth and benefit, or surprising failure and disaster.

Today's global retailers get it. They have become more strategic in their expansion and in avoiding the operational pitfalls of entries into developing markets. Using e-commerce, they are pressure-testing demand in new markets to reduce risk, and they are taking advantage of financial vehicles such as credit cards and cash-on-delivery to help increase demand. The leaders are also identifying the unique challenges of each market, from India's foreign direct investment policies to Brazil's high duties to Turkey's high credit card regulations. And even after they get a foot in the door in major metropolitan shopping districts, retailers are forced to strategize quickly to capture growth in tier 2 and 3 cities before the field becomes too crowded.

The overall theme of A.T. Kearney's 2014 Global Retail Development Index™ is continued expansion. Yes, there were some notable contractions in the past year—Walmart pruned its portfolio in China and Brazil, and Tesco's more cautious approach to China included some store closings and a new joint venture—but for the most part retailers are continuing their push into developing markets.

In particular, regional players are flexing their muscles, using their proximity as a competitive advantage to steal share in neighboring markets. Chile's Falabella and Cencosud have begun aggressive growth plans to widen their footprint across Latin America, and UAE-based LuLu Hypermarkets and Majid Al Futtaim have begun expanding in the Gulf region. South African retailers Shoprite and Woolworths have spearheaded Sub-Saharan Africa's shift to modern retail, with expansion into Nigeria, Botswana, and Namibia. We expect stiff competition between Western players and regional retailers to continue in developing markets.

The GRDI ranks the top 30 developing countries for retail investment based on several macroeconomic and retail-specific variables (see figure 1 on page 2). In particular, we focus not only on the most successful developing markets today, but also those that offer the most potential down the road (see appendix: About the Global Retail Development Index on page 23).

## The GRDI's Windows of Opportunities

One of the GRDI's recurring themes is the "window of opportunity" for investing in physical retail in developing markets. Ideally, markets pass through four stages of retail development (opening, peaking, declining, and closing) as they evolve from emerging to mature markets, a process that typically spans five to 10 years. The underlying hypothesis is that the retail window opens when the population becomes wealthier, when logistics start improving, when ownership regulations become more friendly to international firms, and when the country's various economic, political, and social risks settle down to acceptable levels. The window begins to close when shoppers get so sophisticated that more than basic retail investment is required (in terms of formats and assortments); when logistics are strong enough across the board to no longer serve as a competitive differentiator; when regulations are stable enough that "daring" is no longer necessary in expansion strategies (although a little daring is always needed); and when risks to persons, property, and principles are low (see figure 2 on page 3).

Figure 1

**2014 Global Retail Development Index™**

■ On the radar  
 ■ To consider  
 ■ Lower priority

2014 rank	Country	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2013
1	Chile	100.0	100.0	13.2	47.3	65.1	+1
2	China	60.9	52.5	44.5	100.0	64.4	+2
3	Uruguay	93.4	57.5	70.3	32.4	63.4	—
4	United Arab Emirates	98.5	82.3	17.5	43.8	60.5	+1
5	Brazil	99.4	59.8	48.7	33.2	60.3	-4
6	Armenia	26.4	35.3	81.5	86.7	57.5	+4
7	Georgia	32.4	32.8	79.6	78.8	55.9	+1
8	Kuwait	78.8	72.6	32.9	31.7	54.0	+1
9	Malaysia	66.7	68.7	32.2	43.5	52.8	+4
10	Kazakhstan	45.4	38.5	72.7	54.3	52.7	+1
11	Turkey	83.6	50.2	46.5	30.2	52.6	-5
12	Russia	94.0	38.4	30.7	46.4	52.4	+11
13	Peru	46.0	43.0	61.9	51.3	50.6	-1
14	Panama	56.2	46.9	52.7	41.3	49.3	+8
15	Indonesia	46.2	33.4	57.7	59.6	49.2	+4
16	Saudi Arabia	72.3	67.3	29.5	27.4	49.1	—
17	Oman	75.1	79.1	27.0	11.1	48.1	—
18	Sri Lanka	6.3	36.7	78.8	67.3	47.3	-3
19	Nigeria	39.6	6.6	92.3	48.0	46.6	N/A
20	India	26.4	39.0	72.3	43.4	45.3	-6
21	Colombia	50.6	43.0	53.5	29.4	44.2	-3
22	Jordan	49.8	43.7	65.6	15.2	43.6	-2
23	Philippines	33.0	33.2	55.8	50.5	43.1	N/A
24	Costa Rica	62.1	45.9	40.4	21.5	42.5	N/A
25	Mexico	80.0	54.4	2.9	31.8	42.3	-4
26	Botswana	26.1	60.7	34.8	44.1	41.4	-1
27	Morocco	24.1	35.5	69.5	35.7	41.2	—
28	Vietnam	3.8	21.9	75.0	55.7	39.1	N/A
29	Namibia	8.6	57.9	27.2	58.8	38.1	-3
30	Azerbaijan	22.0	29.5	82.3	18.6	38.1	-1

0 = low attractiveness

100 = high attractiveness

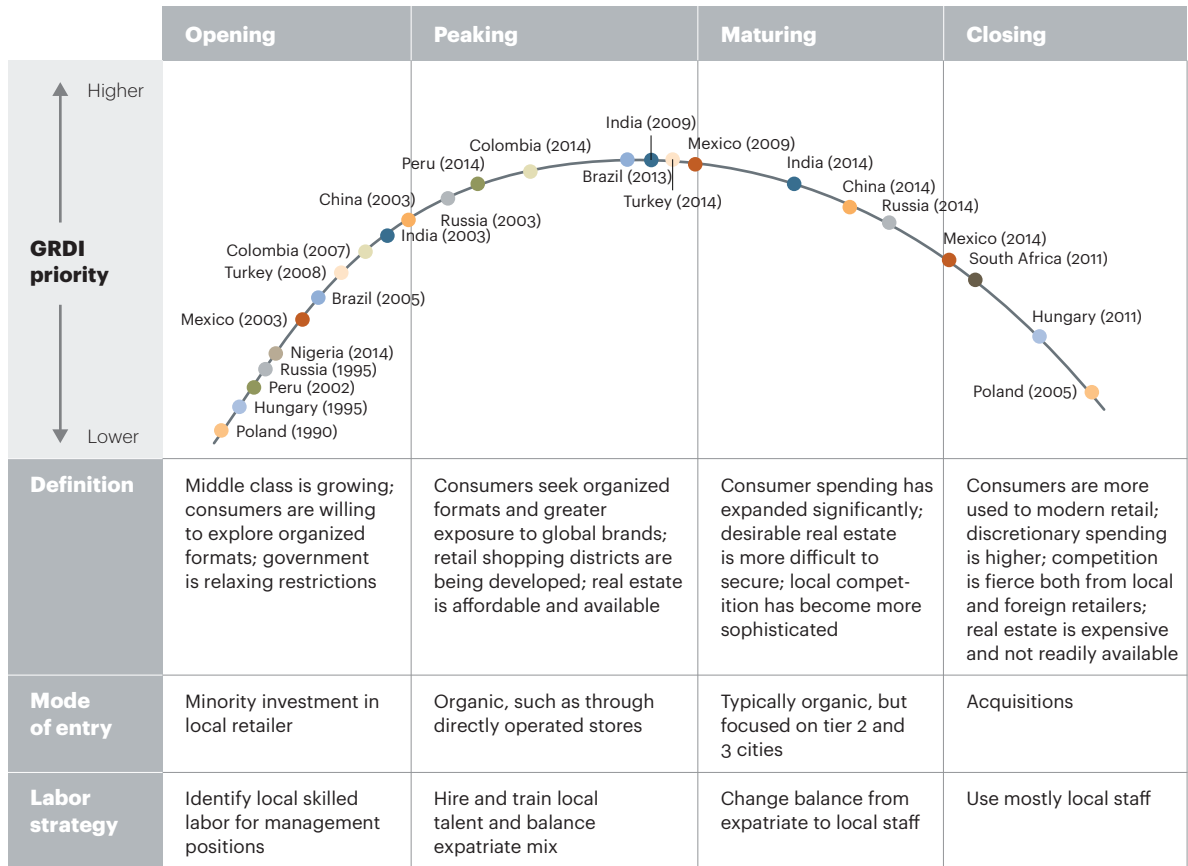
0 = high risk  
100 = low risk

0 = saturated  
100 = not saturated

0 = no time pressure  
100 = urgency to enter

Sources: Euromoney, Population Data Bureau, International Monetary Fund, World Bank, World Economic Forum, Economist Intelligence Unit, Planet Retail; A.T. Kearney analysis

Figure 2  
**The GRDI window of opportunity**



Source: A.T. Kearney analysis

Since its inception, the GRDI has ranked 63 different countries. While a few have had long-standing tenure on the list—for example, China has consistently rated in the top 10—more than half have moved out of the rankings. Some have truly “graduated,” such as South Africa, which left the rankings in 2012 as its saturated market reached a high maturity level. Other markets, such as Bulgaria and Romania, have seen growth stall as retail development lagged peers. Still more, such as the countries impacted by the Arab Spring, have dropped out as country risk rose and halted retail progress. Egypt, for example, was ranked 12th in 2011 but dropped out of the list in 2012.

This year we analyzed the many countries that are no longer ranked in the GRDI and examined the diverging flight paths they have taken. The results of our research can be found in our special report, *The Global Retail Development Index’s “Graduates.”*

## The 2014 GRDI Findings

In the following sections we take a country-by-country look at the GRDI’s top 30 countries and their developments over the past year.

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## Latin America

Latin America keeps its dominating position in the GRDI, with three of the top five countries, as an expanding middle class offers lucrative opportunities. A diverse retail ecosystem includes Brazil's huge market, Chile's sophisticated mid-sized market, and "small gems" such as Uruguay, where high consumption levels are attractive to luxury brands. While some Latin American countries face economic and political challenges as commodity prices fall and fiscal deficits rise, the leaders' continued economic and political stability has led to increased consumer and investor confidence and created a favorable environment for retail.

International retailers are entering and gaining ground in a highly competitive environment with local and regional leaders. This battle is playing out primarily outside of the region's capital cities, where new markets are emerging as consumers opt for modern retail formats.

Offline and online channels are spreading fast. The region has also seen major investments in shopping malls as well as a rise in local-international partnerships to enter new markets. In addition, e-commerce is growing stronger and more sophisticated.

**Chile: The GRDI's new leader.** Years of economic and political stability have helped Chile build one of Latin America's most sophisticated retail environments. Chile's GDP grew 4.4 percent in 2013 and is expected to grow at roughly that rate through 2016. Physical infrastructure investments and a business-friendly regulatory environment also indicate that retail growth will continue into the future. After steadily rising in the GRDI rankings for several years, Chile is the top-ranked country for the first time.

Consumers with more money to spend are supporting modern retail expansion. Retail sales were \$98.52 billion in 2013, and over the next four years sales are expected to increase a total of 13 percent. Additionally, grocery retail sales per capita represent only 28 percent of retail sales, the lowest rate in Latin America, indicating Chileans' growing appetite for nonessential items and aspirational purchases. Chile also has one of the world's more developed e-commerce markets. Seven out of 10 Chileans who use the Internet in Chile made two to six online purchases in 2013, with the average household spending \$158 per year online.

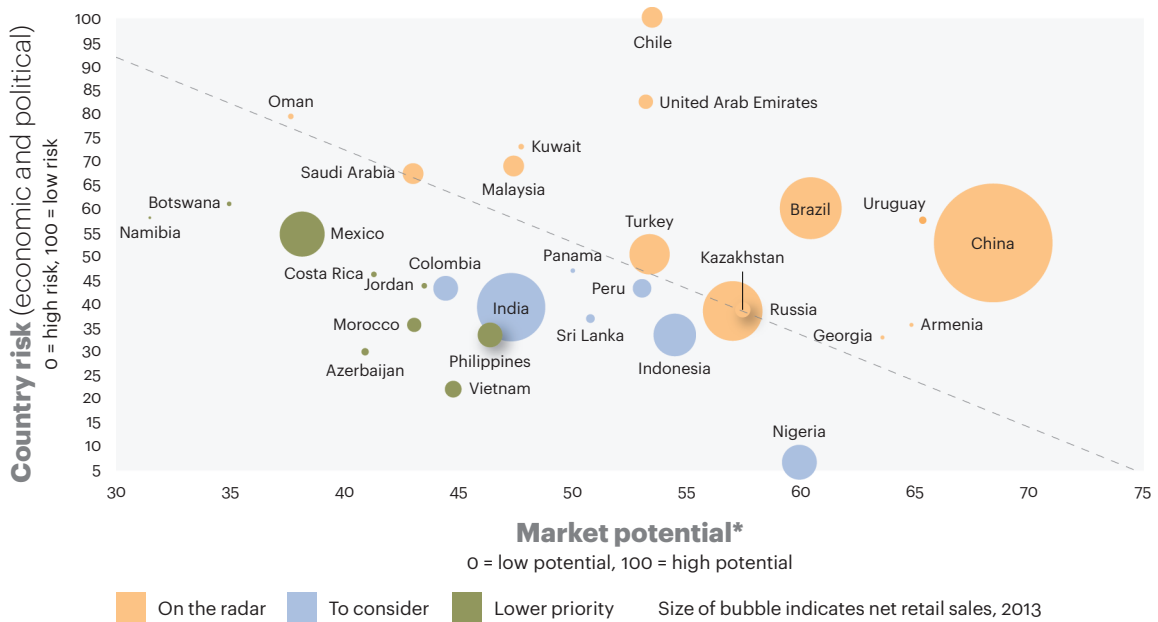
The past year brought several major investments in new and existing shopping centers. U.S.-based architectural design firm tvsdesign partnered with Chilean mall chain Mall Plaza (owned by local retail giant Falabella) to design and build capital city Santiago's new Mall Plaza Egaña in late 2013. Three additional Mall Plaza centers (Antofagasta, Oeste, and Los Dominicos) are expected to open in 2014, bringing a combined 241,500 square meters of new space. In parallel, Grupo Arauco and Aurus, a Chilean asset manager, have partnered to invest \$36 million in developing the 29,000 square-meter Arauco Quilicura mall in Santiago along with other shopping centers around the country.

Chile's many strong local retailers continue investing in organic growth across the region. Falabella announced plans to invest \$3.51 billion across Latin America through 2015, with 215 new stores and 16 new shopping centers. Some international brands are partnering with domestic retailers to enter Chile, including UK supermarket chain Waitrose, which agreed to supply products to Chilean grocer Unimarc.

New store formats, particularly outside of Santiago, are also opening up opportunities. Low-budget stores, small boutiques, and corner stores are growing in rapidly expanding suburban areas where speed and convenience are crucial.

**Uruguay: Steady growth continues.** GDP growth of more than 5 percent per year for the past five years in Uruguay has translated into higher purchasing power, increased domestic demand, and dynamic retail activity. Its free-market policies and political and economic stability have helped it become a solid retail oasis while some of its neighbors struggle. Foreign investors are treated the same as domestic investors under the law, and there generally are no ownership limits. With risk relatively low and market potential high, Uruguay has one of the GRDI's most attractive markets and is ranked 3rd for the second straight year (see figure 3).

Figure 3  
**2014 GRDI country attractiveness**



Note: Market potential is based on a weighted score of market attractiveness, market saturation, and time pressure.  
 Sources: Planet Retail, Economist Intelligence Unit; A.T. Kearney analysis

Retailers have invested in new stores and shopping centers, mainly through M&A. In 2013, local grocery chain Ta-Ta purchased the Multi Ahorro supermarket chain for about \$160 million. Colombia's Grupo Éxito, which in 2011 acquired a majority stake in Uruguay's Disco, Devoto, and Geánt chains, owns more than 40 percent of the market and is still investing. In July 2013 it acquired La Cabaña, Uruguay's ninth-largest supermarket chain, for \$13.3 million.

Uruguay's open market has attracted international players. Zara Home opened its first store in the capital, Montevideo, in 2013. Sodimac, the Chilean DIY giant owned by Falabella, announced it will enter Uruguay with two \$20 million stores in Sayago (a section of Montevideo) and Punta del Este (a resort city on the Atlantic Coast), with plans for at least two more by 2016.

Uruguay remains a popular tourist spot. Government tourism initiatives have in particular targeted Argentina, which remains a source of retail growth despite its continued economic challenges. Hotel chains Trump International (Trump Tower Punta Del Este, its first South American project) and Hilton (Hilton Garden Inn in Montevideo Shopping Center) have entered.

**Brazil: Rankings dip, but still strong.** Brazil's retail growth slowed in 2013, and the country drops to 5th in the GRDI after two consecutive years in first place. While GDP growth picked up (2.3 percent in 2013, compared with 1 percent in 2012) retail sales growth fell by more than half to 4.3 percent, as accelerating inflation undermined real wage growth and household debt increased. However, low unemployment and bank default levels demonstrate a strong middle class that continues to make Brazil a popular retail location.

Several international players continue expanding. In early 2014, Apple opened its first Latin American store in Rio. Fast-fashion brand Forever 21 opened seven stores in São Paulo, Rio de Janeiro, Ribeirão Preto, Porto Alegre, and Brasília to compete against other international brands such as Gap, Topshop, and Zara. Chilean giant Cencosud announced it would invest \$41 million to open 10 new stores and strengthen its distribution network in Brazil. However, Walmart's closure of 25 stores in Brazil, as profits sank due to personnel costs, highlights Brazil's lingering retail investment challenges.

National players are spreading their reach. CVC, Brazil's largest travel agency with 800 outlets, announced plans to open 100 more by 2018. Retail chain Lojas Americanas plans to open 100 stores per year, maintaining its 2009–2013 expansion pace, and Grupo Pão de Açúcar opened 128 new stores in 2013.

Online retail is experiencing double-digit growth. Grupo Pão de Açúcar launched the first e-commerce site for its Extra brand, which features a partnership with 24 stores. Amazon.com.br began retail operations in February 2014.

The FIFA World Cup could help the retail sector in 2014, and could boost sales in durable goods such as flat-screen TVs.

**Peru: A steady retail opportunity.** Peru's controlled inflation (less than 3 percent), growing economy, and business confidence make it a solid retail opportunity. Prudent fiscal policy and monetary discipline remain the pillars of Peru's economic policy, with a market-friendly approach that encourages private investment under the framework of a national plan for industrial development. Peru is 13th in this year's Index.

In retail, middle-class consumers remain the focus. Private-label products have grown in popularity in Peru because of their high quality and affordable prices. Lima, the capital, has more than half of Peru's malls, and clothing brands Gap, Pili Carrera, and Lippi have opened stores in the city. Starbucks is using Peru for its South American growth strategy, with plans for more than 100 stores by 2015. El Corte Inglés and Walmart are among the international retailers that plan to enter Lima and other Peruvian cities by 2015.

**Panama: A growth story.** Panama's GDP grew 8 percent in 2013 to \$44.3 billion, and the country, which moves up eight spots to 14th, remains one of Latin America's most dynamic and fastest-growing economies.

Large-scale infrastructure projects have fueled growth in construction and transportation, including the Panama Metro (opened in April 2014), Panama Canal expansion (expected to finish in 2015), and Tocumen International Airport's expansion (expected by 2016). Foreign investors are solidifying Panama's position as a regional financial hub. Panama and the United States recently signed a bilateral free-trade agreement, which will foster growth in manufactured goods exports and foreign direct investment.

Consumer spending reached \$5,020 per capita in 2013. Inflation remains at historically low levels (4.2 percent), but pressure from strong economic growth, domestic demand increases,

large investment inflows, and commodity price uncertainty could increase inflation in coming years. Panama's fully dollarized economy, and thus dependence on the U.S. Federal Reserve for its monetary policy, leaves the country with few tools to deal with external inflationary pressures.

Retail sales were \$9.3 billion in 2013, half in food and grocery. Supermarket chains Rey and Super 99 are the top retailers, with more than 160,000 square meters of store space between them. International retailers that have announced expansion plans into Panama include Michael Kors, American Eagle Outfitters, Gap, Cotton On, Ted Baker, and Paul Smith. Kids TV network Nickelodeon recently made Panama the home of its first retail outlet, part of an expansion focused on developing markets.

**Colombia: Strengthening middle class.** Colombia drops three spots to 21st in this year's GRDI, but its fundamentals are strong. GDP growth was 4 percent in 2013, while household spending increased and unemployment dropped. A strengthening middle class seems poised to spend more; a surge in credit card offers has helped increase spending on products and services that would otherwise be unaffordable.

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## Latin America includes Brazil's huge market, Chile's sophisticated mid-sized market, and "small gems" such as Uruguay, where high consumption levels are attractive to luxury brands.

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Traditional mom-and-pop stores still dominate among lower-income consumers who cannot afford bulk purchases or out-of-town transportation. But modern formats are expected to grow 67 percent to \$22.33 billion in sales by 2017. Cencosud, which acquired Carrefour's Colombian business in 2012, has invested \$20 million in improving infrastructure for its Jumbo chain. Éxito is in the process of acquiring Colombian chain Super Inter, which operates 50 discount stores in the Valle del Cauca and Eje Cafetero regions. Mexico-based OXXO has nearly 40 stores in Bogotá, the capital, and plans to enter Medellín, the second-largest city, this year. Starbucks plans to enter Colombia in the first half of 2014 and expand to 50 stores over the next five years.

Two-thirds of purchases in Colombia are in shopping centers. More than 50 new projects are planned through 2015, ranging from small galleries to large malls. Éxito has invested \$170.5 million to build the largest mall in Barranquilla, Colombia's fourth-largest city. Regional players such as Cencosud, Parque Arauco, Grupo Roble, and Spectrum have injected capital into large malls, a shift from the traditional small centers established around condominiums. Chile's Parque Arauco has partnered with Bancolombia to develop the \$244 million Parque La Colina, which will open in 2015 in Bogotá, and with Chile's Mall Plaza for new malls in Manizales, Pereira, and Bucaramanga.

Online retail is also gaining sophistication. Éxito has partnered with France's Casino Group to expand its global online business. Meanwhile, Colombia has been the leading market for fashion e-tailer Dafiti, which recently obtained \$250 million to expand operations.



**Costa Rica: Expanding retail environment.** Costa Rica enters the rankings in 24th place with one of Central America's most attractive environments for retail investment. It has a well-established democracy, rapid economic growth, and a well-educated population. Costa Rica has also committed to opening its market to foreign investors, tourism, and manufactured goods exports, and it has diversified foreign earnings to reduce its dependence on the United States. Retail sales and household consumption are expanding as middle-class consumers trade up and lower-income consumers buy more. Costa Rica profits from its position as a regional technology hub with a skilled labor force and relatively low costs. Service-related activities, including those connected to tourism, are expected to expand.

Modern formats account for 40 percent of grocery sales, with the remainder at small stores called *pulperias*. Walmart leads modern grocery with 38 percent market share, featuring 215 outlets under its Walmart, Maxi Pali, Pali, and Mas X Menos banners. Walmart has mainly targeted middle- and lower-income consumers, with rural discount stores offering access to modern retail at competitive prices. Other major grocers include Costa Rican chains Auto Mercado (35 outlets) and Gessa (67) and Colombia's Olímpica (86), which acquired local grocer Megasuper in 2010.

The fragmented non-grocery retail market is led by appliances and electronics seller Grupo Monge, which operates 179 stores. International retailers in Costa Rica include Gap, Guess, Kenneth Cole, Levi's, Tommy Hilfiger, Payless, Quiznos, Subway, McDonald's, Liz Claiborne, Aéropostale, Nautica, Taco Bell, Burger King, Pizza Hut, and KFC. Spain's Inditex Group recently introduced its Pull & Bear, Bershka, and Stradivarius brands in Multiplaza Escazú, a mall on the outskirts of San Jose, the largest city. In Alajuela, the second-largest city, Alajuela City Mall is due to open in 2015 with 300 stores, 10 cinemas, and an amusement park.

**Mexico: Rebound expected.** Mexico drops to 25th in the GRDI after slower economic growth in 2013, and some analysts say that pressures on consumer spending and reduced industrial activity could hamper growth going forward. Last year, rising fuel prices, lower government spending, and a new tax regime reduced private consumption growth to 2.7 percent, down from 4.7 percent in 2012. ANTAD, Mexico's national retail association, reported nearly flat same-store sales in 2013 after 5 percent growth in 2012. Walmart, Mexico's largest retailer with 40 percent market share in organized retail, had its worst performance since 1997—a decrease in same-store sales of 1.3 percent. Sales declined at other top retailers such as Chedraui and Sanborns.

However, there are plenty of signs that Mexico's retail sector remains poised for growth. Government reforms in energy, telecommunications, and fiscal policy are expected to spur GDP growth, and urbanization and a rising middle class will increase sales of durable goods.

ANTAD estimates retailers will invest \$4 billion in expansion in 2014, an increase of more than \$600 million. Walmart has \$1.1 billion plans to modernize existing locations and open new stores, increasing its footprint by 5 percent. Grocers Soriana and Chedraui plan to open 50 and 30 new stores, respectively, in 2014. Chedraui and Comercial Mexicana have successfully unveiled premium formats in steps to differentiate from Walmart's low-cost positioning. Nearly all major grocers are developing smaller formats to enter smaller cities. OXXO opened 1,120 convenience stores in 2013; now at 11,700 stores, it has plans for 8,300 more by 2022.

M&A is picking up. Convenience store chain FEMSA Comercio entered the pharmacy business by acquiring Farmacias YZA and Farmacias Moderna (400 units combined), and also acquired an 80 percent stake in fast-food chain Gorditas Doña Tota. Blockbuster sold its 300 outlets to retail operator Elektra, and Walmart sold its restaurant division (362 units) to restaurant and franchise operator Asea for \$620 million. Comercial Mexicana is reportedly up for sale, with

Chile's Falabella and Cencosud, along with Mexican retailers, among the potential buyers. Convenience retailer Círculo K has plans to buy Extra (878 stores) from Grupo Modelo. Grupo Gigante is preparing its IPO of Office Depot, with plans to raise \$373 million.

In apparel, international retailers such as Gap, H&M, American Eagle Outfitters, and Forever 21 opened standalone stores in Mexico. Colombian coffee shop Juan Valdez has entered with two stores in Mexico City.

E-commerce, while still low, has grown substantially in recent years, with Walmart reporting more than 50,000 online transactions per month. The main online players in Mexico include established modern retailers such as Liverpool, El Palacio de Hierro, Coppel, Walmart, and Soriana, as well as U.S.-based retailers that offer shipping to Mexico.

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Despite less-bullish economic growth, **China remains impossible for international retailers to ignore.** Retail sales increased 13 percent in 2013, and consumer confidence rose.

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## Asia

Asia's fast-growing economies offer fertile ground for retailers, as expanding populations, rising incomes, and increasing affinity for modern formats help retail sales grow, often quite rapidly. Modern retail is spreading beyond the largest urban centers to smaller, untapped cities and regions.

The region saw several improvements in the rankings, led by China, which rebounded to second place, and Malaysia, which re-entered the top 10 for the first time since 2009.

**China: Continued retail growth.** Even with less-bullish economic growth, China remains impossible for retailers to ignore. Retail sales in the world's most populous country increased 13 percent in 2013 (to \$2.6 trillion), and consumer confidence rose. Looking ahead, urbanization, increasing disposable incomes, and a loosening of the birth-control policy are expected to fuel future growth. China moves up two spots into second place, its highest ranking since it was first in the 2010 GRDI.

Hypermarkets and supermarkets—particularly multinationals—are facing flattening revenue growth and surging costs as labor costs grow by more than 15 percent per year and rents in some locations rise 10 percent per year. Foreign retailers feel the pinch more acutely because many of their stores are in the center of cities where rents are rising fastest. Meanwhile, local players such as China Resources Enterprise and Beijing Hualian Group are learning quickly and growing rapidly.

In response, many retailers closed underperforming stores or engaged in M&A. Tesco, facing flat revenue growth and plummeting profits, announced in 2013 a joint venture with China Resources Enterprise (with Tesco owning 20 percent) to manage both groups' stores in China. Retailers that closed stores in 2013 include Walmart (14 stores), Tesco (three), and Lotus (two), and Metro Group announced that its Media Markt chain would exit China.

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Department stores are struggling as well, their profits slipping as their offerings don't stand out to buyers. Store totals dropped by more than 4 percent, and total revenue growth was minimal. Still, luxury department stores Galeries Lafayette and Lane Crawford returned to China in 2013 after absences.

On the other hand, convenience stores are entering a high-growth phase (a 10 percent increase in store totals), drawing customers with long opening hours, proximity, and value-added services such as utility bill payments. Many retailers in this sector have also built scale: Thirty percent have more than 1,000 stores, and 40 percent have between 300 and 1,000.

Mall construction continued last year, led by national mall chains, with total area growing by 20 percent and store numbers increasing by 10 percent. Consumers prefer malls over department stores because malls offer shopping, food, and entertainment in one location. Mall restaurants have expanded, proving resilient in the face of e-commerce.

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## **China's online retail market grew 42 percent year-over-year in 2013 to \$305 billion.** E-commerce now accounts for 8 percent of all retail.

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The tightening of the anti-corruption policy hampered luxury goods sales, which just a few years ago was one of China's most dynamic sectors. Luxury sales fell 2 percent last year, with luxury watches and men's apparel—once-popular gifts—most affected. Second-tier "light-luxury" brands, on the other hand, are growing. With the upheaval, the remaining luxury brands are renovating existing stores and seeking to secure current business rather than open new stores.

China's e-commerce market is growing significantly and now accounts for 8 percent of all retail. In 2013 it grew 42 percent year-over-year to \$305 billion, and the country claimed the top spot in our Global Retail E-Commerce Index. (For more information about the Global Retail E-Commerce Index, see <http://www.atkearney.com/consumer-products-retail/e-commerce-index>.) Singles' Day, the annual online shopping fest in China, drew a record-breaking \$5.7 billion in sales in 2013. Fast growth is expected as Internet use expands, offerings improve, lower-tier cities start spending more online, online payment safety improves, and logistics services expand.

Four important trends highlight Chinese e-commerce in 2014. First, consolidation seems to be taking off, as bigger companies can use scale to fend off competitors and manage cost increases. For example, online search player Baidu acquired group-buying site Nuomi to expand its services to coupons. Second, more retailers blurred the lines between online and offline. Traditional retailer Wangfujing Department Store launched an online shopping site and app and installed wireless Internet in its stores, allowing customers to compare products offline and pay online. Third, mobile grew fast—a 140 percent increase from 2012—and now represents 12 percent of all online sales. Lastly, third-party logistics service providers are seeing continued profit decreases—from a peak of 30 percent in 2005 to roughly 5 percent in 2013—as labor and land costs rise. Chinese online buyers expect fast delivery, so this issue is important, and is a main reason some e-commerce giants (such as Alibaba) are building their own logistics platform.

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**Malaysia: A strong and stable market.** Malaysia moves up four spots to 9th, its highest ranking since 2007. Malaysia has a small population (almost 30 million) and economic growth softened in 2013, but its high income per capita of \$10,600 and young population (nearly half of Malaysians are younger than 25) make it a strong and stable market.

Higher disposable incomes are bringing faster growth to premium categories such as fashion, sporting goods, and electronics than to basic food and beverages. Hypermarkets and supermarkets, such as Malaysian chains GCH Retail and The Store Corporation Berhad, are catering to these changes, expanding to products such as home appliances to compete with non-groceries. Modern retail dominates in urban centers, while traditional formats lead in rural areas. In food, modern retailers are gaining a greater foothold, with market share expected to reach 53 percent by 2020. These grocers are using lower-priced private labels and add-on services to draw customers.

Malaysia continues to be a magnet for international players, thanks to favorable regulations from a government that recognizes retail as an important segment for economic growth. Toy seller Hamleys, convenience store chain Circle K, lifestyle brand Superdry, and fashion brand Cath Kidston entered in 2013, and department stores Galeries Lafayette and Takashimaya will open in 2014.

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Malaysia's population is relatively small and its economic growth softened in 2013, but it is boosted by **high per-capita income and a young population.**

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Online retail is growing with more broadband adoption, a young, growing working population, and large modern retailers' efforts for online development. Worth \$1 billion in 2012, Malaysia's online retail market could nearly triple in size by 2017.

**Indonesia. Bright market with challenges.** A recent slowdown has hampered short-term growth, but Indonesia (15th) remains a strong retail market in the mid-to-long term. Sales growth in the world's fourth most populous country was flat as the economy slowed and consumer confidence stayed low, but total sales area grew rapidly, indicating retailers' anticipation for strong long-term growth behind a large, young, urbanizing population, rising incomes, and infrastructure development.

Modern retail's share of grocery sales is expected to grow from 32 percent in 2013 to 43 percent by 2018. Leading the way are convenience stores and minimarkets, whose sales have tripled over the past five years. Underpenetrated tier 2 cities are starting to see growth in modern retail. Local department store Matahari Putra Prima and developer PT Lippo Karawaci plan to expand aggressively to untapped markets in smaller cities and on the outskirts of Jakarta, the largest city.

The regulatory environment is getting tougher for international retailers, particularly recent rules that limit the number of franchise outlets in small towns and cap the number of company-owned stores at 150. A fractured verdict in recent legislative elections may pose further challenges to economic and retail growth.

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Still, international players remain interested in Indonesia's retail market. New entrants in 2013 included South Korea's Lotte Shopping, French department store Galeries Lafayette, and Japanese fashion brand Uniqlo. Starbucks, Apple, IKEA, and Courts Asia have announced store openings for 2014.

Online retail will grow rapidly in the next decade. Last year, three-quarters of Internet users in Indonesia shopped online.

**Sri Lanka: Still moving forward.** Sri Lanka drops three spots to 18th in this year's GRDI, but private consumption is rising and the country's economic situation continues its positive run. Sri Lankans have less savings than others in South Asia and their spending patterns are changing as standards of living improve. The \$25 billion retail market remains at the early stages of development, with only 3 percent of sales occurring in modern formats.

In Colombo, Sri Lanka's largest city and commercial center has eight malls, with 10 more expected within the next five years. As infrastructure improves, Sri Lankan cities such as Kandy and Jaffna will open up. Rising tourism will also have an impact on retail growth.

Sri Lanka's previously liberal FDI policy was tightened in 2013, when new restrictions were added to protect local investors. Still, several global retailers entered the market, including fashion retailers Dubai-based Splash, U.S.-based Glo, and India's Apollo Tyres. Singapore-based women's fashion brand Charles & Keith has plans to open four to five stores in the next few years.

**India: Hope for a rebound.** Economic growth has lagged the rates of the past decade's boom times, but at 4.7 percent last year, it was an improvement from 2012. Retail is still hindered by high consumer price inflation, currency fluctuations, high current account deficits, government debts, and strict foreign direct investment policies that have long been an impediment to growth. India drops six spots to 20th place, its lowest-ever ranking in the GRDI.

India remains an appealing long-term retail destination for several reasons, starting with its demographics—a population of 1.2 billion people, half of whom are younger than 30 and roughly one-third of whom live in cities. Indians' disposable incomes are increasing, allowing them to spend more and try new products, brands, and categories while spending a lower proportion on food. Furthermore, the recent national election of the Bharatiya Janata Party, which has promised more pro-business policies, has many experts feeling positive about India's long-term GDP outlook and industry growth.

Migration from traditional stores to modern retail continues, but modern formats account for only 8 percent of the total market. Concerns for the industry include an opaque real estate market with high prices and low availability, high borrowing costs, personnel shortages, expensive supply chains, and unpredictable politics both locally and regionally. More retailers today are focusing on improving operations and back-end processes to increase profitability. Lean models—in terms of size, capital spending, and operating costs—are gaining hold, and even incumbent retailers are reducing store sizes and opening new stores only in carefully selected locations.

In 2013, the government permitted 51 percent FDI in multi-brand retail with few caveats, but left implementation to individual states, a step that has made it hard for new retailers to form unified strategies for the Indian market as a whole. Still, foreign retailers are allowed 100 percent of single-brand stores, and many opened outlets in 2013, including U.S. brands Stuart Weitzman, Michael Kors, and Columbia Sportswear and German multinational Bosch (which sells appliances, power tools, and security systems at its first branded store in India) to name a few. Other retailers

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have indicated interest in opening single-branded stores, including IKEA, Burger King, Gap, Skeyndor, H&M, Richemont, AEON, and Swiss Military.

India's e-commerce market is expected to grow more than 50 percent in the next five years, as its young population increases Internet access and speed. Cash-on-delivery options have been an important step to growth. Inventory management, logistics planning, and resource availability are important hurdles for online retail in India.

**Philippines: Reforms and growth.** Recent reforms have improved the Philippines' business environment and put it on a growth trajectory. The stable political environment, an increasingly affluent population, strong liquidity, and sustainable long-term infrastructure development are boosting consumer confidence. The Philippines reenters the GRDI in 23rd.

Retail sales growth is expected to surpass 10 percent per year over the next three years, in large part due to increasing disposable incomes, which are driving sales in nonessential items such as apparel and luxury goods. Additionally, growth is spreading beyond the capital of Manila to other regions such as Southern Tagalog, Central Visayas, Western Visayas, Southern Mindanao, and Central Luzon.

Traditional *sari-sari* convenience stores remain strong, with roughly 70 percent of the total market, but modern retailers are making headway. International entries in 2013 included clothing seller American Eagle Outfitters, international jeweler Claire's, Korean bakery Tous Les Jours, Japanese convenience store chain FamilyMart, and Hong Kong supermarket Wellcome. Retailers expected to enter in 2014 include H&M, Gap, PVH, and BH Fashion Retailers.

**Vietnam: Wider retail expansion.** Vietnam's retail market is growing in double digits, driven by favorable demographics, falling inflation, and a more attractive business environment resulting from lower trade barriers and reduced corporate tax rates. Vietnam, which was unranked last year but held the top spot in the GRDI as recently as 2008, is 28th in 2014.

Most modern retail is concentrated in a handful of cities, but many retailers plan to expand beyond larger cities. Vietnam's Ministry of Industry and Trade is targeting modern retail penetration of 40 percent by 2020.

Non-grocery categories are showing impressive growth, and supermarkets and hypermarkets are expanding their non-grocery offerings to meet this demand. Several regional players entered Vietnam in 2013 to tap into low-cost production and the large customer base, including Thai sporting goods chain Supersports, Japanese electronics retailer Nojima, and Thai trading company Berli Jucker. In the near future, more international retailers are expected to enter, including Japan's AEON, Germany's Metro, and South Korea's E-Mart.

### **Middle East and North Africa**

Once again, the Middle East is a dynamic retail region—with a growing and young population, strong GDP growth, and increasing consumer confidence and spending. With Qatar scheduled to host the FIFA World Cup in 2022 and Dubai recently winning the Expo 2020 bid, the region's construction and infrastructure boom should only continue. Retail will undoubtedly benefit.

Consumers are becoming more demanding, seeking formats to better meet their needs along with more interesting, creative concepts. As the market saturates, developers such as Dubai's LuLu Hypermarkets and Majid Al Futtaim (MAF) are now expanding across the region. Fewer international companies entered in 2013, but those in the region focused on expanding their footprint and growing local brands.

Online sales are still in their infancy, but Internet and smartphone penetration is high. E-commerce in the Middle East and North Africa (MENA) is predicted to grow from \$9 billion in 2012 to \$15 billion by 2015, according to a PayPal study.

**United Arab Emirates: Increasingly sophisticated consumers.** Retail sales in the UAE, the GRDI's 4th-ranked country, grew 5 percent in 2013 to \$66 billion. Dubai's winning bid for Expo 2020 highlights the country's bright future. Other massive infrastructure and development projects will open soon, including the Falconcity of Wonders, which will host life-size replicas of the Seven Wonders of the World as well as other famous buildings such as the Eiffel Tower.

The UAE has a growing need for more sophisticated formats as consumer needs change. On one hand, consumers are demanding more proximity, which is leading a shift to more community formats, such as MAF's My City Centre, which offers a range of retail and lifestyle-oriented stores for local community residents. On the other hand, retail saturation has brought some interesting and innovative concepts. In February 2014, the UAE's first outdoor cinema and beachfront mall, The Beach, opened at Dubai's Jumeirah Beach Residence. The development includes many shops, restaurants, outdoor walking areas, and a playground, and the positive feedback will likely spur similar developments.

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## The Middle East remains a dynamic region, with strong GDP growth, increasing consumer confidence, and some big upcoming events that will benefit retail.

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While Dubai focuses largely on expanding and refurbishing existing spaces, such as MAF's new 30-brand fashion district in the Mall of the Emirates, Abu Dhabi is working on future retail developments in an effort to catch up to Dubai's retail supply. Jones Lang LaSalle, the real estate investment management company, estimates that more than 349,000 square meters of gross leasable area entered Abu Dhabi in 2013. The luxury Galleria, part of the new Sowwah Square district, contains more than 100 retail and food outlets, including high-end stores Alexander McQueen, Jimmy Choo, and Bulgari. The new World Trade Center Mall is the first outside of the UK and Ireland to feature House of Fraser department stores. The Etihad Towers, a mixed-use complex with premium office and residential space, includes high-end retailers Cartier and Manolo Blahnik.

Few global retailers entered the UAE in 2013, but many existing brands expanded their footprints. Local distributor Chalhoub Group, which owns the rights to distribute international brands in the UAE, opened 50 stores, and Dubai retail conglomerate Apparel Group opened 40. UK-based toy retailer The Entertainer entered the UAE in 2013, and UK grocer Waitrose opened its third Abu Dhabi branch.

One important trend, however, is UAE-based developers' expansion outside of the country. LuLu Hypermarkets plans to open roughly 50 hypermarkets over the next two years in Oman, Qatar, Kuwait, Bahrain, Saudi Arabia, and Malaysia. Landmark Group's fashion brand Iconic is entering Qatar in 2014, and Gulf Marketing Group plans to open 20 new Sun & Sand Sports stores, including six kids' versions, in growth markets.

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With high rates of Internet and smartphone access (85 and 70 percent, respectively), e-commerce is growing fast. To tap into the online shopping opportunity and to build on the UAE's \$1.8 billion duty-free market, Dubai Duty Free launched an online portal that allows travelers to browse and shop online and then pick up the items once they arrive in Dubai.

**Kuwait: Appetite for luxury.** Kuwait's rapidly growing GDP makes it a strong retail market, and high oil prices, strong trade and fiscal surpluses, and large government reserves create a positive outlook. Retail sales have grown at 4.3 percent per year since 2011, roughly half the rate of GDP. Kuwait is small and its economy is closely linked to oil output. But the GRDI's 8th-place country remains a popular location for luxury retailers.

Kuwait is drawing new high-end retail developments. The Avenues mall added more than 800 units in 2013, and the Gate Mall is expected to open in 2014. Meanwhile, premium brands expanded with unique store offerings. Swiss brand Chopard opened its largest boutique with a store designed by renowned architect Thierry W. Despont. Louis Vuitton is completing work on a lavish two-level outlet in The Avenues mall that includes a Haute Maroquinerie salon, allowing buyers to customize handmade Louis Vuitton bags.

Mid-range players are also streaming in. Landmark Group launched its ninth Centrepoint and fifth Home Centre stores in Kuwait, and Japanese home and lifestyle retailer Muji, known for its quality non-branded products, opened in Kuwait as part of a Middle East expansion. Two Australian food retailers, Pie Face and The Coffee Club, added Kuwaiti stores in 2013.

Grocery in Kuwait is fragmented, with modern retailers holding only a minor share of the market. The top five retailers account for only about 10 percent of grocery spending, with the rest in the hands of co-op societies and traditional corner stores.

**Saudi Arabia: Large and unsaturated.** With the largest economy in the Gulf region and a market largely untapped by modern formats, Saudi Arabia (16th for the second straight year) remains fundamentally attractive to retailers looking to expand. Grocery is the largest retail sector. Saudi consumers (especially in urban areas) are demanding healthier, fresher food and international brands. Although hypermarkets will continue to spread, small convenience stores (or *bakalas*) will remain important since Saudi women are not allowed to drive.

Saudi Arabia is one of the Middle East's most conservative markets, so retailers and developers must go the extra mile to deliver creative formats and entertainment. This has led to formats such as women-only malls and floors and alternative leisure offerings (because cinemas are forbidden).

Centrepoint, owned by Dubai-based Landmark Group, has unveiled aggressive expansion plans across the Middle East, Asia, and Africa, with Saudi Arabia at the top of its expansion list. In March 2014, UK retailer Marks & Spencer opened its first lingerie and beauty store in Saudi Arabia, where its lingerie sales increased by 17 percent in 2013. Meanwhile, Saudi companies are also expanding domestically and abroad. Jarir Marketing, Saudi Arabia's biggest retailer, plans to invest \$300 million over the next five years, including new stores in Abu Dhabi and Kuwait. Local fashion brand Citymax will open four Saudi stores. Saudi retailer Fawaz Alhokair Group plans to open nearly 250 stores in Saudi Arabia and abroad.

Online retail has many challenges in Saudi Arabia—consumers lack trust in online payment, regulations are minimal, and public awareness is low—and is not at this point a credible threat to bricks-and-mortar retail in a country where shopping is a popular leisure activity. Still, Saudis buy more products online, invest in more stocks, and pay more bills online than any other Arab country.



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**Oman: Grocery leads the growth.** Retail sales have grown 7 percent per year since 2011. Despite its small size (4 million people), Oman takes 17th in the 2014 GRDI.

The concentration of growth is in the capital, Muscat, where half the population lives. Oman's solid economy, increasing consumer confidence, and recent government moves to improve access to credit make this a popular growth location for regional and global players. Netherlands-based SPAR International signed an expansion agreement with local conglomerate Khimji Ramdas for nine supermarkets by 2016. Muscat Grand Mall plans to invest \$129 million to add 100 stores to the existing 150. MAF is developing the \$467 million Mall of Oman, which will have 157,000 square meters of space and 350 stores. Jumeirah Group announced plans for a \$600 million high-end tourist and residential area in the Al Hajar Mountains. Another planned luxury development, Saraya Bandar Jissah, will have housing, restaurants, and a spa.

The Omani grocery market is fairly concentrated by Middle East standards, with the top five owning half of the market. Khimji is the clear market leader, followed by Al Safeer, LuLu Hypermarkets, Spinneys, and Carrefour. Hypermarkets account for 70 percent of grocery sales; supermarkets and neighborhood stores, while still important, comprise around 30 percent.

**Jordan: A rising retail market.** Jordan dipped two spots to 22nd, but its annual retail sales since 2011 have been strong (7.8 percent).

Jordan's market is concentrated in Amman, which hosts most of the top developments. The largest is Abdali Boulevard, with 22,000 square meters of retail space and 120 stores from fashion boutiques to specialty and department stores.

Grocery sales have increased 5 percent in the past three years, and international retailers have taken notice. Dubai's MAF opened its third Jordanian Carrefour hypermarket in Irbid, with a sales area of 6,000 square meters. Restaurants are also moving in. U.S.-based Ponderosa Steakhouse and Bonanza Steakhouse entered Amman in 2013. Apparel has grown steadily; UK-based fashion retailer George opened its second store in Amman in Galleria Mall.

**Morocco: Organized retail makes gains.** Morocco stays steady at 27th in the GRDI as the economy surges ahead. Retail represents 13 percent of the labor force, and the government is planning for retail and trade growth over the next five years. Grocery represents about 70 percent of retail, led by local hypermarket Marjane, Carrefour, and local chain Aswak Assalam.

Traditional open air marketplaces (*souks*) represent the bulk of retail, but malls are gaining in popularity. Casablanca has Africa's second-largest mall, and a larger mall is set to open in 2017. International brands in Morocco include Label'Vie, Zara, Banana Republic, and Gap.

## Central Asia and Eastern Europe

This region's highest-ranked countries are some of the GRDI's shiniest "small gems"—countries such as Armenia, Georgia, and Kazakhstan, whose location and unsaturated retail environment make them attractive options for international retailers. On the other end of the spectrum is Russia, the world's largest country by land area, which leaped back up the rankings this year as its retail potential outweighed the country's lingering risks.

**Armenia: A regional play.** Armenia's GDP is growing fast (8.3 percent), its retail market is unsaturated, and its location makes it a strong regional entry point. A planned customs union with Russia, Kazakhstan, and Belarus could improve its prospects. Armenia climbs into 6th place in the 2014 GRDI.

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The main challenges are a small population and strong monopolies in certain sectors. Carrefour's still-postponed entrance into Armenia highlights the difficulties. However, international retailers benefit from a market that is shifting to modern formats, and from government efforts to attract foreign investment. The government eliminated company registration fees and created a unified income tax for social contributions.

Some international retailers have already begun moving in, especially since the first Western-style shopping mall opened in 2012. In 2014, JYSK, Laura Ashley, F&F, and New Yorker are planning to complete their entrance while Zara is planning to open its second store.

**Georgia: An undersaturated “small gem.”** Political uncertainty posed challenges to the economic outlook and consumer spending in 2013, but recovering GDP and investment levels are expected along with stabilizing consumer spending growth. Georgia's GDP is growing steadily, and per-capita spending has risen over the past five years. These factors, combined with a still underpenetrated retail market, help Georgia move up one place to 7th.

More than 80 percent of modern retail sales in Georgia occur in the capital city of Tbilisi, but regional cities such as Kutaisi, Batumi, and Telavi are generating more interest. Despite the many positive developments, modern retail space remains scarce, with many centers outdated or inappropriate for more premium retail. Tbilisi Mall is Georgia's largest modern space, but new developments are planned.

Georgia remains an attractive option for retailers across categories. Modern formats remain in the earliest stages of development; most major players consider traditional bazaars their strongest competitors today. Carrefour and local chain Goodwill lead the hypermarkets, and SPAR has announced plans to enter in 2014. Minimarkets are more competitive.

Fast food is active, with McDonald's expanding, Wendy's and Subway opening, and KFC announcing plans to enter. U.S.-based bakery Cinnabon entered a franchise agreement with Armenia's BrandCity to open seven stores in the next six years. Activity for electronics and furniture stores is also picking up, while DIY formats are basically nonexistent and offer a good entrance opportunity.

Modern apparel retail in Georgia dates only to 2011, when Retail Group Georgia brought in Inditex brands. Barely two years later, 40 brands have entered, including Zara, Massimo Dutti, Marks & Spencer, Gap, Banana Republic, Aldo, Bershka, Stradivarius, Pull & Bear, Promod, Wallis, Miss Selfridge, Topshop, Topman, Debenhams, and Motivi.

**Kazakhstan: Luxury growth and retail expansion.** Private consumption is growing rapidly as Kazakhstan's business environment improves, based on the country's vast natural resources, its integration customs union with Russia and Belarus, rising investments in retail real estate development, and a steadily improving business environment. The GRDI's 10th-ranked country has a small population and wide income differentiation, which makes the luxury market rather strong while lower-income segments have limited potential. Those factors combined with slowing GDP growth and recent currency devaluation make the market challenging for international retailers.

Modern grocers are spreading, especially in discount and cash-and-carry. Though most consumers are price-conscious and prefer unpackaged food from traditional markets (80 percent share), Kazakhs are increasingly drawn to modern formats for their customer service and easy store access. Local brand Magnum Cash & Carry is the leader in the food market, and German retailer Metro Group plans to expand its presence in cash and carry.

Most shopping malls and international brands are located in Astana and Almaty, with little presence elsewhere. Kazakh consumers prefer one-stop outlets with access to quality international brands. Several global players entered in 2012–2013, and some, such as Christian Dior, Pronovias, Giorgio Armani, and Kiton, continued expanding in 2013. Russian chains such as Centrobuv are considering entry as well. E-commerce has seen some similar growth from Russian brands, with apparel brand Lamoda entering in 2012, and online fashion seller Wildberries and online hypermarket Ozon.ru expanding to Kazakhstan in 2013.

**Turkey: Attractive but competitive.** Economic growth accelerated in Turkey, from 1.8 percent in 2012 to 2.6 percent in 2013. However as interest rates rise and the country implements measures to control private debt, Turkey's dropped to 11th in the GRDI.

Turkey has undergone significant infrastructural development and modernization in recent years, but now the question is what's next. It remains an attractive market, but the underlying factors have changed. Private debt is no longer easily accessible. Credit card installments are put on hold. Turkey's highly inflated middle-income class is beginning to face liquidity problems and is curbing retail spending. The overall outlook is still generally positive, but international retailers would be wise to think before acting.

Electronic retailers have been first to feel the brunt of this tougher environment. For example, Vatan Bilgisayar, a leading electronic devices retailer, decided not to open half of the stores in its 2014 outlook. In e-commerce, some players merged (Darty was sold to Bimeks, which had recently bought Electro World's stores) or exited the market (Conforama left after a year of struggle).

Discount chains have become the most promising format for growth, now accounting for 62 percent of modern groceries. BIM, a discount leader, plans to open 500 stores and expects a 15 percent revenue increase. Players in traditional or premium supermarket formats are trying to compete by moving into new, less profitable formats. Carrefour, for example, plans to open 100 new stores in 2014, among which 80 percent will be mini-markets.

Another bright spot is luxury, which remains strong. TAG Heuer, IRO, Lafayette, and Barbara Bui are among the new entrants.

**Russia: The window of opportunity is open.** Russia is historically one of the GRDI's more volatile countries—ranked second in 2010, it dropped as far as 26th in 2012. This year it leaps 11 positions into 12th place, based on rising incomes, an urbanizing population that is willing to spend more, improving infrastructure, and increasing investment in retail real estate.

Although Russia's GDP growth slowed to 1.2 percent in 2013, consumer spending remained the one bright spot in the economy, with real disposable incomes and retail sales expanding by 3.5 percent and 5.5 percent, respectively, and per capita consumer spending forecast to accelerate. Additionally the government plans to invest billions in transportation infrastructure to enable better logistics and to encourage expansion beyond Russia's major cities and into its other regions. In 2014, developers are expected to add as much as 1.5 million square meters of new retail space.

While the impact of the crisis in Ukraine is not fully factored into these rankings, many European retailers that are already heavily invested in Russia, such as Metro Group and Auchan, have reasserted their commitment to long-term growth and expansion plans in the country. Metro, whose Russian unit accounted for a quarter of the group's operating profit in 2013 with sales of about \$5 billion, has reconfirmed its ambitions to double its number of hypermarkets by 2018 while expanding convenience chain Fasel under a franchising model.

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Near-term uncertainty about sanctions will likely slow investment, but as long as demand for goods remains strong and spending power keeps growing, Russia remains a high-risk, high-reward retail development prospect.

Grocery is also growing across all channels and geographies. Operational efficiency, category management, and private labels are improving. Magnit, Russia's largest retailer in terms of sales, is expanding from its traditional southern stronghold to markets in the north, with 35 new stores in the Novosibirsk and Tomsk areas. Azbuka Vkusa, the premium food supermarket chain, will triple its chain size by 2018 and plans to launch a convenience format in Moscow and St. Petersburg in 2014. Lenta, the hypermarket chain that recently had an IPO in London, plans to open another 40 stores.

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While the Ukraine crisis is not fully factored into the rankings, many retailers already invested in Russia, such as Metro and Auchan, have **reasserted their commitment to growth and expansion plans in the country.**

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Restaurants, cafes, and small and premium food retail formats are gaining momentum, with many different stores opening around Moscow. Pizza Hut is returning to Russia with plans to open 300 stores within three years, and McDonald's, KFC, and Starbucks are expanding outside of Moscow and St. Petersburg. Russia's wine market is also booming as incomes rise and consumers become more health conscious, with Pernod Ricard and Bacardi among those launching wine brands.

The DIY, appliances, and electronics sectors expanded as well. IKEA, which is considering another store after a long-time break, plans to invest roughly \$2.75 billion to develop a supply and logistics chain. Samsung had the widest expansion, opening more than 100 new retail spots in Russia in 2013. French chain Leroy Merlin opened six new stores in 2013 and plans to open roughly 10 stores annually through 2019. Index Living Mall, the Thai equivalent to IKEA, opened its first Russian store in April. German electronics retailer Media Markt will open seven stores by the end of the summer, and Panasonic plans to launch a branded chain of 30 stores by 2016. British luxury phone maker Vertu will assume its own operations for a chain of stores.

Russia's online market is growing fast as more people gain Internet access. Zara, Massimo Dutti, Motivi, Adidas, Reebok, and OBI are among the entrants. Lamoda, an online fashion retailer, has set up its own logistics and courier service to enable next-day delivery of clothing, shoes, and accessories to 25 cities. Online retailer Ozon established its own distribution network of 2,100 pickup points in 130 cities as well as a huge warehouse in Yekaterinburg to fulfill customer orders outside of Moscow and St. Petersburg.

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**Azerbaijan: Maturing market.** With growing disposable income, an underpenetrated market, and an improving business environment, Azerbaijan (30th) is attracting many international brands, particularly in high-end segments.

Azerbaijan's non-grocery retail market is forecast to grow 13.5 percent from 2014 to 2018. Last year, Italian luxury brand Ermanno Scervino opened a branded store in the capital Baku, with plans to open more stores in Baku and elsewhere, and British brand Next opened its second store in Baku. The new MD Outlet store in Baku's Azure mall offers brands such as Versace, Dolce & Gabbana, Nike, and United Colors of Benetton, among many others. Other new entrants in Azerbaijan include Nine West, Monsoon, Accessorize, Adidas, Puma, and Reebok. New electronics supermarket Comp US launched with more than 2,000 products from well-known brands including Apple and Samsung.

In grocery, traditional formats account for 90 percent of sales, but new regulations regarding quality and pricing are putting pressure on street markets. More consumers are drawn to modern formats' convenience, assortments, and pricing, and international and Russian retailers are expected to enter soon. Local grocer Fresco plans to open the country's first hypermarket as well as two supermarkets, Favorit Market opened its sixth supermarket in the city, and AI Market entered as a new discount chain.

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**Africa is marked by distinct regional differences**—from the West, where global retailers have successfully entered, to the East, untapped and increasingly attractive, to the South, the most developed.

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### **Sub-Saharan Africa**

With GDP growth of 5 percent, rising household incomes, fast urbanization, and a growing middle class, Sub-Saharan Africa is a region of massive potential. Three countries are ranked in this year's GRDI.

As our new African Retail Development Index demonstrated, Africa is marked by distinct regional differences (For more on the 2014 African Retail Development Index, see <http://www.akearney.com/consumer-products-retail/african-retail-development-index>).<sup>1</sup> In the West, Africa's most populous region, international retailers, including Walmart (with its Massmart chain) and Carrefour, have succeeded in navigating the challenging business landscape, targeting middle- and high-income consumers who are brand-conscious and want convenience, quality, and variety.

The East is untapped and increasingly attractive, as the largely informal markets feature few international retailers (mainly in grocery). Regional retailers, which benefit from lower duties

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<sup>1</sup> The relative positions of some countries in the African Retail Development Index differ from the GRDI because of the different datasets used for each study and the differences in the minimum and maximum values used to assess the two sets of countries.

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and production costs, dominate the region, targeting all income segments and offering a mix of more basic commodities that all consumers use. In Kenya alone, 750,000 households earn more than \$14,000 per year.

In the South, the most developed region with stronger infrastructures, high incomes, and macroeconomic stability, South African retailers lead the growth with their close proximity and cultural alignment. Regional and local retailers are leading the e-commerce push, particularly among affluent consumers.

**Nigeria: One of Africa's most attractive retail markets.** Nigeria, the most populous country in Africa with 177 million people, debuts at 19th in the GRDI. The West African nation has experienced remarkable growth since democratization in 1999, with steady economic growth of 6 percent. Wholesale and retail contribute more than 16 percent of GDP, third among sectors behind oil and gas (37 percent) and agriculture (30 percent).

More than half of Nigerians live in cities, including more than 20 million in Lagos. Consumer spending was more than \$1,000 per capita in 2013, an increase of 13 percent from 2012 and more than 55 percent higher than it was five years ago. Total retail sales have now surpassed \$130 billion, with food and grocery retail making up the biggest portion.

Street traders and open markets dominate Nigeria's retail sector but government policy changes have helped expand modern retail. Some state governments have banned street trading, revitalized city centers, and modernized trading standards, while new malls in urban areas have helped expand the market.

Many regional and international retailers have begun moving in, for now primarily in Abuja, the capital, and Lagos. South Africa's Shoprite, Africa's biggest retailer, has seven stores in the country with plans to open more, while Walmart (Massmart) plans to expand from two to 20 stores. South Africa's SPAR has partnered with domestic retailer Park 'n' Shop to enter Nigeria with stores in Abuja and Lagos.

Despite the upbeat retail fundamentals, the tragic abduction of more than 200 girls from a Nigerian school highlights the challenges ahead in this still-volatile country. The terrorist events coupled with high levels of corruption and bureaucratic red tape could hinder development and dampen investors' appetite to enter.

**Botswana: One of Africa's most developed markets.** Botswana (26th) is ranked for the third straight year, with retail contributing 30 percent of the country's GDP as well as many jobs. However, the market is nearing maturity, with growth slowing despite the increased presence and entry of regional retailers who seek to exploit Botswana's retail opportunities.

Annual consumer spending is now more than \$3,500 per capita, and the total market is now worth \$5.6 billion. Food and apparel are the most attractive segments, with recent growth coming in furniture and hardware. Gaborone, the capital, has most of Botswana's formal retail, and new shopping centers are springing up, fueled by aggressive expansion plans by current local, regional, and international players.

For example, in the last year, Massmart opened its second Builders Warehouse store on the outskirts of Gaborone. South Africa's Woolworths returned to neighboring Botswana as part of future expansion plans, while Shoprite also announced plans to expand. Local retailer Choppies plans an increase from its current 56 stores, and the Shoppers supermarket chain plans to grow from 16 to 40 stores.

The modern retail sector is dominated by South African retailers such as Pick n Pay, Shoprite, SPAR, and Woolworths. More South African retailers will likely enter soon, including apparel retailer Cape Union Mart Group, whose brands include Old Khaki, K-Way, Sparks & Ellis, and Poetry.

**Namibia: Maturing market.** Namibia's retail sector has experienced phenomenal growth over the past few years and is showing signs of maturing, with growth dropping somewhat in 2013. Namibia is 29th.

Retail (currently at \$2.9 billion per year) has grown in recent years behind increased consumer demand among both domestic consumers and neighboring countries, high income per capita, strong consumer spending (\$2,297 per year), a stable political environment, and low inflation and interest rates.

South Africa's strongest retailers dominate modern retail in Namibia, particularly Shoprite, SPAR, Pick n Pay, Massmart, and Fruit & Veg City. Shoprite leads grocery in Namibia, with 93 outlets across the country, and Pick n Pay teamed up with Nedbank Namibia in an effort to grow its consumer base. Woolworths returned to the country with the goal of improving its position in the market.

## Continuing Retail Expansion

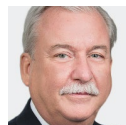
Global retailers and their regional counterparts are continuing the push into new markets. Looking ahead to the upcoming year, it is clear that retailers understand the wealth of opportunities in developing markets, and are taking the steps to make an immediate impact and create a long-term competitive advantage.

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### About the A.T. Kearney Global Consumer Institute

The A.T. Kearney Global Consumer Institute is a worldwide network of professionals and executives. The Institute combines proprietary and public data resources with local knowledge to deliver strategic and operational insights to executives in consumer-facing industries seeking long-term growth and competitive advantage. For more information, please contact [gci@atkearney.com](mailto:gci@atkearney.com).

# Appendix: About the Global Retail Development Index

The annual A.T. Kearney Global Retail Development Index ranks 30 developing countries on a 0-to-100-point scale—the higher the ranking, the more urgency there is to enter a country. Countries are selected from 200 developing nations based on three criteria:

- Country risk: lower than 110 in the Euromoney country-risk score
- Population size: two million or more
- Wealth: GDP per capita of more than \$3,000 (Note: The GDP per capita threshold for countries with more than 35 million people is more flexible because of the market opportunity.)

GRDI scores are based on the following four variables:

## Country and business risk (25 percent)

**Country risk (80 percent).** Political risk, economic performance, debt indicators, debt in default or rescheduled, credit ratings, and access to bank financing. The higher the rating, the lower the risk of failure.

**Business risk (20 percent).** Business cost of terrorism, crime, violence, and corruption. The higher the rating, the lower the risk of doing business.

## Market attractiveness (25 percent)

**Retail sales per capita (40 percent).** Based on total annual sales of retail enterprises (excluding taxes). A score of zero indicates an underdeveloped retail sector; a score of 100 indicates a mature retail market.

**Population (20 percent).** A score of zero indicates the country is relatively small with limited growth opportunities.

**Urban population (20 percent).** A score of zero indicates a mostly rural country; 100 indicates a mostly urban country.

**Business efficiency (20 percent).** Parameters include government effectiveness, burden of law and regulations, ease of doing business, and infrastructure quality. A score of zero indicates inefficiency; 100 indicates highly efficient.

## Market saturation (25 percent)

**Share of modern retailing (30 percent).** A score of zero indicates a large share of retail sales is from a modern format within the average Western European level of 200 square meters per 1,000 inhabitants. Modern formats include hypermarkets, supermarkets, discounters, convenience stores, department stores, variety stores, warehouse clubs, and supercenters.

**Number of international retailers (30 percent).** The total score is weighted by the size of retailers in the country—three points for tier 1 retailers (among the top 10 retailers worldwide), two points for tier 2 retailers (within the top 20 retailers worldwide), and one point for tier 3 retailers (all others). Countries with the maximum number of retailers have the lowest score.

**Modern retail sales area per urban inhabitant (20 percent).** A score of zero indicates the country ranks high in total modern retail area per urban inhabitant, close to the average Western European level of 200 square meters per 1,000 inhabitants.



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**Market share of leading retailers (20 percent).** A score of zero indicates a highly concentrated market, with the top five competitors (local and international) holding more than 55 percent of the retail food market; 100 indicates a fragmented market.

**Time pressure (25 percent)**

The time factor is based on 2009 to 2013 data, measured by the compound annual growth rate of modern retail sales weighted by the general economic development of the country (CAGR of GDP from 2011–2013 and forward-looking from 2014–2016) and CAGR (2009 to 2013) of the retail sales area weighted by newly created modern retail sales areas. A score of zero indicates a rapidly advancing retail sector, thus representing a short-term opportunity.

Data and analysis are based on the United Nations Population Division database, International Monetary Fund and Economist Intelligence Unit national statistics, Euromoney and World Bank reports, and Euromonitor and Planet Retail databases.

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A.T. Kearney is a global team of forward-thinking partners that delivers immediate impact and growing advantage for its clients. We are passionate problem solvers who excel in collaborating across borders to co-create and realize elegantly simple, practical solutions and sustainable results. Since 1926, we have been trusted advisors on the most mission-critical issues to the world's leading organizations across all major industries and service sectors. A.T. Kearney has 59 offices located in major business centers across 40 countries.

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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring “essential rightness” in all that we do.

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