

# Expanding Opportunities for Global Retailers

The 2010 A.T. Kearney Global Retail Development Index™



**Figure 1**

The 2010 Global Retail Development Index™

2010 rank	Country	Region	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2009
1	China	Asia	50.6	85.8	32.9	86.6	64.0	+2
2	Kuwait	MENA	75.4	94.3	56.2	24.5	62.6	N/A
3	India	Asia	35.4	51.3	62.2	97.8	61.7	-2
4	Saudi Arabia	MENA	65.3	86.5	50.7	31.0	58.4	+1
5	Brazil	Latin America	73.5	74.3	46.6	36.9	57.8	+3
6	Chile	Latin America	71.8	92.3	27.5	38.3	57.5	+1
7	United Arab Emirates	MENA	79.1	100.0	18.8	32.0	57.5	-3
8	Uruguay	Latin America	67.7	74.3	58.6	23.1	55.9	N/A
9	Peru	Latin America	43.4	54.6	72.2	49.2	54.9	+9
10	Russia	Eastern Europe	63.5	55.1	32.0	61.8	53.1	-8
11	Tunisia	MENA	45.3	77.1	61.3	26.3	52.5	+3
12	Albania	Eastern Europe	30.4	30.2	82.2	61.7	51.1	N/A
13	Egypt	MENA	30.9	45.5	85.7	41.6	50.9	+2
14	Vietnam	Asia	12.3	49.4	50.2	89.1	50.2	-8
15	Morocco	MENA	31.8	60.6	56.0	46.9	48.8	+4
16	Indonesia	Asia	40.9	46.6	59.9	47.5	48.7	+6
17	Malaysia	Asia	54.9	67.5	15.6	48.9	46.7	-7
18	Turkey	MENA	64.6	52.5	40.5	28.9	46.6	+2
19	Bulgaria	Eastern Europe	49.7	60.8	18.8	56.7	46.5	+2
20	Macedonia	Eastern Europe	41.7	28.0	60.8	52.2	45.6	N/A
21	Algeria	MENA	26.1	21.3	96.0	38.2	45.4	-10
22	Philippines	Asia	35.6	35.6	72.7	37.0	45.2	+3
23	Dominican Republic	Latin America	41.2	27.4	69.8	35.4	43.5	N/A
24	South Africa	Sub-Saharan Africa	52.4	73.0	25.2	16.0	41.7	N/A
25	Mexico	Latin America	64.3	69.6	11.1	20.9	41.5	-13
26	Colombia	Latin America	45.0	44.0	48.8	21.9	40.0	+2
27	El Salvador	Latin America	43.8	43.1	55.3	15.9	39.5	+2
28	Romania	Eastern Europe	46.0	61.8	0.0	49.4	39.3	-5
29	Bosnia and Herzegovina	Eastern Europe	27.3	30.2	21.4	77.4	39.1	N/A
30	Guatemala	Latin America	29.3	30.5	70.4	11.9	35.5	N/A

**Key**

- On the radar screen
- To consider
- Lower priority

**Legend**

- 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

Notes: MENA = Middle East and North Africa; Scores are rounded

**A**s the dust settles from a turbulent 2009, retailers in developed markets face a changed landscape that features fewer stores, heavier discounting and more fickle shoppers. In contrast, retail in most developing markets quickly got back on track after the recession. Desirable real estate is still difficult to obtain, competition remains strong both from domestic and foreign players, and the middle class continues to grow. If global retailers ever questioned the wisdom of balancing their domestic holdings with investments in developing markets, the recession certainly reaffirmed its value.

Retailers in developed markets are cautiously optimistic about 2010 after an extraordinary year marked by the collapse of major retailers (such as Circuit City in the United States and Quelle in Germany) and financial lenders (such as CIT Group in the United States). Most retailers pruned their store footprints, cleaned up their inventories, reduced corporate overhead and revamped management with a laser focus on profitable growth. Survivors emerged with improved productivity and balance sheets.

Retail executives have learned again that their core markets are not the powerful engines of growth they would like—United States and European GDP growth in 2010 is expected to hover around 3 percent and 1 percent, respectively. Today, reliance on developing countries for future growth is no longer a “nice-to-have,” but is a necessity. Although developing giants China (10 percent expected GDP growth) and India (8 percent) continue their rapid expansion, Asia-Pacific is not the only region with bright pros-

pects. The oil-rich Middle East continues its explosive growth, thanks to largely urban populations and relatively underpenetrated organized retail markets. Latin America, meanwhile, has shown resiliency throughout the downturn. As one retail executive says, “Global expansion is not for the faint-hearted. If you get it right, you will be able to balance your portfolio and compensate for the low growth rate in your home market.”

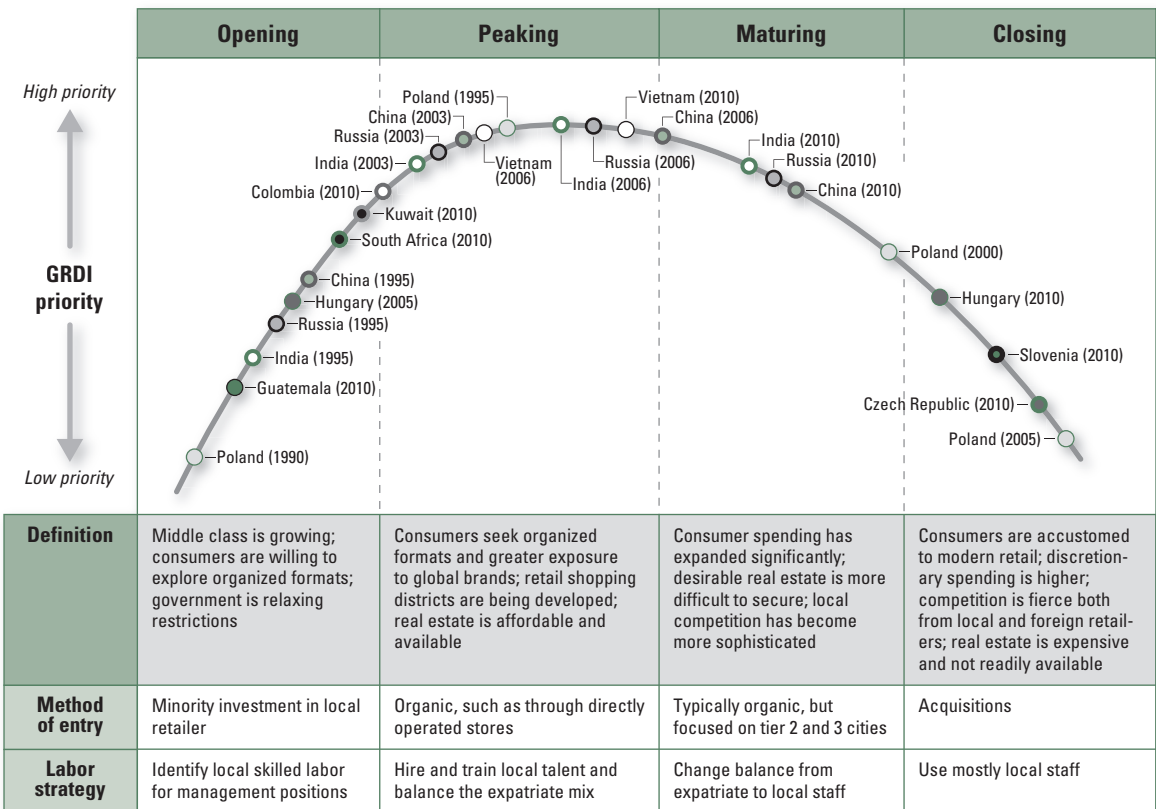
This changing competitive environment highlights the need for companies to compare different markets for entry prospects—which A.T. Kearney’s 2010 Global Retail Development Index™ (GRDI) can help them do. The annual study ranks the top 30 emerging countries for retail expansion, based on 25 macroeconomic and retail-specific variables (*see figure 1*). This year we include for the first time the findings of a survey of roughly 60 executives from global retail companies, who were asked about their company’s international expansion plans and their lessons learned (*see sidebar: What Are Retailers Saying? on page 6*).

### Small Countries, Big Opportunities

The top of the rankings, where Kuwait sits in 2nd place, highlights one major trend in this year’s GRDI: the success of smaller countries. The global recession has truly changed the landscape and has left some small but more “insulated” markets in a relatively better position. The newcomers to the rankings this year include several smaller markets, including Albania, Macedonia, Dominican Republic, and Bosnia and Herzegovina. The implications for retailers are clear: When expanding, a portfolio of countries both small and large may offer the best path to success for global retailers to “go global.”

This trend is highlighted by our window-of-opportunity analysis, which compares this year’s growth opportunities to those from the recent past. A country’s window of opportunity opens when the government opens their doors to foreign investment, real estate is still inexpensive, modern formats are evolving, consumers are beginning to spend disposable income on branded products, and there is little competition. The window closes when competition is fierce, consumers desire more specialized retail formats, and real estate prices are high and still going up. A closed window can still mean there is solid retail entry potential

**Figure 2**  
The GRDI window-of-opportunity analysis



Source: A.T. Kearney analysis

in a country, but retailers need to be more thoughtful about their entry strategy and operations in order to turn a profit. As demonstrated in figure 2, Vietnam's position in this analysis is near its peak, similar to India and Russia in 2006.

### The 2010 GRDI Findings

The following highlights the major findings of the 2010 GRDI, including the top opportunities for global retailers to invest in developing markets (*see sidebar: About the Global Retail Development Index on page 16*).

#### Asia-Pacific

China and India remain among the leaders in the GRDI. These large, growing markets still present major retail opportunities, and they will for decades to come. While opportunities remain in both countries' largest cities, retailers are also expanding to smaller but faster-growing cities. Retailers are strengthening supply chain operations to spur profitable growth while refining merchandising capabilities and internal organizations to take advantage of their scale.

Throughout Asia-Pacific, the post-recession outlook is bright, with domestic demand and exports increasing, retail sales stabilizing and consumer confidence improving. Aggressive expansionary fiscal and monetary policies further bolster retail. Grocery still accounts for almost two-thirds of total organized retail sales, but the proportion of spending on food is declining annually as consumers increase discretionary spending on clothing, transportation, communications, appliances and recreation. Hypermarkets and convenience stores are the formats of choice, but local competition is fierce.

**China: full speed ahead, again.** China's \$585 billion government stimulus package spurred

GDP growth of 8.7 percent, and forecasts call for GDP growth of more than 10 percent in 2010.<sup>1</sup> Retail sales increased 8.2 percent in 2009 and should grow by more than 9 percent this year as consumer confidence recovers, urbanization continues and the middle class keeps expanding. For the first time since 2002, China is first place in the GRDI.

The retail market is highly fragmented, but consolidation through organic growth by foreign players and mergers and acquisitions (M&A) remain major trends. The top 20 retailers' market share increased from 4.9 percent in 2004 to 8.6 percent in 2009, leaving plenty of opportunity for new entrants to capitalize on Chinese consumerism. Demand for luxury products remains strong, and analysts expect China to become the world's largest luxury market by 2015. Global luxury brands continue investing; for example, LVMH opened another flagship store in Shanghai in 2010.

Chinese consumers are becoming more positive about the economy and their personal finances. The Consumer Confidence Index rose from 86 in March 2009 to 108 in May 2010. Although 75 percent of consumers still seek better value in their purchases, only 46 percent say that saving money on groceries is important. Such an attitude plays to the strengths of modern outlets such as hypermarkets. Private labels are growing rapidly, albeit from a lower base and despite consumer skepticism about quality. Some major foreign retailers have expanded quality-focused private labels, such as Carrefour's Harmonie brand.

Existing foreign and local leading retailers will maintain their aggressive store expansion plans. Wal-Mart opened 52 new stores in 2009 to surpass Carrefour (22 new stores in 2009). RT-Mart

<sup>1</sup> All monetary amounts are in U.S. dollars unless otherwise noted.

opened 20 stores and large Chinese grocer Wumart opened 323. Other large international retailers are pondering entry into China, including U.S.-based Macy's, which is contemplating opening its first Chinese store, and Germany's Metro Group, which announced plans to open a Media Markt consumer electronics store in October 2010.

Retailers continued to enter tier 2, 3 and 4 cities in 2009. As China's middle class expands outside of tier 1 cities, this trend shows no sign of slowing. While foreign and domestic players have crowded tier 1 cities, rent and labor costs remain more reasonable elsewhere. In China, "smaller" municipalities still represent millions of shoppers. Bulgari opened its first Chinese store in tier 2 Shenyang; luxury brands such as Armani, Gucci, Cartier, Dunhill and Burberry are also expanding into smaller cities.

In terms of store format, hypermarkets have experienced the strongest growth, particularly for packaged foods, snacks, drinks and ambient products, sectors where foreign players have the largest market share. Supermarkets, dominated by local players, remain the biggest format but are losing share to hypermarkets, especially in large cities. Convenience stores are also growing fast, particularly forecourt retailers. China Petroleum & Chemical Corporation has expanded to 30,000 outlets and China National Petroleum Corporation has 17,500. Department stores still face sluggish growth, which has leading players such as Parkson and Bailian Group offering frequent discounts and promotions.

Despite the bright outlook, there are some cautions. The government stimulus focused on infrastructure rather than domestic consumption, crowded out small and medium enterprises, and heightened worries about inflation and real estate bubbles. Labor rates are rising, while exports face competition from lower-cost regions such as

Vietnam. Pressures regarding currency appreciation continue to mount. Lastly, despite the investment, infrastructure is still underdeveloped. For example, only 15 percent of perishables are transported via refrigerated vehicles, leading to an annual loss of 30 percent of total output.

**India: immense potential.** India, a GRDI leader last year and from 2005 to 2007, takes 3rd place this year. Despite the slight dip, India remains quite attractive for retail (*see figure 3*). India's GDP growth dipped to 6.7 percent in 2008-2009, but is expected to reach 7.2 percent in 2009-2010 and between 8 and 8.5 percent beyond that. The retail market is worth about \$410 billion, but only 5 percent of sales are through organized retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly—up to \$535 billion in 2013, with 10 percent coming from organized retail, reflecting a fast-growing middle class demanding higher-quality shopping environments and stronger brands.

Store growth and consumer insight have been the focus for the past few years. The market is maturing, as most retailers are now focusing on profitable growth. Several domestic retailers filed for bankruptcy or exited the market during the downturn, including Subhiksha and Magnet, while others optimized their operations, including store labor, rent renegotiations and strategic cost management. Expansion plans did not slow, however: Bharti Retail strengthened its position in northern India by opening 59 stores, Bharti Wal-Mart is expected to open 10 to 15 wholesale locations in the next three years, and Marks & Spencer is considering plans to open additional outlets in the next few years.

Established retailers are tapping into the growing retail market by introducing innovative store formats, such as community shopping, village

malls and destination shopping stores. For example, Future Group set up a first-of-its-kind community-family shopping center in Bangalore. Another innovative concept, “wedding malls,” devoted to nearly every aspect of weddings, are making a splash in the Indian market.

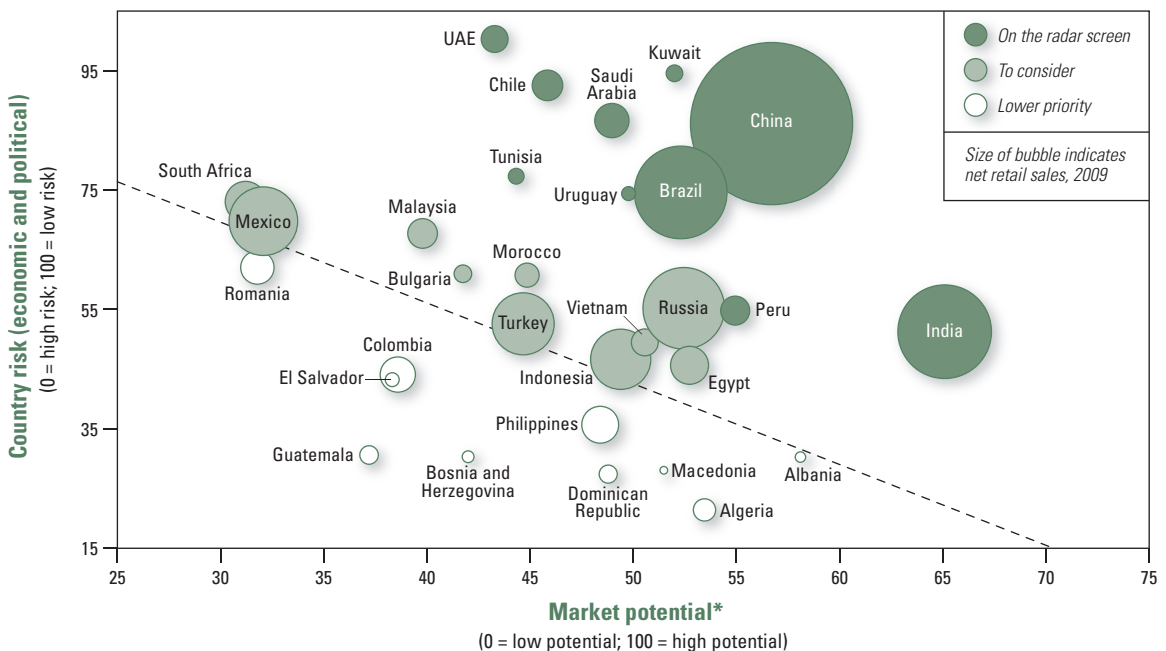
While rising commodity prices hit Indian consumers in all segments (including cereals, grains, fruits and vegetables), retailers launched a wide range of private labels. More profitable for retailers, these brands are gaining customer acceptance in categories beyond staples. Future Group plans to add 10 to 15 new private-label categories every year; this year, it expanded its Tasty Treat label to the breakfast cereal, noodle and soup categories. Beyond private labels, Wal-Mart is working to change the agricultural supply chain

model in India to improve productivity and the quality of goods by launching a direct farm produce sourcing system.

Foreign players continue to demonstrate strong interest in India—most major hyper-market retailers either have a presence or are studying the market for entry. In apparel, Zara (owned by Spain’s Inditex Group) opened its first store in 2010, while Polo Ralph Lauren and Diesel are expanding.

Desirable real estate is a lingering challenge for retailers. Mall rental rates are lower because of an oversupply of space, but there is still a lack of quality street locations. Given these challenges, many retailers see tier 2 cities as the next frontier. Customers in these locations are proving similar to those in tier 1 cities, meaning that retail

**Figure 3**  
2010 GRDI country attractiveness



\* Based on weighted score of market attractiveness, market saturation and time pressure

Source: A.T. Kearney analysis

## What Are Retailers Saying?

As part of this year's GRDI, we surveyed 60 global retail executives, representing all sectors, sizes and geographies (see figure A). The perspectives and comments of these executives help confirm our rankings, offer insight into what criteria retailers use to select new countries, examine past lessons, and identify emerging competitive trends.

Five main themes emerged from the survey.

### BRIC: still a center of growth.

Our survey shows that Brazil, Russia, India and China—known collectively as the BRIC nations—remain the highest priority markets for retail expansion (see figure B). Nearly 80 percent of respondents named one

of these markets as part of their firms' plans for short-term international growth. Executives hope to take advantage of the tremendous growth and strides made in organized retail, while applying the lessons from other retailers that have already entered these markets.

### Expansion is a two-way street.

Expansion is no longer about retailers from developed markets moving into developing markets. Now, retailers from developing markets are expanding regionally, thanks to their unique insights into local business and culture. Ninety-two percent of respondents from emerging markets say they plan to expand beyond their home markets, and of those, nearly

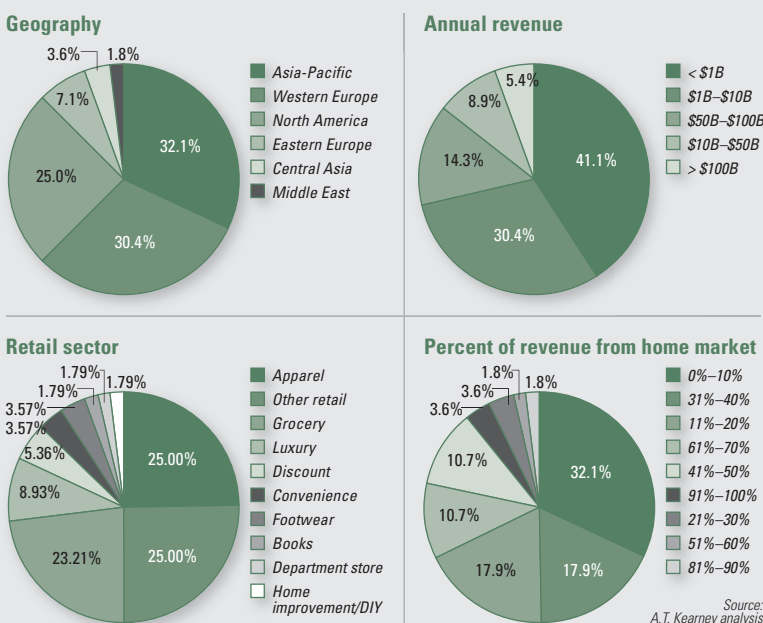
30 percent selected a developed country as one of their top three countries to target for expansion (see figure C). While most of those focused on targeting other emerging markets were exploring regionally (53.6 percent), a large number (46.4 percent) were also looking outside of their region.

There are already a few examples of retailers from emerging markets going global. Malaysia's Parkson Corporation has expanded into Vietnam, and Chile's Falabella chain has entered Peru and Colombia. Some respondents state that their next move will be into Europe or North America; China's A.S. Watson already has more than 1,600 stores in Europe, for example.

This trend, if continued, will shift the global competitive landscape. Retailers in developed markets will have to pay attention to these shifts and ensure that they are prepared to handle intensified competition in their home markets. As one German grocery executive tells us, "Do not underestimate the pace of development of developing market retailers. They learn fast and move faster."

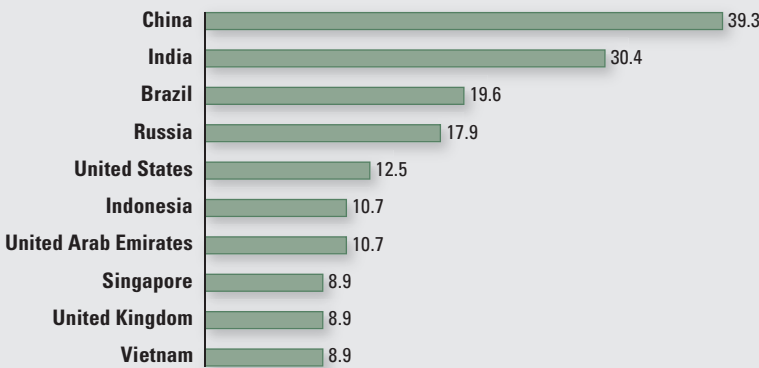
**Control is everything.** The ability to maintain control over brands and decision making is a central factor as retailers enter new markets. Nearly 65 percent of our respondents—particularly those from large retailers—prefer expansion via organic growth or acquisition so they can maintain complete authority, rather than franchises or local joint ventures

**Figure A:** The 2010 GRDI survey respondent profile



**Figure B:** Respondents say China, India, Brazil and Russia remain top targets for expansion

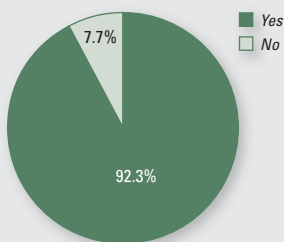
Percentage of respondents selecting as top three expansion target



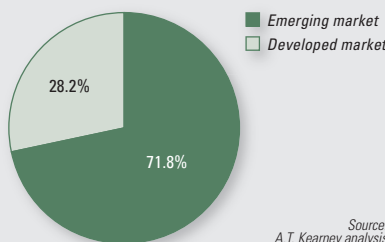
Source: A.T. Kearney analysis

**Figure C:** Emerging market retailers are looking beyond their own borders

Do you plan to expand globally?



If yes, where do you plan to expand?



Source: A.T. Kearney analysis

that do not involve majority ownership. However, local regulation often dictates the terms by which a retailer can enter and do business within the country. This may cause some retailers to forgo an opportunity rather than lose control over the brand—Swedish furniture retailer IKEA canceled its plans for a store in India because of regulations preventing foreign companies from

owning single-brand retailers.

Web-based ventures are also gaining prominence. American Eagle Outfitters, House of Fraser and J.Crew have used the Internet to access and test new markets while minimizing investment and risks.

**Retailers expect fast success—and unique challenges.** Many respondents expect their companies to be profitable within three years

of entering a new market, ambitious compared to a survey we conducted in 2005, when executives said they sought profits within five to seven years. Of course, reality rarely matches those high expectations—consumers are more difficult to satisfy and competition is fiercer than anticipated, and executives say this means flexibility and the ability to adjust are key. One South Korean department store executive notes this when discussing his company’s expansion plans: “The cost of understanding local customers’ needs, the retail business environment, competition, and regulations was much higher than initially planned.”

**The business environment holds plenty of surprises.** Our survey indicates that the number one lesson retailers have learned from expanding globally is that the business environment has a lot more “surprises” than they expected.

Our respondents offered up three main pieces of advice on how to manage this risk:

- **Test the market.** Use less risky channels, such as wholesale or e-commerce, to learn about the market and consumer acceptance of your brand through less risky channels.
- **Look beyond statistics when studying a market.** Spend time in the market to fully understand consumers and competition.
- **Use local partners where it makes sense.** Seek sources of high-quality local talent

models translate well—even increasing profitability because of lower operating costs. Spencer’s Retail, More (owned by Aditya Birla Group) and Shoppers Stop (owned by K Raheja Group) already plan to expand.

Regulations pose another challenge to retail growth in India, particularly the foreign investment restrictions for multi-brand retail, which will probably not change anytime soon. As a result, cash-and-carry formats will thrive, as foreign companies are allowed full ownership. Wal-Mart and Metro have already successfully entered through this route, and Carrefour and Tesco plan to follow.

**Vietnam: lower rank, but continued strength.** Vietnam’s retail industry continues to grow, with consumer spending expected to rise above the current level of 70 percent of income. Retail sales in Vietnam—14th in the GRDI this year, after finishing 6th in 2009 and 1st in 2008—will rise to \$77.8 billion in 2010 and \$85 billion by 2012. Vietnam’s relatively high GDP growth and younger population—57 percent are younger than 30—are major factors behind the rebound and success of the retail sector.

On January 1, Vietnam opened doors for further multinational retail investment. Foreign companies may now open wholly owned businesses without a local partner, in line with commitments to the World Trade Organization. While small, independent shops still dominate, several foreign firms including Germany’s Metro Cash & Carry and Japan’s FamilyMart have entered Vietnam. South Korea’s leading department store operator, Lotte Shopping, has joined with a local retailer to spend \$5 billion developing 30 department stores and supermarkets over the next 10 years in Ho Chi Minh City and Hanoi, along with tier 2 cities Da Nang, Can Tho, Haiphong and Hue. Malaysia’s leading retailer Parkson is also expanding in Vietnam, where its operations

have the company’s highest growth. Domestic leaders offer tough competition, including supermarket chain Saigon Co.op, which plans to open 100 new stores by 2015.

**Indonesia: a high-growth market.** Indonesia moves up to 16th place in the GRDI this year, up from 22nd. Indonesia accounts for more than one-third of Southeast Asia’s total retail sales, and its sales are expected to double by 2015 on the heels of economic growth, an expanding population, rising incomes and more organized retail. Sales through organized retail outlets will grow 20 percent in the next five years, due to a growing middle-income population and food retail market in large cities such as Jakarta, Surabaya and Bandung, and the province of Bali. With more tourism and an expatriate population, demand for imported Western foods is growing. Large retailers such as Carrefour Indonesia, Matahari Putra Prima Tbk, and Hero Supermarkets have increased sales by selling private-label products, offering store promotions and expanding to less-saturated regions.

**Malaysia: oversaturation and overexpansion.** Malaysian retail suffers from overexpansion, and the country drops from 10th to 17th place in the GRDI. Some of the shopping malls that saturated major cities now have occupancy problems, and the downturn forced some retailers to curb expansion plans. New malls will be smaller and suburban, to serve the rising population of secondary cities.

Multinational retailers are growing through convenience stores. Carrefour plans to open 100 such stores, focused on private-label sales; Tesco plans to augment its profitable hypermarkets.

**The Philippines: signs of growth.** A strong retail outlook leads the Philippines to 22nd place. The growing outsourcing industry and remittances from overseas workers have bolstered spending. The national election may lead to more govern-

ment spending and business investment, while the Retail Trade Liberalization Act will increase retail competition, both domestic and foreign.

An increasing number of dual-income, middle-class families and young professionals are stimulating urban retail sales—today, roughly half of all retail sales are concentrated in Manila. Outside major cities, the Philippine retail sector remains dominated by small, independent shops and grocers called sari-sari stores, which account for 90 percent of the country's outlets.

### Middle East and Africa

The Middle East and North Africa (MENA) region exhibits the most exciting retail growth opportunities today—eight MENA countries make it into the Index this year.

The impact of the downturn varied, as fiscal stimuli offset the damage. Overall, the region has proven resilient and appears poised to recover. Retail sales are rising, driven by higher disposable incomes, urban population growth, a strengthening middle class and infrastructure investments. New regional and international brands are rushing in. Local retailers such as Saudi Arabia's Panda and EMKE Group, from the United Arab Emirates (UAE), have begun expanding. International retailers have followed, mostly through partnerships using a franchise model, due to government regulations and a desire to gain local knowledge. Some of these local partners, such as the UAE's Al-Futtaim Group and Chalhoub Group, have created retail business models by franchising numerous international brands across the region.

**Kuwait: an impressive debut.** Kuwait makes an impressive GRDI debut by placing 2nd on the Index. Kuwait is small compared to other GRDI leaders, but the country's urbanized, wealthy consumer population has solid purchasing power. Kuwait's reliance on oil has made it vulnerable to

recent price fluctuations, but a 2009 government plan aims to diversify the economy and attract investors. As oil prices rise and the global economy recovers, Kuwait's GDP per capita could increase 49 percent by 2014.

Local entities continue to dominate grocery. The government-funded Union of Consumer Cooperative Societies (UCCS) has exclusive access to residential zones. Non-organized retail still plays a role with small grocery and convenience stores. However, large international retailers have made inroads around Kuwait City. Carrefour entered in 2007, Groupe Casino joined UAE's Retail Arabia and Kuwait's Tamdeen in 2009 to blend the international hypermarket experience with local knowledge under the Géant banner.

Specialty retailers are also entering. Those new to the region, such as Destination Maternity, have entered Kuwait as part of regional expansion, while others with MENA footprints have focused on Kuwait. H&M opened seven stores in Kuwait (its second MENA market) since signing a 2006 franchising agreement with M.H. Alshaya, while Claire's and The Body Shop have opened nearly 30 stores each.

Shopping centers host the spectrum of international retailers, and Colliers International predicts Kuwait will soon have the Gulf region's third-largest supply of retail space. The 2011 completion of The Avenues mall in the Al-Rai industrial area will open more space for international brands. Already housing Carrefour and IKEA, The Avenues' final phase will add a luxury section, a European-themed mall and a traditional Arabic market (souk).

**Saudi Arabia: boosting retail with a stable economy.** Saudi Arabia moves up one spot to 4th place, as it remains relatively sheltered from the recession. With the Gulf region's largest economy, Saudi Arabia and its 28 million people present

growth opportunities for international retailers.

The hypermarket and supermarket sectors have changed significantly over the past six years as foreign players have entered and local players have expanded. Groupe Casino and Carrefour entered in 2004, and EMKE Group introduced its Lulu hypermarket in 2009. Domestic competition is strong, with local retailer Al-Azizia Panda United Company expanding through two acquisitions since 2008, including a takeover of Groupe Casino's single Géant operation. As the market develops, consolidation opportunities for discounters and private-label expansion are likely in mass grocery.

International apparel retailers have entered Saudi Arabia through local partnerships over the past decade. The Inditex Group launched its first Saudi stores in 1999 and now has more than 95. The Gap Inc. plans to open approximately 50 stores by 2012.

Government regulations still constrain international retailers. Saudi Arabia's foreign investment rules require a minimum of 25 percent local capital. The government also regulates hours of operations during religious periods, often requiring stores to close or dim lights during prayer times. Nevertheless, international retailers will be pivotal toward shaping this vibrant market.

**UAE: a few steps back.** The UAE drops from 4th to 7th place in the Index this year. Retail sales growth slowed in 2009, as the downturn led to a decline in tourism and decreased demand for luxury goods. The closing of BinHendi Avenue, the luxury extension of Deira City Centre, highlighted department stores' woes. As grocers re-focus on the local economy, it is an opportunity for value brands and discounters.

Still, with a mostly urban population of 5 million, a high rate of retail sales per capita and high per capita wealth, the UAE remains a vital growth

market for international retailers, particularly in health and beauty and consumer electronics.

In particular, Dubai should maintain its place as a regional retail hub with its modern retail infrastructure, greater ease of doing business relative to other countries in the region, and attractive urban consumer base. Dubai is a symbol of luxury; many retailers open stores there not just to increase revenues, but also to build their brands. Bloomingdale's opened its first store outside of North America in Dubai in early 2010. Abu Dhabi, relatively underdeveloped in retail with fewer international brands than Dubai, represents the next wave of retail development in the UAE, particularly in luxury goods. It fared better during the recession, has a fast-growing tourism sector and features local consumers with high spending power.

**Tunisia: now is the time.** Tunisia climbs three spots to 11th place. It has a diversified economy, strong domestic demand, high per capita incomes and an economy growing 3 percent per year. In 2009 the government passed new regulations to spur the modern retail industry, allowing franchises to operate for the first time under the same regulations as other businesses. International retail remains limited to a few major grocery players, so this market has potential.

Hypermarkets and supermarkets are transforming the landscape. In 2001, Carrefour partnered with Ulysse Hyper Distribution for its first North African store. Following the "Carrefour Market" concept's global success, the company converted its Champion brand stores to the Carrefour banner in 2009; the company now operates in Tunisia under a single-banner, multi-format strategy. IKEA and Landmark Group also plan to enter Tunisia.

**Egypt: large and largely untapped.** With a population of nearly 80 million, 13th-place

Egypt is a regional powerhouse. Egypt struggled through the downturn, its GDP falling as exports and tourism declined, but 6 percent growth is expected in 2010. The small share of modern retailing, little consolidation and growing consumer demand make Egypt attractive for large global retailers.

Modern grocery sales are on the rise as hypermarkets and supermarkets have expanded. Spinneys entered in 2006, competing with Carrefour and some local retailers, and it recently signed a 20-year lease agreement with Egyptian Centres, owned by Fawaz Alhokair Group, for its third store in Cairo and fourth in Egypt. Metro Group plans to open 10 to 20 Makro stores focused on wholesale retail, which thus far has been limited to urban areas. Elsewhere, small neighborhood grocery stores remain the format of choice.

Traditional outdoor markets are giving way to shopping centers, where many foreign non-grocery retailers are expanding. Inditex Group, which entered Egypt in 2008 with Pull and Bear and Bershka outlets in Cairo, plans to open a Zara store. Saudi retailer Al Sawani Group plans to build 25 fashion stores in Cairo and Alexandria.

**Morocco: a MENA hub.** Morocco moves up to 15th place from 19th in the Index and is expected to achieve 5 percent annual growth over the next few years. Morocco, with a population of 30 million, offers a relatively strong mid- to long-term opportunity for developing or expanding a MENA footprint. It avoided the worst of the downturn thanks to a diversified economy and its retail sales are growing modestly.

In 2009, Carrefour partnered with Label'Ve to open its first hypermarket in Morocco. These modern outlets are transforming and shaping local markets and the way consumers purchase groceries. They are concentrated near high-income populations, in small malls that also contain

non-grocery European and U.S. franchises. For example, Fnac, owned by France's PPR, signed a franchise agreement with Aksal Group to open its first MENA store in Morocco in early 2011.

**South Africa: coming onto the radar.** By regional standards, South Africa—entering the GRDI in 24th place—has a developed economy with strong financial and retail sectors. Globally, South Africa is an emerging market. Host to the 2010 FIFA World Cup, with a positive long-term economic outlook, large population and an English language base, South Africa is attractive for foreign retailers. The country's retail sector is projected to grow 60 percent in five years, to more than \$100 billion.

A strengthening middle class is leading domestic players to target certain markets. Mixed retailers such as Woolworth's are targeting the high end, while ShopRite and Massmart dominate hypermarkets and supermarkets. Last year, U.S. retailer Safeway agreed to expand its private-label "O Organics" and "Eating Right" brands to South Africa through ShopRite stores. Although the country's leading modern grocers have expanded quickly, traditional trade channels still account for 45 percent of sales, as most people live in townships and rural areas.

International brands have entered department stores and shopping malls in well-developed areas. Shopping centers in Capetown and Johannesburg feature footwear and apparel makers Timberland and Guess and luxury brands Gucci and Tag Heuer. The apparel, accessories and luxury goods sectors should continue to shine as consumer spending stabilizes.

## Latin America

Four Latin American countries rank in the top 10 of this year's GRDI, as retailers embrace trends toward organized retail formats, higher personal

incomes and an improving business environment that is drawing in foreign investors. Intra-region expansion will remain popular as local leaders enter other Latin American markets.

Smaller Latin American countries enter the GRDI this year, including the Dominican Republic and Guatemala. Most retailers see these smaller markets as jumping-off points in a regional approach.

**Brazil: retail nears its peak.** Brazil, in 5th place, came out of the global recession with little damage and GDP retraction of only 0.2 percent, one of 2009's top performances. For 2010, growth of 4.5 to 6 percent is expected. Inflation is under control and GDP per capita and consumer spending is on the rise.

Despite recent consolidation, Brazil remains attractive to large retail chains. Tier 2 cities in the northeast and the center-west regions present the biggest opportunities as competition there is not as fierce. Apparel, home goods and furniture are wide-open segments for international players.

In late 2009, Grupo Pão de Açúcar acquired Casas Bahia to form a new retail leader, transforming the local landscape. In 2010 Ricardo Eletro and Insinuante merged to form the second-largest chain. Carrefour and Wal-Mart follow as third and fourth largest, respectively; a merger is common speculation among the media. Major retailers plan almost \$8.5 billion in investment in the next three years, including over 300 new stores in 2010.

Brazil is host to the 2014 World Cup and 2016 Olympic Games. These events have led to infrastructure investments, including large commercial centers and shopping malls, with 19 new shopping malls scheduled to open in 2010 alone.

**Chile: an emerging regional leader.** Chile's expanding economy highlights its 6th place ranking in the Index. After two decades of a center-left

government, new president Sebastián Piñera has announced plans to improve the business environment, increase investment incentives and raise annual growth to 6 percent.

Chile has a modern and competitive retail sector. Local retailers such as Falabella and Cencosud S.A. already have a strong presence in other Latin American countries such as Argentina, Colombia, Brazil and Peru, and both have plans to expand further. The case for local partnerships and an understanding of local consumers is particularly strong in Chile. Wal-Mart has opened new stores and increased sales since entering the country in January 2009 by acquiring the local chain D&S.

In addition, the retail sector has had a significant impact on retail banking, as the top four issuers of credit cards in 2009 were retailers, controlling 77 percent of the market. These retailers have maintained customer loyalty by developing customer rewards programs that offer significant discounts and promotions. Internet retail in Chile is also on the rise and offers an interesting potential entry approach; the country has the strongest infrastructure and Internet penetration in Latin America.

**Uruguay: small but well-positioned.** Uruguay, one of South America's smallest countries, enters the GRDI for the first time at an impressive 8th place. Uruguay benefits from its location between Buenos Aires and Brazil's southern region. Additionally, 94 percent of its population is urban, making it accessible to retailers. Uruguay's main southern region includes Montevideo, its largest city, and the states of Canelones and Maldonado, representing more than 56 percent of the population.

Uruguay's small size, location and similarities to neighboring countries could serve international retailers as a test market. Groupe Casino entered Uruguay (by acquiring supermarket chains Géant,

Disco and Devoto) and Argentina in early 1998 before moving into Brazil and Colombia in late 1999. The apparel sector has only seen limited entry by international chains from Brazil, Argentina and Chile.

**Peru: rising fast.** Peru jumped nine places to land at 9th place in the Index. Peru managed a positive GDP growth of 0.6 percent and has the lowest inflation rate in the region. With only 10 percent of retail sales from shopping malls, Peru is frequently compared to Chile 10 years ago. The dominant domestic players plan massive investments over the next few years.

Peru has two different economic regions: large developed economic areas with a high concentration of products and services, and a less developed, agriculture-based interior region. Lima and its surroundings represent 30 percent of the country's population. Its retail sector is dominated by shopping malls with local and international franchises. Banks and retailers are making initial efforts to increase consumer credit and private label sales. Outside of Lima, retail is dominated by small grocery stores and local franchises, while large Peruvian and international chains have made few in-roads.

**Mexico: a complex environment.** The second largest market in Latin America falls 13 spots to 25th place after its economy declined 7 percent in 2009. However, analysts predict growth of 3 to 4 percent for 2010.

High unemployment, a reduction in remittances from the United States, inflation and lower oil prices hampered consumer confidence and consumption. Grocery retailers took a less severe hit and will recover faster; the leaders (Walmex and Soriana) generated profits last year. Based on historic trends, the recent 1 percent increase in the value-added tax (from 15 percent to 16 percent) should have a limited impact on consumer spend-

ing, since most retailers are not passing the increase on to their customers.

Mexico's retail opportunity is demonstrated by leading local retailers that are expanding into new formats and cities. Small and discount stores represent 60 percent of Walmex's expansion plans (worth \$1 billion), and 50 percent of Soriana's store openings. Both companies are targeting densely populated urban areas with heavy foot traffic. Retailers are also planning expansion into smaller cities, as tier 1 and tier 2 cities show some signs of saturation. Retailers have significantly increased their role in the financial services markets in recent years, with leading retailers such as Walmex, Elektra and FAMSA running significant banking operations. This has increased access to credit for traditionally underserved populations.

**Colombia: slow and steady.** Colombia is slowly moving up in the GRDI rankings, moving up two spots to 26th place. Consumption has steadily increased and the retail market has grown more dynamic as international retailers enter. Additionally, Colombia's business environment has improved tremendously, rating first in Latin America in 2010 for ease of doing business, according to the World Bank.

As in the rest of the region, the crisis slowed down consumption, but not enough to discourage investment from retailers such as Carrefour, Falabella and Almacenes Éxito. However, the central bank changed interest rates of store credit cards to control inflation, which might have an impact on consumption.

## Eastern and Central Europe

Russia drops from 2nd to 10th place in 2010, but it remains at the forefront of Eastern Europe. Meanwhile, the Balkan countries of Albania, Bosnia and Herzegovina, Bulgaria and Macedonia climb up in the rankings. While these smaller

countries remain well behind Western Europe in terms of GDP per capita, the EU enlargement rounds in 2004 and 2007 have accelerated their economic development.

Plenty has already happened in 2010. Schwarz Group's Lidl discount chain purchased the Plus discount stores of Bulgaria and Romania, and Slovenian chain Mercator has expanded to Albania, Bulgaria and Montenegro. Growth opportunities in Eastern Europe remain immense, but a one-size-fits-all approach won't cut it. A customized approach is required, rather than the standard regional one, to enter the diverse Balkan retail markets. While there may not be immediate urgency to enter the Balkans, global retailers should closely monitor this bloc of close to 40 million people.

**Russia: making a drop.** While it dropped eight spots in rankings this year, Russia (10th) remains Eastern Europe's highest-ranked country. Slower GDP and retail growth rates and increasing market saturation contributed to the decline, yet the retail environment in Russia has not changed dramatically. Russia remains Europe's largest consumer market, with rising disposable incomes and an expanding middle class, and it offers massive growth opportunities for retailers with a long-term approach.

Foreign retailers such as Metro Group and Auchan are driving the development of big-box stores, and some have established smaller stores in cities to increase penetration. Organic expansion in Russia, however, is difficult, costly and slow. Carrefour struggled with its entry and expansion, eventually selling the leasing rights of its two hypermarkets and withdrawing from the market. But, as Auchan has shown with its 40 Russian hypermarkets, endurance can pay off. X5 Retail Group and Magnit remain the local market leaders, with X5 growing by acquiring local players

in key regions, such as Paterson earlier this year. The remaining attractive retail M&A targets are limited mainly to geographic niches.

A new retail anti-monopoly law caps regional market share at 25 percent, restricts marketing activities from manufacturers, and encourages the sale of basic local products. Retailers will have to align operations to the new policy, yet this will have little long-term impact on the marketplace, as modern trade remains limited and the underlying economics positive.

**Albania: a small market with a positive outlook.** Albania debuts in the GRDI in 12th place, driven mainly by its unsaturated market. Albania is still relatively poor, with a per capita GDP of about \$3,370; by 2014, real GDP is expected to grow by 30 percent, which make it a country to watch in the longer term.

So far, the fragmented food retail market is shaped by mostly small independent shops and open markets of self-grown products. The top three grocery retailers together operate fewer than 30 stores.

**Bulgaria: retail investment continues.** Bulgaria rises two spots to 19th place in the Index. Bulgaria remains in the early investment phase, with a limited number of domestic retailers. Since joining the European Union (EU) in 2007, foreign retailers have entered to secure a good market position. Carrefour chose Bulgaria as a key Eastern European market, opening its first hypermarket in 2009, and Slovenia-based Mercator soon followed. Germany's Metro, Schwarz and Rewe groups have shares of 5 to 10 percent each, and are now the market leaders. Purchasing power differs greatly between Sofia, the capital, and rural areas. Urban retail growth will be driven by hypermarkets, cash and carry and discount, whereas in smaller cities and towns modern supermarkets will succeed.

**Macedonia: regional entry point.** Macedonia debuts in 20th place, due to low market saturation and strong possibilities. Macedonia has the Balkans' smallest population, GDP and retail market, so it is attractive as a regional entry market. Retail market volume reached \$3.5 billion in 2009, but annual real GDP growth rate in the next five years is expected to be only 2 percent. The market is relatively underdeveloped, with only a few Balkan retail players that have minor operations. The local leader is Tinex with 37 stores, followed by Veropoulos and TUS Trgovine, each with eight stores.

**Romania: a saturating market.** Romania, the region's largest population and retail market, falls from 23rd to 28th place as its market becomes saturated. Since reaching economic stability in 2000, real GDP growth has ranged from 5 to 8 percent per year, before falling during the recent economic downturn. Its economy should resume its pre-downturn rates after 2010. Despite the presence of a significant number of international retailers, such as Metro, Schwarz, Carrefour, Delhaize, Intermarché, SPAR and Auchan, food

market concentration remains low, limited mainly to cities and big towns.

**Bosnia and Herzegovina: its time is coming.** Bosnia and Herzegovina enters the Index for the first time in 29th place. Leading Balkan retailers Mercator, Agrokor and Delta Maxi have entered in recent years. After the 1990s ethnic war, the country is still supervised by the international community, and it remains split in two highly autonomous zones. Leading retailers have established separate legal entities while managing key functions centrally.

### Riding the Retail Wave

After a wave of bumpy economic conditions, global retailers are ready to go back on offense. While the world's biggest developed economies slowly resume their growth trajectories, developing economies in Asia, Latin America and the Middle East appear poised for remarkable growth. Global retailers will have to prepare for more difficult economic conditions and increased competition—while understanding that emerging markets are more vital than ever to their long-term success.

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## About the Global Retail Development Index

The annual A.T. Kearney Global Retail Development Index ranks 30 emerging countries on a 100-point scale. The higher the ranking, the more urgency there is to enter a country. We selected countries from a list of 185, based on three criteria:

- Country risk: 35 or higher in the Euromoney country-risk score
- Population size: 2 million or more
- Wealth: GDP per capita of more than \$3,000<sup>2</sup>

GRDI scores are *relative* and will change over time depending on the comparison set of countries. 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 and violence, and corruption. The higher the rating, the lower the risk of doing business.

**Market attractiveness (25 percent).** *Retail sales per capita (40 percent):* A score of zero indicates that the retail sector (total annual sales of retail enterprises excluding taxes) is still underdeveloped. A score of 100 indicates that the retail

market is already mature, indicating an opportunity.

*Population (20 percent):* A zero indicates the country is relatively small, representing limited opportunities for growth.

*Urban population (20 percent):* Zero means the country is mostly rural; 100 indicates the country is mostly urban.

*Business efficiency (20 percent):* Parameters include government effectiveness, burden of law and regulations, ease of doing business and infrastructure quality. Zero means the country has poor business efficiency, while a score of 100 indicates high efficiency.

**Market saturation (25 percent).** *Share of modern retailing (30 percent):* A zero indicates a large share of retail sales made through a modern distribution format within the average Western European level (200 square meters per 1,000 inhabitants). Modern formats include stores predominantly selling food (hypermarkets, supermarkets, discount stores and convenience stores), and those selling mixed merchandise (department stores, variety stores, U.S.-style 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 retail-

ers 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 zero means the country ranks high in modern retail area per urban inhabitant, close to the average Western European level. Modern formats are stores predominantly selling food (hypermarkets, supermarkets, discount and convenience stores).

*Market share of leading retailers (20 percent):* A zero indicates that the market is highly concentrated with the top five competitors (local and international) holding more than 55 percent of the retail food market. A 100 indicates the market is still extremely fragmented.

**Time pressure (25 percent).** The time factor is measured by the CAGR (2004 to 2009) of modern retail sales weighted by the development of the economy in general (CAGR of the GDP and consumer spending from 2004 to 2009) and the CAGR from 2004 to 2009 of the retail sales area weighted by newly created modern retailing sales area.

Data and analysis are based on the United Nations Population Division Database, the World Economic Forum's Global Competitiveness Report 2008-2009, national statistics, Euromoney and World Bank reports, and Euromonitor and Planet Retail databases.

<sup>2</sup> The threshold for countries with populations of more than 35 million is more flexible due to the market opportunity.

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