

The 2014 African Retail Development Index™

Seizing Africa's Retail Opportunities

Africa is brimming with potential for global retailers, with its billion people and growing economy. Indeed, seven Sub-Saharan African countries are now among the 10 fastest-growing economies in the world.

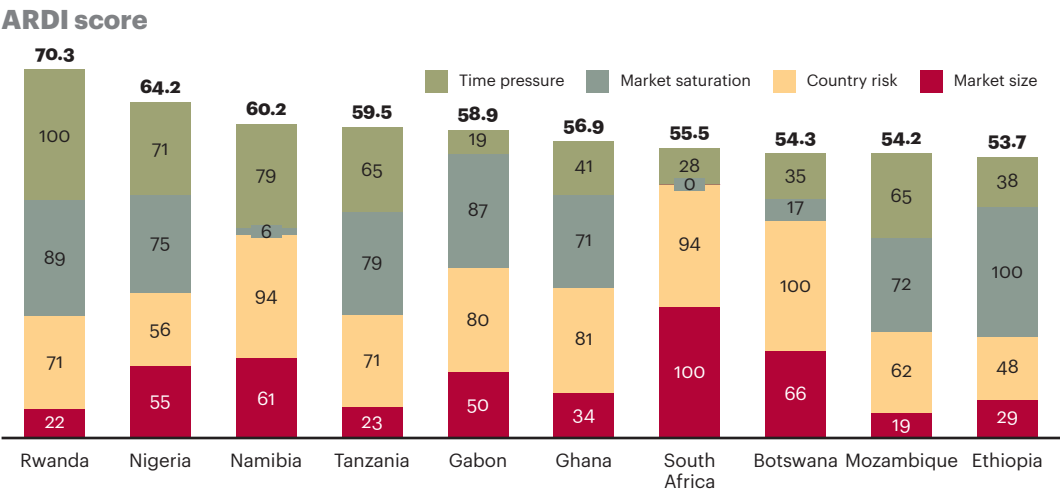


It's easy to see why many retailers consider Sub-Saharan Africa the "next big thing." Its population is nearing 900 million people, mobile phones and the Internet are proliferating quickly across the continent, and it is urbanizing at a rate of 3.61 percent, faster than any other region in the world. The region's GDP growth is now close to 6 percent, and seven Sub-Saharan African countries rank among the 10 fastest-growing economies in the world. A middle class is emerging, and increasingly wealthy consumers are embracing Western brands, products, and lifestyles.

At the same time, no one is naïve about the challenges. Supply chains are underdeveloped and differ widely among countries, and how to develop a supply base in Africa remains an open question. Despite the urbanization, the population remains widely spread out across a vast region of thousands of cultures and languages where roads are often difficult to traverse. And poverty remains an issue in many places.

As retailers tiptoe into Sub-Saharan Africa, figuring out where to enter and how to begin is a daunting task. While Africa is becoming a serious investment option for retailers, questions abound about how to succeed there. It is with this in mind that A.T. Kearney embarked on its first African Retail Development Index™. Building off of our Global Retail Development Index™ (GRDI), which for more than a decade has helped retailers uncover the most attractive developing markets for expansion, we rank the top 10 countries in Sub-Saharan Africa (see figure 1).¹ The ARDI, like the GRDI, is unique because it not only identifies the most attractive markets today, but also those that offer the most potential in the future (see appendix: About the African Retail Development Index on page 14).² After this first edition, we will continue to follow and investigate the African opportunity closely with regular updates of the ARDI rankings as well as other, more specific publications about retail in Africa.

Figure 1
The 2014 African Retail Development Index™



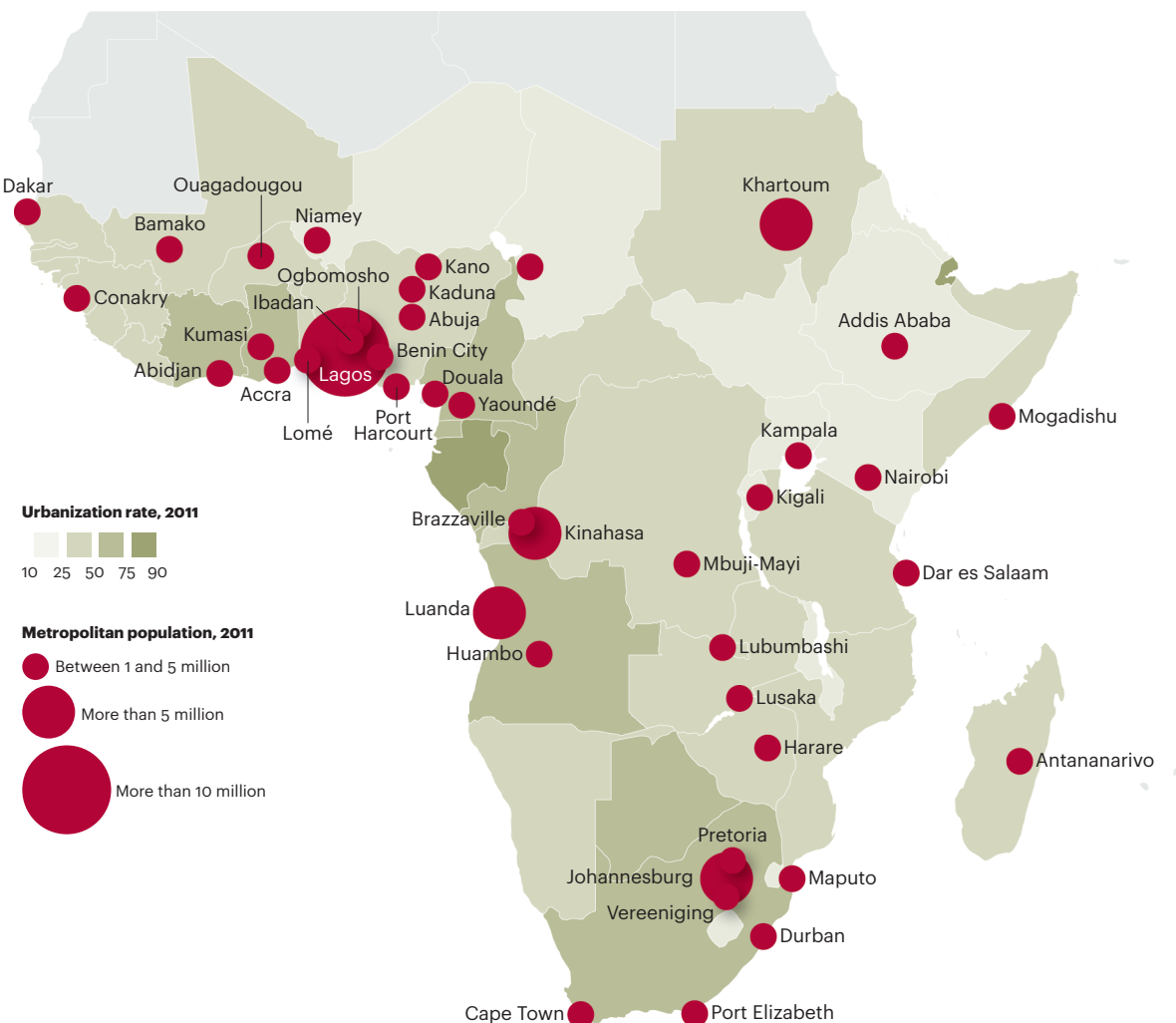
Note: Rankings are based on 2012 data. Each of the four factors (time pressure, market saturation, country risk, market size) is worth 25 percent. Maximum value for each factor is 100. For definitions of each factor, see the appendix.
 Source: Euromoney, Population Reference Bureau, World Bank, EIU; A.T. Kearney analysis

¹ To read more about the GRDI, see <http://www.atkearney.com/consumer-products-retail/global-retail-development-index>.
² We evaluated 48 countries in Africa for the ARDI. We excluded North Africa (Mauritania, Western Sahara, Morocco, Algeria, Tunisia, Libya, and Egypt) from this study because of that region's different dynamics compared with Sub-Saharan Africa. The relative positions of some countries in this Index differ from the GRDI because of the different datasets used for each study as well as the differences in the minimum and maximum values used to assess the two sets of countries.

The African Retail Landscape

Sub-Saharan Africa is a region of remarkable diversity: 48 countries, more than 3,000 distinct ethnic backgrounds, and more than 2,000 languages, a spread that makes expansion by international businesses so difficult. Although Africa is urbanizing at a faster rate than any other region in the world and there are now more than 1,000 cities in Sub-Saharan Africa, only Lagos, Nigeria, is a megacity of more than 10 million people (see figure 2). GDP has grown impressively over the past several years—spurred largely by natural resources—and middle and upper classes have expanded (particularly in urban areas), yet GDP per capita remains at about \$1,400, roughly one-third of India’s GDP per capita, one-seventh of China’s, and one-ninth of Brazil’s. This limits many consumers to focusing on the “basics” (such as food and drink, public transportation, and healthcare), leaving the greatest opportunity for grocery retailers.

Figure 2
Sub-Saharan Africa’s most populous cities



Note: United Nations, *World Urbanization Prospects*, the 2011 Revision

Traditional, “informal” retail options still dominate the landscape, even among the growing middle class. About 90 percent of commerce in Africa occurs at these informal retailers, including small independent stores, kiosks, and non-organized open-air markets. Formal retail—such as malls, shopping centers, and other defined retail spaces—remains in the nascent stages in most Sub-Saharan Africa countries, limited primarily to a handful of urban areas.

However, the low rates of formal retail coupled with increasing urbanization and the relative stability of many African economies demonstrates massive room for growth. For example, Nigeria, with its formidable and growing middle class, had only two shopping malls in 2012, compared to more than 200 in South Africa. As a result, domestic, regional, and international retailers are taking notice and increasing investment.

African retailers such as South Africa’s Shoprite, which operates in more than 16 African countries, and Nakumatt, which is based in Kenya and has stores in neighboring Uganda, Rwanda, and Tanzania, have done most of the expansion, but global retailers are moving in. In 2011, Wal-Mart acquired South Africa’s Massmart, and it plans to open 90 supermarkets across Africa over the next three years. In addition, French retailer Carrefour recently announced it would enter four West African countries. Still, expanding in Africa beyond South Africa, the largest economy on the continent, has proven difficult. More than three-quarters of Shoprite’s African business comes from South Africa, as does 88 percent of Wal-Mart’s and 67 percent of KFC’s. As incomes rise across Africa, there remain relatively few retail options in many countries for spending that money.

Domestic, regional, and international retailers are taking notice of **Africa’s massive room for retail growth.**

Supply chain remains a massive challenge in Africa. Although urbanization is taking hold, much of the urban growth in Africa is informal and uncontrolled, putting overwhelming strains on delivering products and services with underdeveloped infrastructures. Furthermore, supply chains undergo pressures that even the most seasoned supply chain professionals struggle with. The route to market for products can involve any combination of rivers, mountains, deserts, jungles, floods, and drought, not to mention road and railway difficulties and governance issues that can stymie the transporting of goods across international boundaries. Although advances have been made in information and communications technologies—most Africans now have cell phones, for example—there remains a large gap in infrastructure quality compared with other regions.³

Once a retailer enters an African country, putting the right products on the shelves also remains difficult. African consumers are, generally speaking, price sensitive yet brand conscious—indeed brand-loyal regardless of how much money they have. Consumers do little discretionary spending, so every penny they spend must be prudent and useful. In addition, choices are limited, so only few branded products exist in almost all countries in the region. Even in South Africa, where consumers have much higher spending power than the rest of the continent, brand loyalty is still very high.

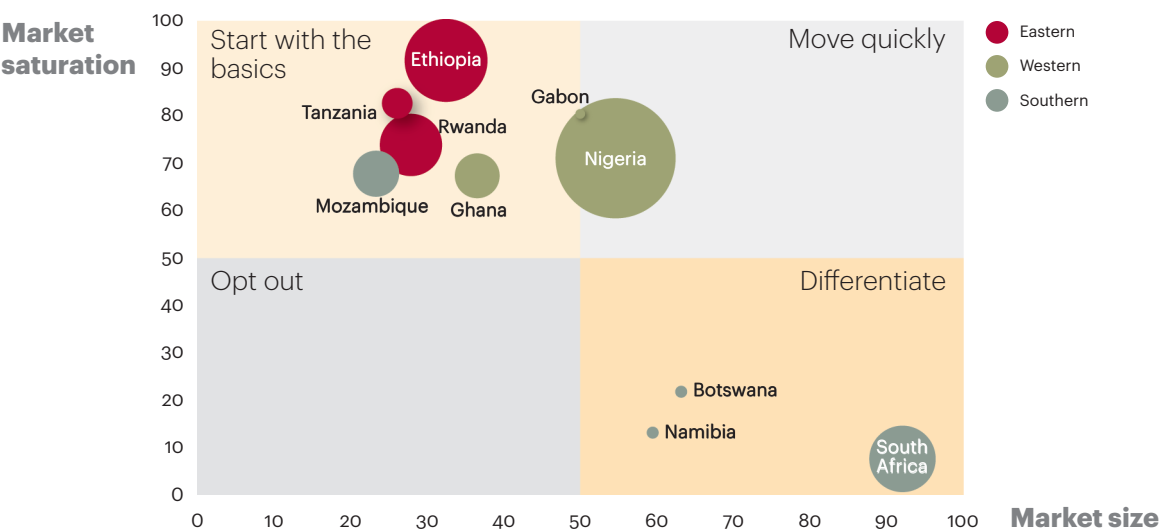
Yes, Africa is a major opportunity, but capturing it will require some patience, hard work, and a little ingenuity.

³ For more on Africa’s supply chains, see the Executive Agenda article “Supplying Sub-Saharan Africa” at www.atkearney.com.

The Right Approaches to Africa

Comparing market size and market saturation reveals three sets of markets in Africa (see figure 3).

Figure 3
Comparing market size and saturation for the right go-to-market approach



Note: Market saturation scores range from 100 (unsaturated) to 0 (fully saturated). Market size is measured from 100 (largest) to 0 (smallest).
Sources: Euromoney, Population Reference Bureau, World Bank, EIU; A.T. Kearney analysis

Following is a breakdown of the ARDI top 10 into the three main go-to-market approaches in Africa.

Start with the basics. The vast majority of Africa—including Ethiopia, Ghana, Mozambique, Rwanda, and Tanzania in our top 10—has limited market saturation but also low maturity. Consumer spending is generally much lower than in the more mature markets. While these markets are promising because of favorable demographics and recent growth trends, the opportunities available have, up to now, been limited primarily to offering basic consumer packaged products, preferably international brands at low prices. Supermarkets in these markets sell few fresh products; rather, fresh products are grown at home or acquired at local informal markets.

Move quickly. The countries in this group—Gabon and Nigeria—have rapidly evolving retail dynamics and demographics, with many companies already established or planning entry. There is no time to spare as these first movers gain an advantage as they establish their brands early and secure loyal customer bases. Price and brand still matter in these countries, but bulk purchases are increasing, and store size, look and feel, and assortments are growing more important. A fair amount of fresh produce is sold in modern supermarkets. Modern retail still makes up only a small portion of these markets, but international retailers are moving in as annual per-capita retail sales surpass \$1,000.

Differentiate. These markets (Botswana, Namibia, and South Africa in the top 10) have Africa's most advanced retail sectors as well as an existing presence of international retailers. As in many modern markets, many buyers are willing to pay extra for fresh foods and convenience,

and are increasingly seeking to make bulk purchases in big, fancy stores with large assortments. Although major brands still dominate, many are willing to consider private labels. Retail sales per capita average about \$2,500 per year. These markets offer opportunities for retailers that can offer differentiated products that are sometimes hard to find, appealing to a growing middle class and globally minded citizens. Retailers in these markets can start investing in higher-quality branded and private-label products.

The ARDI Rankings

To arrive at an ARDI top 10, we measured 48 countries in Sub-Saharan Africa using major macroeconomic and retail-specific variables for each country.

The ARDI's first top 10 ranking spreads across the continent, including three countries from the east, three from the west, and four from the south. While all 10 countries are relatively stable, the variations are wide, especially in terms of market size and saturation. The diversity is immense in terms of demographics, economics, and retail trends. That's why a small country such as Rwanda (with its highly fragmented yet increasingly attractive market) can rank first while South Africa rates lower because of its saturation and low time pressure. Meanwhile, prominent countries such as Kenya, Uganda, and Angola failed to crack the top 10 (see sidebar: Looking Beyond the Top 10 on page 7).

In the following section we examine the ARDI top 10 by region. A regional look reveals similar characteristics and dynamics (such as fast-growing population growth and urbanization rates) among different countries. Of course, within these clusters are cities and regions with their own unique characteristics. Nevertheless, achieving scale for most retailers and consumer goods firms will require a regional approach.

East Africa

There are many differences among East Africa's three top 10 countries—Rwanda, Tanzania, and Ethiopia—starting with population: Ethiopia has 88 million people, compared to 10 million in Rwanda. Beyond that, however, are many similarities. Each retail landscape is fragmented, with formal retail accounting for less than 1 percent of sales.

What makes this region attractive is its fast-evolving retail dynamics—rapid population growth, increasing urbanization, macroeconomic stability and growth potential, and increasing foreign and regional investment in retail. Further, the region (which also includes unranked Kenya and Uganda) has strong regulation and solid trade blocs (among Kenya, Uganda, Tanzania, Rwanda, and Burundi), which makes importing easier and enhances supply chains. The region's organized retail is dominated primarily by Kenyan chains Nakumatt and Uchumi.

A limited but growing number of global CPG companies have a presence in the region or are currently operating there, including Unilever, Nestlé, Diageo, and Coca-Cola. These brands generally design products specific for consumers in the region.

Rwanda (1st). With one of Africa's fastest-growing economies—annual GDP growth is more than 8 percent—Rwanda leads the ARDI rankings. Although small in land area (roughly the size of Albania) and just 20 years removed from the 1994 genocide, Rwanda has an efficient government and strong macroeconomic indicators that reveal many opportunities for international retailers that can offer basic packaged goods. French and English are both common here, but English has become the country's formal first language.

Looking Beyond the Top 10

One of the biggest surprises in completing the first ARDI is the absence of some bigger-name African countries from the top 10 (see figure). In particular, Kenya, Uganda, and Angola stand out. Each has its bright points, but also some challenges that affected their rankings. Let's take a closer look at these three countries.

Kenya. Kenya is home to Sub-Saharan Africa's sixth largest population—including Nairobi, one of the continent's most prominent cities. Kenya's domestic retailers Nakumatt and Uchumi have also built strong brands within Kenya and across the region. The country's ranking is hampered by low scores in market size and time pressure (which measures how much of a long-term opportunity a market represents) and low growth rates for both GDP and sales per capita. The Eastern African Community, a trade union that also includes Uganda, could help address some of the country's challenges.

Uganda. Despite the seventh largest population in Sub-Saharan Africa, Uganda's retail environment remains relatively small. Only 15 percent of the population lives in cities, retail sales per capita are low (\$380), and the country's business readiness scores are low. Despite the small market, the country is relatively stable, which makes it worth keeping an eye on from an interna-

tional retail perspective. The Eastern African Community could help boost the market here, too.

Angola. Angola's capital, Luanda, has one of Africa's biggest metropolitan areas, and it serves as a major seaport for Africa's west coast. However, the country's ranking is hurt as its sales per capita rates have fallen in recent years and GDP growth is low.

Figure: **The ARDI's "next 10"**

2014 ranking	Country	Region	ARDI score
11	Benin	Western	53.6
12	Angola	Central	52.4
13	Zambia	Eastern	49.8
14	Senegal	Western	48.5
15	Congo	Central	48
16	Sierra Leone	Western	48
17	Uganda	Eastern	46.5
18	Cameroon	Western	45.6
19	Gambia	Western	45
20	Kenya	Eastern	44.7

Note: Rankings are based on 2012 data.
Source: Euromoney, Population Reference Bureau, World Bank, EIU; A.T. Kearney analysis

Since the genocide, the government has made great leaps in moving the country forward, with a focus on reforming the business climate and economic environment, and seeking to attract foreign investment. Specifically, infrastructure reforms have focused on developing an efficient transport and road network system and turning Rwanda into a regional logistics hub. Additionally, the market is lifted by people from neighboring countries such as Uganda and the Democratic Republic of the Congo who travel to Rwanda to shop.

With a low income per capita, most consumers base their shopping decisions on price and affordability, and are reluctant to change brands. Fresh food purchases are typically made in informal markets, and dry and packaged foods are bought from kiosks, which tend to offer smaller products at lower prices. Store convenience plays a strong role in Rwandan consumer purchasing decisions, as most say they prefer shopping at smaller stores closer to home, rather than hiking longer distances to modern retailers.

A handful of formal grocers operate in the country. Kenyan retailer Nakumatt operates two stores in the capital Kigali, selling a mix of local and imported products in different categories ranging from grocery and apparel to washing machines and cookers.

Transport in Rwanda is primarily by road and air. Less restrictive regulatory policies make regional cross-border road transportation easier, and roads are of relatively good quality, with most tarmacked. Rwanda's good transport infrastructure is supporting the development of efficient supply chains that reach consumers in and around Kigali and in neighboring cities within Western Uganda as well as Eastern Congo. A trade union with Kenya has made customs at the Kenyan border much more organized and limited any border issues.

Rwanda ranks at the top of the ARDI thanks to its focus on reforming the business climate and seeking to attract foreign investment.

Tanzania (4th). Tanzania's vast scale (it is Africa's 13th largest country by size) and its location on the Indian Ocean coast make it an attractive market for international retailers seeking a regional base.

Swahili and English are the official languages in Tanzania. As in other low-income African markets, consumers are focused on price and availability. Most purchases are made at small, family-owned shops called *dukas*. Supermarkets are becoming more popular, however, especially for higher-income Tanzanians and expatriates seeking variety and more sophisticated products. As this more privileged group becomes more prominent, more will make purchases based on quality and service rather than just price.

South African and Kenyan retailers such as Shoprite, Game (owned by Massmart), Woolworths, and Nakumatt are operating in Tanzania, marking the upper edge of a developing modern retail landscape that also includes independent formal retail stores. In these stores, up to 80 percent of products are imported, mainly from Dubai, Kenya, and South Africa. Private-label products are not common yet, although local consumer goods brands such as Whitedent toothpaste are well established. A growing number of Tanzanian consumer goods companies are establishing local brands, such as Azam (juices, water, biscuits, and dairy), which also exports to other East African countries.

Most products shipped to Tanzania come through the Port of Dar es Salaam, which handles 95 percent of the country's international sea trade. Interior transport is mainly by road—which is of limited quality—and supplemented by rail. This poor transport infrastructure has hindered the setup of efficient supply chains, particularly in more remote locations.

Ethiopia (10th). Ethiopia has one of Africa's fastest-growing economies, at 8 percent GDP growth per year, and the second largest population (roughly 88 million) behind Nigeria. There are more than 80 ethnic groups officially recognized by the government, and these many groups seek highly localized consumer offerings. English is the most common language and Amharic is the official language, but more than 75 different tongues are spoken across the country. Up to 85 percent of consumers live in rural areas and are hard for retailers to access.

Price-sensitive Ethiopian consumers usually shop for groceries at small local kiosks called *souks*, where they buy small quantities (usually \$15 or lower) several times per week. Ethiopian

diets typically consist of commodities such as wheat, cereals, and local ingredients such as teff. Cereal shops play a crucial role in distributing cereals, which are purchased in bulk, to households. Consumption patterns are changing, however, as more urban and middle-class consumers seek packaged foods such as pasta. Product availability and, thus, price stability remain major challenges as a few local producers and exclusive branded distributors dominate the market.

Modern distribution is gaining momentum in Addis Ababa, the capital and largest city, and also a frontier market for many retailers. Alle, Ethiopia's first modern cash-and-carry, is currently building what it hopes will be best-in-class operations and is planning to open three stores in Addis Ababa by the end of 2014. At the same time, local players on the retail scene are introducing into Ethiopia new innovative store concepts brought in from outside. The city now has more than 40 supermarkets, 100 minimarkets, and 18,000 kiosks (most family-owned). In addition, global consumer goods makers have started investing in Ethiopia—such as Heineken's \$160 million in brewer investments—and regional private equity firms such as Schulze GI are actively investing and seeking investments in local companies.

Retailers are drawn to Ethiopia for its large population and fast-growing economy.

Ethiopia is landlocked, and most products reach the country via neighboring Djibouti. Customs procedures can cause three-month backups before goods reach Addis Ababa. “Gray” imports (through legal yet unofficial or unapproved distribution channels) coming through Somalia have a detrimental impact on Ethiopia's competitive retail environment. Additionally, a lack of reliable supply chain and logistics companies, government control over some items (such as sugar and palm oil), and poor road infrastructure aggravates supply chain challenges. Government plans to address these issues show its ambitions to become an easier place to do business and a more attractive destination for retail and consumer goods investors.

West Africa

As Africa's most populous region, West Africa has huge market potential. Nigeria, Gabon, and Ghana are ranked in the ARDI top 10, while five more countries are ranked between 11 and 20. In the region's three ranked countries, the retail landscape is evolving, with modern formats slowly moving in and more modern international retailers operating or making plans to. Shoprite, Walmart, and SPAR are some of the few retailers already operating in the region.

A strong and growing number of global CPG firms have a presence in the region, particularly Ghana and Nigeria, where multinationals often set up joint ventures with local companies.

Nigeria (2nd). Nigeria has Africa's largest population (twice as large as second-place Ethiopia) and second-largest economy (behind South Africa). Its largest city, Lagos, is the most populous in Africa and one of the 25 largest in the world. Nigeria's GDP is growing 6 percent annually, with wholesale and retail contributing 29 percent of the total. Increasing urbanization (half of all Nigerians live in cities), a growing middle class, a youthful population, and increased consumer spending have led to growth in many modern and international supermarkets.

However, Nigeria's market is one of the toughest in the Index to master, with serious hurdles to overcome before outsiders can succeed. Regulations, land availability, distributor and supplier capabilities, and ease of imports are all roadblocks that will require time and effort to overcome. English is the official language, but more than 100 native languages are spoken across the country.

As Nigeria's economy grows, a growing middle class is making more purchasing decisions based on convenience and experience. Many are choosing modern retail as a calmer, albeit more expensive, alternative than the traffic of the traditional markets. Nigerians are also extending to online shopping, with more shoppers shopping online for apparel and big-ticket goods such as TVs and iPads.

Nigeria's modern supermarkets are a mix of domestic and foreign retailers. Park 'n' Shop, Nigeria's largest domestic retailer, is one of the few to operate a chain. Its range of in-store offerings is popular with consumers, as is its focus on fresh foods. Foreign supermarkets such as Shoprite and SPAR mainly sell imported products appealing to expats in Lagos.

Gabon (5th). Gabon is one of the ARDI's "small gems." The French-speaking nation has a population of just 2.2 million people covering an area roughly the size of New Zealand, but with a \$19 billion economy it has the highest per-capita GDP (\$14,500) among countries in the ARDI. Retail sales have grown about 13 percent annually in the past few years. Entering the market will prove challenging. The market remains relatively early in development, and the ease of import and supply and distribution capabilities remain low.

Formal retail makes up only 3 to 4 percent of grocery retail, so there remain solid opportunities in Gabon despite the small population. International retailers such as Carrefour are already targeting the resource-rich country.

Gabon's formal retail sector currently comprises only a handful of large distribution brands, such as Prix Import and France-based Géant Casino, which holds a 10 percent share of the formal retail market. The retail sector saw a major capital injection in 2013 after Swiss group Webcor agreed to build the largest market center in Libreville, the capital and largest city. Upon completion, the Grand Marché will supplant the existing Mont-Bouët as Libreville's primary market space, with the goal of bringing increased formality and rigor to the retail sector.

Ghana (6th). Retail sales have grown 10 percent per year in recent years in Ghana, as the country's GDP grows at nearly 8 percent annually. At the same time, Ghana's market is relatively advanced compared to others in Africa.

Traditional open-air markets account for more than two-thirds of retail sales in Ghana (where English is the official language), followed by convenience stores and small grocers, with supermarkets accounting for just 1 percent of sales. Still, more domestic supermarkets are growing, including Melcom, Kwatsons, and Palace Hypermarket, and foreign-owned companies are also entering, including GNC, Shoprite, Total, and Wal-Mart.

Ghana's relative stability has drawn an expatriate population, and increased the number of middle-class Ghanaians living in the capital Accra. For these consumers, convenience and quality appear important, considering the popularity of higher-priced international products such as Häagen-Dazs ice cream and Grey Goose vodka.

Southern Africa

Southern Africa is attractive to global retailers. The region's economies are relatively stable, consumer spending is high, and retail chain stores from South Africa are well established in many places, which portends the steady development of formal retail. Many global CPG companies have supported the development of modern retail in the region.

Namibia (3rd). Namibia's macroeconomic strength (GDP of \$12.81 billion) and high income per capita offer a variety of opportunities to international retailers who can offer competitive, differentiated products to middle and upper class consumers.

In the capital city of Windhoek, formal retail dominates, led by South African chains such as Shoprite, Pick n Pay, Woolworths, Game, and Spar, along with local independent stores such as Woermann Brock. Formal retail is well advanced, with wide aisles, big shelving, and international products. South African developer Atterbury has announced plans to develop the largest mall in Namibia, to open in September 2014. This mall will include electronics retailer Game, Shoprite, Woolworths, Edgars, and SPAR, along with several other regional brands that are making their Namibian debuts.

Most formal retailers feature fresh and consumer packaged goods, and there is a wider range of popular categories that goes beyond basic household items. These categories range from maize mills and local beers to luxury chocolates and wine. Because much of Namibia is desert, fresh flowers, fruits, and vegetables are also popular among affluent consumers.

Namibia's income per capita is seventh highest in Africa, and its consumers like to shop at a variety of formal stores. Promotions and advertising appear to be the primary selling criteria for these consumers. English has been the official language of Namibia since gaining its independence from South Africa in 1990.

Namibia's efficient transport network is a major factor contributing to the growth of the country's formal retail sector, which is growing 12 percent per year. Because of its proximity to South Africa and its efficient road network, formal retailers in Namibia have centralized distribution centers and warehouses close to the border between Namibia and South Africa. Refrigerated warehouse trucks facilitate the transfer of fresh products between both countries, which means full-stocked shelving and more controlled inventory in most stores.

South Africa (7th). South Africa has the largest GDP in Africa, the most established retail market (accounting for 14.34 percent of GDP in 2012), and the most consumer spending in Africa. Retail sales growth has increased in recent years, by an average of 3 percent between 2005 and 2012, thanks to stable macroeconomic conditions, low inflation, and low interest rates. Sixty percent of South Africa's population now lives in cities, which has fueled a growing middle class. South Africa has 11 official languages, with English the common language used in public life and businesses.

Modern retail accounts for more than 60 percent of sales, led by local chain Shoprite. Supermarkets dominate the market thanks to substantial investment; hypermarkets have spread a little more slowly but cater to more affluent classes.

Price and brand are important purchasing decisions for South African consumers. Many have embraced private labels, which had previously been perceived by many as low-quality. As private-label products are positioned for budget, mid-priced, and premium markets, they are gaining appeal to consumers of all income levels. Pick n Pay, Woolworths, and Shoprite remain leaders in terms of private-label investment.

E-commerce is picking up as Internet usage increases, with consumers primarily buying cosmetics, toiletries, toys, and games.

Botswana (8th). This landlocked, English-speaking country packs a punch, as it has one of Africa's highest GDP per capita rates. Retail is a major economic activity in Botswana, as it is the country's second largest job provider and accounts for 29 percent of GDP. Botswana also presents one of the relatively easiest countries for entry, with good land availability, efficient regulations, suppliers, and distributors, and relatively easy import rules.

In Gaborone, the capital and largest city, most formal retail development has been from regional players, primarily based in neighboring South Africa. Local chain Choppies and Netherlands-based retailer SPAR lead the grocery market. Woolworths and Shoprite both have plans to expand operations across the country, and Wal-Mart (through its purchase of Massmart) also has a presence in cash-and-carry, home improvement, and supermarkets. Shopping malls are also spreading, including the Rail Park Mall, which opened in 2011, and the Airport Junction shopping center, which opened in 2012 with 50,000 square meters of retail space. Tenants at Airport Junction include KFC and Samsung, which opened its second Botswana brand store, following the opening of a Ghana store, part of a broader African expansion plan.

Landlocked Botswana packs a punch, with a high GDP per capita, a vibrant retail sector, and relative ease of entry for retailers.

Mozambique (9th). Natural resources are driving solid economic growth in Mozambique, and formal retailers are moving in. The leaders are South African chains such as Shoprite, Pick n Pay, Woolworths, and Game, which maintain the same look and feel as their South African stores and, as in South Africa, are located in shopping centers or close to informal markets. Local formal retail leaders include Hyper.

With so many international expats in Maputo, the capital, formal retailers offer many imported international products as well as many fresh foods and meats. The South African chains are popular among Mozambicans, and they compete against each other visibly, with promotions and specials prominently placed in stores.

The high level of activity in most stores reflects a growing shopping culture. Promotions, special offers, and store attractions are drawing in new customers, particularly from the middle class. On average, Mozambicans visit formal retail stores once a month for bulk purchases of some basic packaged goods, which can be cheaper than traditional formats.

Because of their close proximity, South African retailers are able to use centralized distribution centers that lead to well-stocked shelves and controlled inventories. Overall, however, Mozambique's poor infrastructure hampers supply chain efficiency, particularly when transporting goods from ports and reaching consumers outside of Maputo. Therefore, there is a distinct opportunity for retailers who can serve these consumer markets.

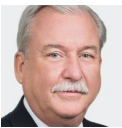
Portuguese is the official language, a remnant of Mozambique’s colonial past, but more than a dozen other languages are also spoken.

Looking Ahead

By 2020, nearly half of all Africans will be living in cities, and, as disposable incomes rise, consumer spending will grow to almost \$1 trillion. As Africa continues to grow, continued retail growth is inevitable. While many African markets are starting from low bases, making an immediate impact in these countries could lead to long-lasting brand loyalty and a growing advantage in coming years.

Even with the challenges of entering and succeeding in Africa, the opportunity—particularly in the top 10 markets in the ARDI—is impossible to ignore.

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About the 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.

Appendix:

About the African Retail Development Index

The African Retail Development Index ranks Sub-Saharan Africa countries on a 0-to-100 point scale: the higher the ranking, the more urgency to enter the country. The countries we considered for the rankings were pre-selected based on three criteria.

- Country risk: 35 or higher in the Euromoney country-risk score
- Population size: greater than 1.5 million
- Wealth: GDP per capita (PPP) of more than \$1,000

ARDI 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 size (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 in the range 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, roughly 200 square meters per 1,000 inhabitants.

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)

Time pressure is based on 2007 to 2011 data, measured by the CAGR of modern retail sales weighted by the general economic development of the country (CAGR of GDP and consumer spending) and CAGR 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, the World Economic Forum's Global Competitiveness Report 2010–2011, national statistics, Euromoney and World Bank reports, and Euromonitor and Planet Retail databases.

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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.