

# Retail Global Expansion: A Portfolio of Opportunities

The 2011 A.T. Kearney Global Retail Development Index™



**Figure 1**

**The 2011 Global Retail Development Index™**

2011 rank	Country	Region	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2010
1	Brazil	Latin America	100.0	79.4	42.9	63.9	71.5	+4
2	Uruguay	Latin America	85.0	73.8	63.6	39.6	65.5	+6
3	Chile	Latin America	84.3	100.0	30.3	44.3	64.7	+3
4	India	Asia	28.9	59.9	63.1	100.0	63.0	-1
5	Kuwait	MENA	80.4	80.6	57.3	27.1	61.3	-3
6	China	Asia	49.5	76.5	31.0	87.7	61.2	-5
7	Saudi Arabia	MENA	70.9	80.7	50.6	35.7	59.5	-3
8	Peru	Latin America	39.8	61.5	72.0	59.5	58.2	+1
9	United Arab Emirates	MENA	87.6	88.9	12.6	42.9	58.0	-2
10	Turkey	MENA	83.8	65.5	45.0	37.0	57.8	+8
11	Lebanon	MENA	56.3	43.0	57.5	53.8	52.6	N/A
12	Egypt	MENA	22.1	49.5	85.5	52.7	52.5	+1
13	Albania	Eastern Europe	19.9	48.3	79.6	60.5	52.1	-1
14	Russia	Eastern Europe	76.2	49.1	30.9	51.0	51.8	-4
15	Kazakhstan	Asia	29.2	30.1	87.5	60.1	51.7	N/A
16	Indonesia	Asia	38.2	53.0	54.5	58.8	51.1	0
17	Morocco	MENA	22.6	72.9	52.8	54.8	50.8	-2
18	Philippines	Asia	26.2	54.3	66.1	51.0	49.4	+4
19	Tunisia	MENA	37.5	75.2	63.0	21.3	49.3	-7
20	Sri Lanka	Asia	8.4	52.6	86.5	42.4	47.5	N/A
21	Malaysia	Asia	53.9	64.0	18.0	52.7	47.2	-4
22	Mexico	Latin America	74.6	67.5	16.3	23.8	45.6	+3
23	Vietnam	Asia	8.4	35.0	48.8	85.1	44.3	-9
24	Colombia	Latin America	45.7	54.0	35.8	36.9	43.1	+2
25	Argentina	Latin America	60.4	26.6	44.2	38.4	42.4	N/A
26	South Africa	Sub-Saharan Africa	46.9	89.3	15.2	17.2	42.2	-2
27	Panama	Latin America	44.3	47.3	44.5	27.6	40.9	N/A
28	Dominican Republic	Latin America	39.5	0.0	74.2	49.0	40.7	-5
29	Iran	MENA	33.5	3.4	89.2	31.0	39.3	N/A
30	Bulgaria	Eastern Europe	45.1	56.2	4.9	50.2	39.1	-11

**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.

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

This year marks the 10th edition of the Global Retail Development Index™ (GRDI). Since its first publication in 2002, much has changed in the developing world: The population has grown 11 percent, from 5 billion to 5.7 billion, retail sales per capita have risen by more than 90 percent, from \$2,000 to \$3,850, and retail sales space has expanded by more than 200 percent, from 40 million to 130 million square meters. As the retail giants made big investments to enter new markets—experiencing both successes and failures—they learned that retail expansion is a portfolio game: An optimal mix of countries, formats and operating models is the key to success.

The 2011 Global Retail Development Index reflects dramatic changes in the global economy and the different ways in which developing countries have been affected.<sup>1</sup> Some developing markets have emerged from the recession stronger than before, while others succumbed to the political upheaval that economic distress brings. Today, as leading international retailers are rewarded for their flexibility and long-term outlook in the face of short-term uncertainty, it is time to focus on a portfolio of countries—with different levels of risk, at different stages of maturity and with distinct consumer profiles—to balance short- and long-term opportunities.

The GRDI is an annual study that ranks the top 30 developing countries for retail expansion worldwide (see figure 1). The Index analyzes 25 macroeconomic and retail-specific variables, both to help retailers devise successful global strategies and to identify emerging market investment opportunities (see sidebar: *About the Global Retail Development Index on page 5*). The GRDI

is unique because it not only identifies which markets are the most successful today but also which markets offer the most potential in the future. For the third time, the GRDI includes a Retail Apparel Index.

To mark this 10th anniversary of the study, a retrospective captures the insights and lessons learned from the past decade. Please visit [www.atkearney.com/GRDI](http://www.atkearney.com/GRDI) to download *GRDI: A 10-Year Retrospective*.

### Stability and Turmoil

In 2011, some developing markets are exploding and changing the balance of power. China recently overtook Japan as the world's second biggest economy, while India is expected to grow even faster than China in the long run, given its younger population. These developing markets now drive the agenda in global arenas; the recession has accelerated the shift in global production and consumption from west to east, north to south, developed to developing.

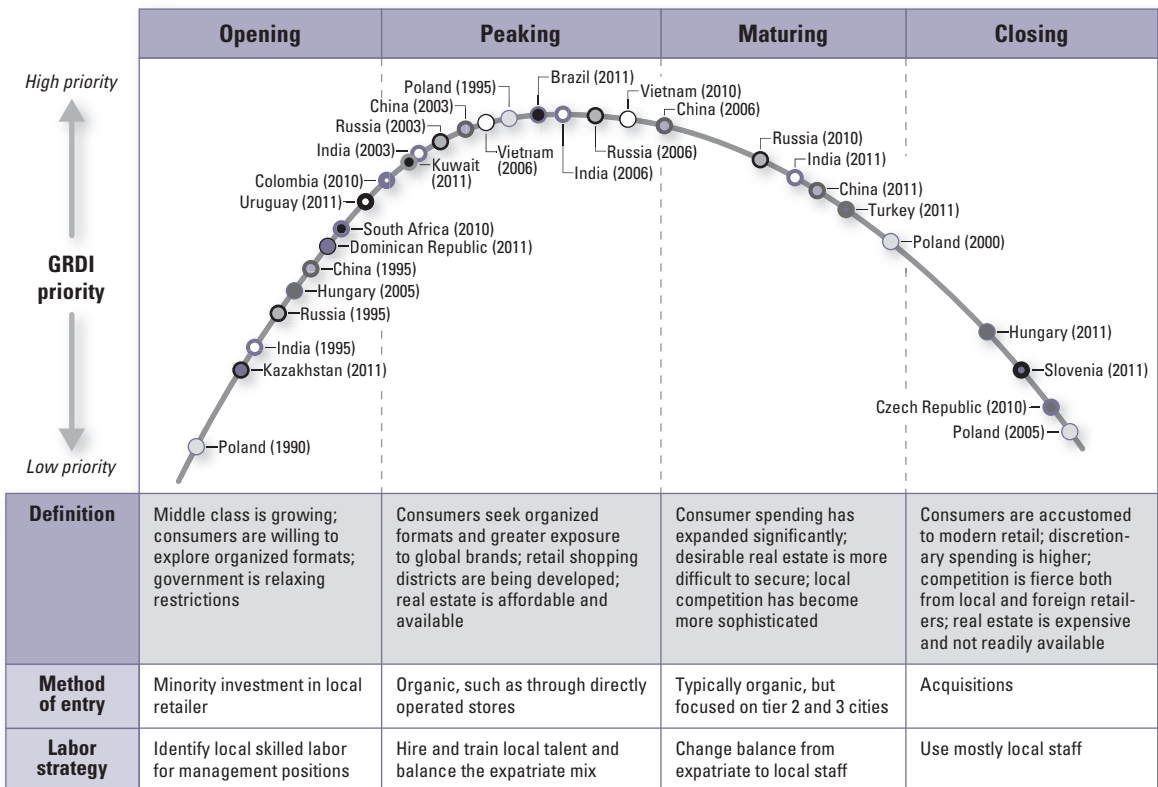
<sup>1</sup>A.T. Kearney uses a proprietary classification method to categorize 170 countries as “developing;” analysis is based on prior year (2010) data.

However, while Asia leads the global recovery, South America has made the biggest jump in the Index this year, thanks to its continued growth and a lack of investment fatigue that has affected some traditional chart-toppers. Brazil leads our rankings this year, with an expected GDP growth of 5 percent over the next few years, a large and mostly urban population, surging retail sales and significant investments planned for the upcoming Olympics and World Cup. Uruguay ranks 2nd on the Index, and as figure 2 shows, that country's window of opportunity is nearing its peak phase.

Political unrest in the Middle East and North Africa (MENA) region has dominated the head-

lines in 2011. While it may affect immediate plans of entry to some countries (particularly Tunisia and Egypt, where the leaders were ousted), we believe the region's extraordinarily young and increasingly outspoken population could, eventually, lead to greater economic stability and more global integration. Even more important, Kuwait, Saudi Arabia and the United Arab Emirates (UAE), which still rank in the top 10, have not experienced the turmoil of some of their neighbors and are expected to remain stable. Global retailers generally prefer longer term expansion strategies. Economic and political tensions may accelerate or decelerate retailers' entry and expan-

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



Source: A.T. Kearney analysis

sion decisions, but the overall trend of globalization will continue.

Beyond regional trends, new channels such as e-commerce and mobile commerce are proving to be an increasingly important part of successful global expansion plans. Leading retailers understand these channels, know the domestic players that currently dominate them and appreciate the improvements in last-mile delivery that

## *Economic and political tensions may accelerate or decelerate retailers' entry and expansion decisions, but the overall trend of globalization will continue.*

will drive their usage. These channels have the potential to impact “big-box” retail—and perhaps lead to less physical retail development—but we are confident that global consolidators can develop the next-generation retail value chains as effectively as they have achieved success in the current retail model.

### **The 2011 GRDI Findings**

Once again, the 2011 Global Retail Development Index holds many surprises.

### **South and Central America**

South America has survived the recession better than most regions and posted an impressive 6 percent GDP growth in 2010. Rich in natural

resources with an increasingly sophisticated and diversified business environment, an abundant labor force and stable relationships with a diverse range of trading partners (from China to Iran), the region has not only attracted attention, but also investment.

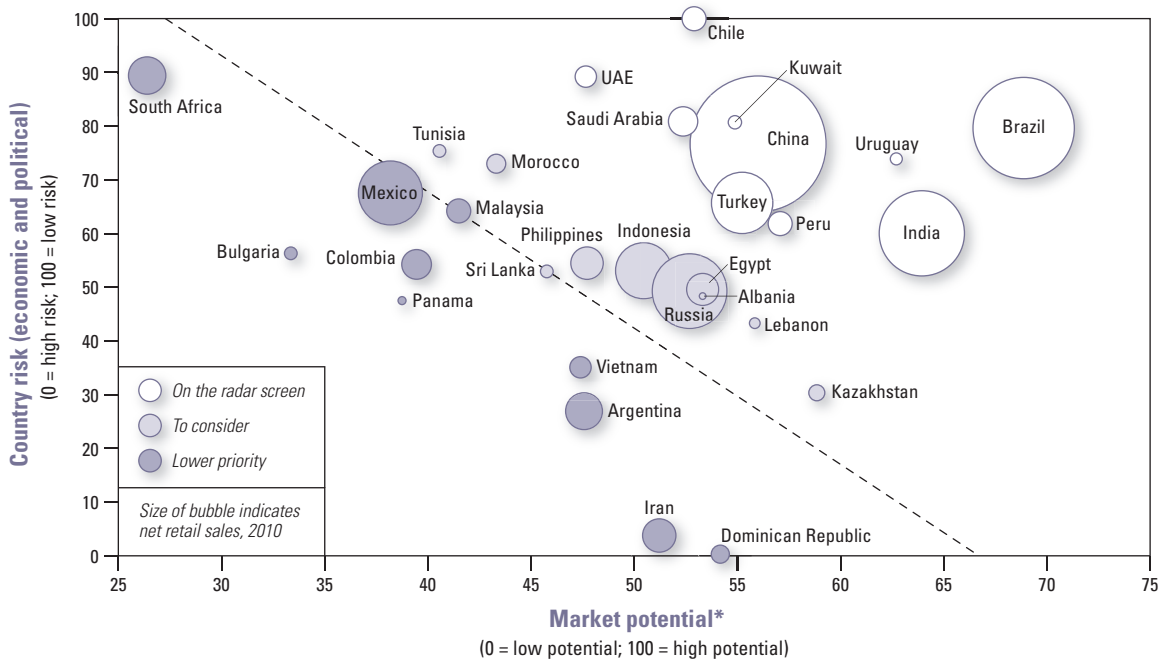
As mentioned earlier, Brazil leads this year's rankings, thanks to rapid GDP growth. Uruguay followed its neighbor's lead to enjoy explosive growth and earn 2nd place in the Index. The Andean economic region, including Chile and Peru, has recovered from the recession even stronger. Chile is reaping the benefits of a long-term growth strategy based on solid socioeconomic policies and a balance between incentives to domestic businesses and attracting foreign investments. Peru still has room for growth, but it is increasingly becoming the target of inter-

national retailers as its formal economy expands. While some South American markets are smaller, taking a regional approach to the Spanish-speaking markets may make sense.

**Brazil: Driven to the top.** Brazil—which was 30th in the 2002 GRDI and unranked as recently as 2004—is the leader of the 2011 GRDI, climbing four spots from 2010. Overall, the outlook is positive for Brazil. A GDP growth of close to 5 percent is expected through 2013, and preparations for the 2016 Olympic Games and 2014 FIFA World Cup are expected to generate more than \$50 billion in new investment.<sup>2</sup> It is clear that Brazil is now one of the developing world's most attractive markets for retailers (see *figure 3 on page 4*).

<sup>2</sup> All monetary amounts are in U.S. dollars unless otherwise noted.

**Figure 3**  
2011 GRDI country attractiveness



\* Based on weighted score of market attractiveness, market saturation and time pressure of top 30 countries

Source: A.T. Kearney analysis

The past eight years of center-left government has resulted in a staggering 40 percent increase in GDP per capita, and a growing and more affluent middle class has resulted in increased consumption. Brazil, with a population of 193.3 million, is now the world's eighth-largest economy, and the government is bolstering long-term GDP growth by increasing infrastructure investments.<sup>3</sup> However, inflation remains a concern. Recently, Brazil's strong *real* led to an interest rate increase from 11.25 percent to 12 percent, and a high exchange rate is boosting consumer imports. A growth slowdown is possible as Brazil's central bank adjusts to these challenges.

As a testament to Brazil's sizzle, retail investment is on the rise. Household appliance retail

chain Magazine Luiza, Brazil's largest women's shoe retailer Arezzo, food services company International Meal and drug store Droga Raia had successful initial public offerings (IPOs) in the past six months. Most investors view Brazil as a relatively stable market compared to other developing economies, with a pro-business government that welcomes foreign investment. Major real estate investments have also driven retail growth. Shopping malls, which account for one-fifth of retail sales, have exploded, with 16 openings in 2010, 25 in 2011 and 30 planned for 2012. More than half have been heavily concentrated in the southeast region, signaling a future opportunity for additional real estate development in the north and east.

<sup>3</sup> All population figures are Population Reference Bureau estimates for mid-2010.



## About the Global Retail Development Index

The annual A.T. Kearney Global Retail Development Index ranks 30 developing countries on a 100-point scale—the higher the ranking, the more urgency there is to enter a country. Countries were selected from a list of 200 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>4</sup>

GRDI scores are based on the following four variables:

### Country and business risk (25 percent)

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

**Business risk (20 percent):** business cost of terrorism, crime 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 score of zero indicates the country is rela-

tively small, representing limited opportunities for growth.

**Urban population (20 percent):** A score of 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. A score of 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 score of 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 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 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 means the country ranks high in total 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; 100 indicates the market is still extremely fragmented.

### Time pressure (25 percent)

The time factor is measured by the compound annual growth rate (2006 to 2010) of modern retail sales weighted by the development of the economy in general (CAGR of the GDP and consumer spending from 2006 to 2010) and the CAGR from 2006 to 2010 of the retail sales area weighted by newly created modern retailing sales area.

Results are from zero to 100, with 100 indicating that the retail sector is advancing quickly, 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 2009–2010*, national statistics, Euromoney and World Bank reports, and Euromonitor and Planet Retail databases.

<sup>4</sup> The GDP per capita threshold for countries with populations of more than 35 million is more flexible due to the market opportunity.

Those investments are attracting an influx of foreign capital and major international chains. The United Kingdom's Debenhams plans to enter through a partnership or brand licensing, while Burberry entered Brazil in 2010 and now operates two stores. Based on media reports, other possible entrants in the next few years include Sweden's H&M, Japan's Uniqlo and the United Kingdom's Topshop. The main barrier for foreign apparel companies is the seasonal differences between the northern and southern hemispheres and high import taxes. Partnerships with local producers have helped address the latter problem, but these can take time to set up and require greater oversight.

Chile-based retailer Cencosud, Mexican beverage company FEMSA and French cosmetics giant L'Oréal have operated in Brazil for years, but are now planning to expand via acquisitions to strengthen their positions against new entrants. Cencosud is planning to enter markets where it does not currently operate to compete with larger chains such as local leader Pão de Açúcar and Carrefour. Competing in Brazil isn't easy for foreign retailers, as the major hypermarket players have found. Early in 2011, Carrefour announced a \$722 million loss due to accounting adjustments, while Wal-Mart has faced resistance from local associations due to its aggressive pricing. Drug stores are facing intensified competition after Droga Raia's IPO and the merger of Drogeria São Paulo and Drogão. Germany's Otto Group has recently announced plans to enter through a majority stake in one of its partner companies, in the hopes of replicating its mail-order success in Russia.

**Uruguay: Riding Brazil's coattails.** Uruguay climbs to 2nd place this year, following a 6.5 percent compound annual growth rate (CAGR) since 2006, including 8.5 percent growth in 2010—

both in large part a result of Brazil's growth. Uruguay is relatively small, with a population of 3.4 million, and nearly 95 percent of the population has easy access to urban areas. The country's limited scale and positive macroeconomic conditions make it an appealing choice for retailers seeking more "contained" markets, in which they can exercise greater control and test concepts before entering other South American markets.

Uruguay's economic success has been tied historically to Brazil and Argentina, and as such it has benefited from Brazil's recent growth. Former president Tabaré Vázquez's "growth plan" has helped Uruguay achieve real GDP growth, diversify its economy and streamline its public sector. As a result, poverty and unemployment decreased significantly while public consumption grew in 2010. A recent J.P. Morgan report cited an influx of foreign investment, a tourist sector boom, real estate bargains, strong export growth and strong appreciation in Brazil's real as factors that will attract many outside investors. Additionally, Moody's Investors Service issued a two-notch upgrade on Uruguay—on the verge of investment-grade territory—citing progress in the nation's debt and fiscal indicators. However, there are a few cautions with Uruguay, including its aging population and the consequent pension pressures.

The market for large and international retailers is concentrated in Montevideo and its surroundings. Local brands, with the exception of France-based Groupe Casino, control most shopping mall and supermarket environments, and hypermarkets are still limited due to government restrictions on store size in local neighborhoods. Tackling the dynamics of the Montevideo market and seasonal demand in tourist areas are critical success factors. The pressure to enter the market is not particularly high today since there has not been significant investment in retail real estate,



but Uruguay is one to watch as the infrastructure catches up to the market's potential.

**Chile: Growing retail power.** Chile rises three spots to 3rd place, after a strong recovery from the 2009 recession. It is now considered one of Latin America's most competitive and promising retail markets. Chile's retail sector is projected to grow 10 percent in 2011 as a result of increased middle-class purchasing power and a younger, urban population. Government incentives to stimulate retail consumption, led to a 5.2 percent GDP growth in 2010 and an expected growth of 6.1 percent in 2011. However, these incentives will decrease throughout 2011, as the government continues to redirect spending to infrastructure development following the 2010 earthquake.

Chile's political environment is considered fairly stable, and President Sebastián Piñera, a billionaire businessman, is planning structural reform to increase market competitiveness.

The nation of 17.1 million has a heavily concentrated market, with the top five grocery retailers commanding almost 60 percent of sales. As a result, entering this market is fairly difficult, and acquisition is the most viable route for the grocery sector. In 2011, in the apparel sector, Gap, Inc. announced plans for its first South American store through a franchise partner in Santiago.

**Peru: Retail space needs to catch up.** Peru moves into the 8th spot, up one position from 2010. Peru (population 29.5 million) experienced 5 percent year-over-year GDP growth for the past five years. As with most countries in this region, large cities drive economic activity, in this case the capital, Lima.

Strong retail growth has intensified the demand for retail space. Investments in commercial real estate will add 10 shopping malls to the current 15 by 2011 and up to a total of 100 by 2015. Interbank acquired real estate firm Millenia—which owns four main locations of its direct competitor Metro—from Cencosud.

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Interbank also plans to complement its supermarket operations by integrating the recently acquired InkaFarma pharmacy chain.

Foreign retailers are investing heavily in Peru. Cencosud, which runs Peru's Wong chain, has received approval to create Banco Cencosud and also plans to create private label brands. It will also introduce its Paris brand in 2012 to compete with Chilean retailers Falabella and Ripley. Ripley is not standing still, though, as it plans to nearly double its store count by 2013. Subway, present in Peru during the 1990s, is planning to return with 10 stores in 2011. As marketplace competition grows, first movers may have the most success in Peru as they acquire the best locations in the highest-profile cities and offer complementary services, such as credit.

**Mexico: Back on track.** Mexico's economy recovered in 2009, highlighted by a GDP growth

rate of 5.5 percent. Unemployment has decreased from an historical high of 5.9 percent in mid-2009 to 5.4 percent. The stronger economy has restored consumer confidence, reflected in retail sales growth. As a result, Mexico is ranked 22nd this year, up three spots.

Mexico remains an attractive destination for retailers due to its growing middle class, a retail sector that is expected to expand 12 percent by 2014 and a large population of 110.6 million. Current and new players are seeking to capture market share. The leading retail chains plan to increase their investments significantly, focused mostly on new compact hypermarket stores in tier 2 cities, given the saturation of tier 1 cities. Walmex is planning 365 new stores, while Soriana will open 50 and Chedraui 30. As Comercial Mexicana recovers from last year's bankruptcy, other domestic players are trying to capture additional market share.

Two formats are leading the retail expansion in Mexico. Top retailers, including Grupo Elektra, are targeting compact hypermarkets, low-cost "bare-bones" formats that target low-income consumers. Convenience stores are also expanding rapidly, with OXXO, Circulo K and 7-Eleven leading the way.

Given the grocery segment's saturation, attention has shifted to specialty retail. U.S. and European retailers are entering mostly through joint ventures or franchises; Sephora, Payless ShoeSource and Luxottica are examples in the apparel and accessories segment. Alsea, Mexico's leading fast-food operator, recently opened P.F. Chang's and is experiencing accelerated growth. It plans to open 500 new locations across its brands over the next five years. A number of international retailers, such as Gap, Inc., Victoria's Secret and CB2 entered the market through e-commerce. Critical to success in Mexico is the ability to secure

desirable real estate and to offer credit facilities for low-income consumers.

**Colombia: Still in recovery.** Colombia is in 24th place this year. The country of 45.5 million was affected more deeply by the global economic downturn than some of its neighbors and has not fully recovered. The market is still dominated by small independent retailers, but operators such as Casino and Carrefour are using the hypermarket format to target middle-class customers. Inflation continues to be a concern, but new entrants have still moved in, including Sodimac, Cencosud, Inditex (Bershka, Stradivarius and Massimo Dutti) and Payless ShoeSource.

**Argentina: Back on the list.** Argentina dropped off the Index in 2010 but returns this year in 25th place. It experienced strong 9-plus percent GDP growth in 2010, but its rising inflation rates may be distorting this growth as it leads consumers to make advance purchases. The country of 40.5 million has not experienced significant changes in the inflow or outflow of foreign retailers, with Carrefour, Cencosud and Wal-Mart still the leading international retailers in the country.

**Panama: A new hub.** Panama enters the GRDI in 27th place. Panama's economy is experiencing an economic boom and is one of Latin America's fastest-growing and best-managed markets. In the past five years, Panama's GDP growth of 6.1 percent and GDP per capita growth of 6.9 percent have been among Latin America's highest. While Panama is relatively small (population 3.5 million), a few factors position it as a key retail location: There has been a recent real estate and infrastructure boom, the country is becoming a key financial hub (in addition to being a key transportation and logistics hub), and its economy is based on the dollar. Retailers are entering the market (for example, Juicy Couture), while

others that are already present (such as Nautica) are expanding and opening new stores.

**Dominican Republic: Slow rise continues.** At 28th position, the Dominican Republic continues to see retail development. The country of 9.9 million has experienced significant expansion in shopping space with three large malls currently under construction. Luxury (Louis Vuitton and Cartier) and mid-level (Nike, Desigual and Timberland) retailers are entering as Santo Domingo becomes the Caribbean's shopping capital.

## Asia

India and China have occupied the GRDI's top three places for several years, yet both fell this year, which may come as a surprise to our readers. While these countries are large and growing, on a relative basis, several Latin American markets outshine both India and China. And as retailers continue to enter India and China—particularly in tier 2, 3 and 4 cities where consumers are increasingly accepting global brands, have rising disposable incomes and are becoming more discerning in their tastes—in several instances, traffic to stores has yet to meet expectations.

The outlook for Southeast Asia remains bright, with increased domestic demand and exports, stabilizing retail sales and improving consumer confidence. Grocery remains the region's most important sector, accounting for almost two-thirds of total organized retail sales.

**India: The time to enter is now.** India's strong growth fundamentals—9 percent real GDP growth in 2010; forecasted yearly growth of 8.7 percent through 2016; high saving and investment rates; fast labor force growth; and increased consumer spending—make for a very favorable retail environment and the 4th spot in the GRDI. As has been the case for several years, Indian consumers continue to urbanize, have more money to

spend on non-food purchases, and have more exposure to brands. The result is a powerful, more discerning consumer class. India's population of nearly 1.2 billion—forecast eventually to overtake China's—also is an attractive target.

Organized retail accounts for 7 percent of India's roughly \$435 billion retail market and is expected to reach 20 percent by 2020. Big-box retail, in the form of hypermarkets, has gained prominence—a refocus from the burgeoning supermarkets and small formats of several years ago. Food accounts for 70 percent of Indian retail, but it remains under-penetrated by organized retail. Organized retail has a 31 percent share in clothing and apparel and continues to see growth in this sector. The home segment shows promise, growing 20 to 30 percent per year. India's more urban consumer mindset means this sector is poised for growth.

The recession proved an opportunity for domestic and foreign retailers to optimize their store portfolios and drive more profitable growth in India. They are now in much better and smarter positions to take advantage of India's retail possibilities. Domestic players are selectively growing in India—postponing aggressive expansion plans, adding stores judiciously and shifting gears to tier 2 and 3 cities. Aditya Birla Group plans to open about 100 supermarkets and 10 hypermarkets by mid-2011. Spencer's is expected to add up to 25 hypermarkets through 2012. Reliance Retail, India's organized retail leader, plans to open 150 Reliance Trends apparel and accessories stores in the next year. Foreign players are also adding stores—the United Kingdom's Marks & Spencer is planning 50 retail outlets in the next five years. Wal-Mart is planning up to 12 outlets in its wholesale format by the end of 2011, and Metro Group plans 50 wholesale stores in the next five years. International food retailer Spar plans to

open another 24 hypermarkets in the next two years. Zara opened in Delhi and Mumbai last year, has already added a third store in Delhi and, after early success, plans to expand across India. Carrefour entered India in December 2010 with its first wholesale cash-and-carry store and has plans to open more stores by end of 2011.

Though the biggest cities will remain retail centers in coming years, retailers have started focusing on tier 2 cities to gain the early-mover

*Indians continue to urbanize and have more money to spend on non-food purchases.... The result is a powerful, more discerning consumer class.*

advantage and to get in while the real estate is still available. The increased salaries and growing aspiration levels of tier 2 consumers is allowing the neighborhood store, the large-format retail store and the foreign investor-funded retail store to co-exist. Retailers with plans to enter tier 2 cities include Spencer's, Spar, Reliance Retail, Pantaloon Retail, Shoppers Stop and Trent's Westside.

While India remains a hot market for retailers, it has its difficulties. Foreign direct investment (FDI) regulations continue to require single-brand retailers to enter the market through an Indian partner or joint ventures. Government policy-change discussions have intensified recently, but whether or not there will be new rules remains uncertain. The regulatory challenges mean that

selecting the right partner is crucial for success. Beyond having access to the right real estate, the skills to customize assortments to local tastes and financial stability, there also needs to be intangible "chemistry" between top management at both companies. While India is a difficult market to enter, the potential payoff is huge. Private equity firms have taken note and retail investment has quintupled in the past year to more than \$370 million. Examples include a \$200 million investment

in Café Coffee Day by KKR, an \$86 million investment in Lilliput Kidswear by Bain Capital and TPG and several investments in fast-food restaurants.

*China: A hot economy.* China places 6th on the 2011 Index. China's economy continues to boom—the country of more than 1.3 billion had GDP growth of 10.3 percent in 2010 and is expected to grow between 9 and 10 percent in 2011. China's retail market size

is \$2.1 trillion, or roughly 50 percent of the U.S. retail market, and retail growth remains strong at 15 percent between 2009 and 2010. However, a booming market does not come without its drawbacks. Increased inflation worries weakened consumer confidence last year, and the benchmark deposit and lending rate was raised four times during 2010. Nevertheless, Chinese consumers remain positive about personal income levels and employment prospects for the future. This was reinforced by the country's latest five-year plan, which calls for a major shift of resources toward domestic consumption. This is expected to increase consumer spending by \$100 billion per year.

Rapid organic growth of local and foreign retailers continues, with their main targets today

in the suburban areas of tier 1 cities, tier 2, 3 and 4 cities, and even rural areas—the result of high saturation and competition levels in tier 1 cities. For example, in 2010, Wal-Mart, Carrefour and RT-Mart opened 13, 18 and 17 stores respectively, mostly in tier 2, 3 or 4 cities. Retail industry consolidation continues, with the market share of the top 20 retailers increasing from 8.4 percent to 8.9 percent from 2009 to 2010. Carrefour acquired seven supermarket stores from Baolongcang, a regional player in Hebei. Wumart, a leading local player, purchased four Lotus stores in Tianjin to strengthen its presence there. Another top local retailer, Vanguard, purchased roughly 2,000 stores from regional players between 2004 and 2010.

Retail formats are diversifying, with specialty stores growing most rapidly. For example, cosmetics used to be sold through department stores, but now they can be accessed in personal care stores such as Sephora. Wine specialty stores opening in eastern and southern China allow customers to buy mainly imported wine with a broader price and product selection. Online shopping is increasing dramatically, at a CAGR of 105 percent from 2004 to 2010 (including business-to-consumer and consumer-to-consumer), and is driven primarily by young consumers in more developed regions, increased Internet access and improved door-to-door fulfillment support.<sup>5</sup> China's major online shopping sites are 360Buy, Taobao, Amazon.cn (formerly Joyo), Dangdang and Newegg, which accounted for 80 percent of the total market in 2010. Leading traditional retailers are also moving online, including department stores Blemall, Dashang and Tianhong, and appliance retailer Gome, which acquired online rival Coo8.

Chinese consumers in both urban and rural areas are maturing and trading up for more expensive, higher-quality products. They are also chal-

lenging well-known brands that don't provide good quality and service; some retailers have exited China due to poor reception. Mattel closed its flagship Barbie store in Shanghai after two years because of poor performance—the Barbie doll failed to reflect unique local tastes and prices were high; the \$30 (200 RMB) average price of a Barbie was more than triple most local brands. Best Buy closed stores under its own banner and decided to focus instead on its local brand, Five Star. Five Star has an operating model similar to local players and reflects the way consumers are used to shopping for electronics in China.

While the Chinese retail market will hold substantial promise for years to come, achieving profitability in the market is not easy. Success will not happen overnight, or without putting the right mechanisms in place to ensure consumer acceptance. Outside of major cities, retailers are often “ahead of the consumer,” and store traffic has not yet materialized. Also, success in China means doing business the “Chinese way”—simply cutting and pasting your existing operating model won't fly.

**Indonesia: Strong underlying growth.** Indonesia's retail sales are expected to grow from \$134 billion in 2011 to \$223 billion by 2015, thanks to strong underlying economic growth and the world's fourth largest population (235.5 million); the country ranks 16th this year. Increased per capita incomes and continued development in the organized retail infrastructure are boosting food retail sales. Other retail sectors are also poised for growth—consumer electronics sales, led by computers, are predicted to rise 13 percent year-over-year for the next five years.

Domestic player PT Matahari Putra Prima has held discussions with potential buyers regarding a 20 to 30 percent stake in its hypermarkets and

<sup>5</sup> For more information, see “China's E-Commerce Market: The Logistics Challenge” at [www.atkearney.com](http://www.atkearney.com).



supermarkets, worth up to \$1 billion. No deal has been announced yet, but several global retailers and private equity funds have reportedly entered into bidding.

**Philippines: Urban areas fueling growth.** The Philippines, 24th this year, is expected to see retail sales grow from \$39 billion in 2011 to \$42 billion by 2015, thanks to an expanding urban population and rising consumer spending that is fueling growth in organized retail. GDP is also expected to increase at a CAGR of 5.3 percent over the next five years, with per capita GDP predicted to increase by more than 25 percent in the same time frame. Today, half of the Philippines' total retail sales are concentrated in the Manila metropolitan area. In urban areas, a growing number of dual-income, middle-class families and young professionals are driving retail sales. The country's young population—40 percent of the Philippines' 94 million people are between the age of 15 and 39—represents a key element of future retail spending.

**Malaysia: Concerns down the road.** Malaysia's economy is expected to expand by 6.2 percent this year, and retail sales have grown steadily over the past two years, but there are concerns beyond 2011 for this country of 28.9 million, ranked 21st this year, because of a potential property bubble and high household debt levels.

The government stepped into the retail arena to support “big-box boulevards” (BBB)—concentrated centers of shopping outlets in city outskirts. Retailers are offered cheaper rental rates, savings that in turn can be passed on to consumers. The goal is to group six to 10 different retailers—for example, clothing, auto, home furnishings, sports and furniture—along a single boulevard, with the Malaysian government helping to identify suitable locations and working with promoters to bring multiple retailers together. Australia's

Harvey Norman is one foreign retailer taking advantage of the BBBs.

**Vietnam: Traditional retail still dominates.** Vietnam is in 23rd place, and is still attractive, with an expected market size of \$113 billion by 2012 and a growing population of 88.9 million. Vietnam officially opened its retail market to international entrants with 100 percent foreign capital in early 2009, at the height of the global economic crisis, when many multinational companies were taking a more conservative approach to expansion.

While consumer confidence is high, poor distribution infrastructure and expensive retail space remain barriers to entry by foreign retailers. Traditional retail channels still dominate the market, but modern retail formats are growing more prominent. Consolidation is expected among foreign retailers trying to deepen their market penetration. U.K.-based Tesco and Singapore-based FairPrice plan to enter the market in 2011.

## Middle East and North Africa

Middle East and North Africa (MENA) includes eight of the top 20 countries in the GRDI and, despite the region's political turmoil that has gripped the world since December 2010, including government overthrows in Tunisia and Egypt, civil war in Libya and protests in numerous other countries, it remains a promising retail growth opportunity.

The GRDI measures long-term potential, and through that lens there are many indicators that the region will bear watching for years to come. It recovered quickly from the recession, consumer confidence is growing, most countries are expecting 3 to 5 percent GDP growth over the next year, disposable incomes are high, its population is young and middle class is growing, and the consumer base is increasingly connected and engaged.



Many hurdles existed before this winter's revolutions, including foreign ownership regulations that differ from country to country, the high share of family-owned businesses, the relatively fragmented retail landscape, and limited foreign ownership outside free zones in most countries. These issues and continued political instability require close consideration by any retailers considering expansion. But in the long run, we believe the outlook is positive.

**Kuwait: Small but highly attractive.** Kuwait, 5th in the GRDI, remains MENA's highest-ranked country. While it has only 3.1 million inhabitants, 96 percent live in cities and 65 percent are between the ages of 15 and 39. These demographic trends have led to retail sector growth of 8 percent annually over the past five years. Overall, retail sales are expected to grow from \$8.41 billion in 2011 to \$11.92 billion in 2015.

Disposable income will remain exceptionally high, driven by low utility costs, extensive welfare provisions and high salaries for government jobs. Kuwait has one of the highest retail sales per capita of any country in the Index (\$4,300), and strong government support for improving citizens' welfare should boost consumer confidence and spending. In January 2011, to help citizens improve living conditions and to celebrate the 50th anniversary of independence, Kuwait's government presented its citizens with \$3,500 and free food staples for 13 months.

While Kuwait offers an exciting destination to international retailers, given its small population, entry will most likely make sense as part of a regional approach.

**Saudi Arabia: A young and engaged population.** Saudi Arabia dropped three places to 7th position in the GRDI this year, but that reflects the relative performance of higher-ranked nations

more than Saudi Arabia's underlying fundamentals. Saudi Arabia, with 29.2 million citizens, is clearly a retail hot spot worth watching.

Consumer confidence in Saudi Arabia is high; bullish sentiments mean greater spending and less saving. Consumer spending is increasing rapidly, with most disposable income spent on food, apparel, health and beauty. Non-food categories grew 8 percent and food categories 4 percent in 2010. Given its young population (two-thirds under the age of 29) and high discretionary income, Saudi Arabian consumers are considered by many retail experts as early adopters.

New brands and international players arrived in 2010, and current operations expanded in most retail sectors, including fashion, electronics, digital products, furniture, home products, automotive, health and beauty products. On the food scene, local players dominate, with Panda and BinDawood as the leading hypermarkets, while Carrefour brings international know-how and expertise to help drive the sector's development. Saudi firm Savola Group plans to increase the number of Panda stores to 120 supermarkets and 40 hypermarkets in 2012 and has acquired several competitor assets, including 11 Géant stores from the Fawaz Alhokair Group.

Several international retailers entered the market in the past year. Boots, the U.K. health and beauty retailer already present in the UAE, Kuwait, Bahrain and Qatar, opened its first Saudi store in Jeddah in 2010. Indian mobile handset maker Micromax plans to enter Saudi Arabia in 2011 through several partners.

When considering Saudi Arabia, retailers have to bear in mind the constraints of government regulations. Retailers must hire Saudi employees, particularly for operational positions such as checkout, and they often need to comply with the religious laws (such as Halal principles

for food preparation). Despite these challenges, Saudi Arabia should not be ignored.

**UAE: Becoming saturated.** The UAE (population 5.4 million) is recovering quickly from the economic downturn, reflected by the second-highest ranking in market attractiveness of all countries in the GRDI. Tourism, sizable household consumption and ample retail space is boosting the retail sector. Still, the UAE dropped from 7th to 9th place this year. One cause is an increasingly saturated market as many foreign entrants have set up operations in the country.

Consumer spending grew a healthy 9 percent last year, a good indicator of consumers' stabilizing confidence. Overall, however, consumers remain cautious with discretionary spending and, compared to pre-crisis years, have a greater propensity to save. Prices are rising faster than wages, and many consumers are feeling their purchasing power declining. In response, the government temporarily lowered prices at hypermarkets for 260 basic commodities in March 2011 and began supervising pricing tactics by retailers.

For many retailers, the UAE remains the preferred entry point into MENA for new products and brands. In 2010, Bloomingdale's opened its first store outside the United States in Dubai, and Victoria's Secret opened its first store in the region through a partnership with M.H. Alshaya.

The economic downturn gave UAE retailers pause for thought. Until recently, many of them established outlets in whatever mall space was available, failed to consider the market position, adjacent facilities or store location within the mall, and as a consequence paid the price: Unfavorable location and a poor economic cli-

mate forced France's Auchan to close its Dubai DragonMart hypermarket in January 2011; and major luxury fashion and accessories player BinHendi Enterprises closed its 26-store wing in Deira City Centre after its customers, no longer suited to its high-end products, started going to newer malls. Now, retailers are paying more attention to consumer profile and location and the selection they offer in each location.

*Consumer spending in the UAE grew a healthy 9 percent last year, a good indicator of stabilizing confidence.*

**Turkey: Leapfrogging into the top 10.** Turkey jumped eight spots to take 10th place in the Index. The economy has recovered from the global recession, with GDP growing by 8.9 percent in 2010. Turkey's population of 73.6 million is mostly urban, and more women have entered the workforce. The demand for convenience shopping is increasing, and the number of shopping malls is surging, especially in Istanbul and other large cities. Retailers are also investing in medium-sized cities by introducing smaller formats to improve market access. The Turkish market has potential, but the domestic and international competition is intense. Growth along with consolidation will be the key highlights of the market in the coming years.

Domestic discounter BIM is the market leader by revenues, followed by Migros Türk (owned by private equity) and Carrefour (in a

partnership with local conglomerate Sabanci Holding). The other main players are Metro Group (Real Hypermarkets), domestic player Bizim Toptan, Tesco Kipa, Kiler (which had a 2011 initial public offering), Makromarket and discounter A101. Regional and local retailers expanded by 50 percent in the past two years, and the market is consolidating. There is still room for consolidation as the top four players make up only 14 percent of the industry. Private labels are just 8 percent of sales, below European levels, but that is expected to increase in the next few years.

No major grocers entered in 2010. In the electronics sector, Best Buy exited Turkey in 2011 after a two-year trial run with two stores. Apparel retailer H&M entered in late 2010, while C&A ramped up its commitment to Turkey with plans for 10 new stores on top of its existing base of 24 stores, focused predominantly on the Anatolia region. Another retailer betting on Turkey is German shoe retailer Deichmann, which opened 44 stores in 2010 and has committed \$8.5 million to opening a further 20 stores. It is seeking to have 200 Turkish stores in 10 years.

**Lebanon: A solid debut.** Lebanon, with its 4.3 million inhabitants, is new to the GRDI, taking 11th place. It is an attractive market for many retailers, thanks to the liberal mindset of its consumers and recent investment in new malls. While GDP grew at a 7 percent CAGR for the past five years, there are several challenges. Additional infrastructure investment is needed to repair insufficient road networks and communications lines outside of Beirut, and disposable income remains fairly low. Further, Lebanon's stability, measured by the country risk score, is lower than most of its neighbors on the GRDI—a factor to gauge when evaluating the market for entry.

Lebanese consumers are among the most liberal in the Middle East. The alcohol industry is

fairly strong, which distinguishes it from most MENA markets. The electronics and home appliances sector has also grown rapidly over the past five years, with Khoury Home leading the pack. It pioneered the concept of a one-stop-shop for home appliances and is undergoing a large-scale expansion, with five major outlets planned.

Azadea Group's Le Mall concept was launched in 2009 by the local Azadea Group, which also holds franchise rights for retailers such as ZARA and Mango and has placed all of its banners in Le Mall, resulting in significant cost savings. A second Le Mall was introduced in 2010 in Saida in the south, the city's first high-end mall. A third Le Mall is under construction in a northern suburb of Beirut, providing additional opportunities for retailers to enter or expand in Lebanon.

**Egypt: Growth despite turmoil.** The dust is still settling from the demonstrations that led to the ousting of President Hosni Mubarak, but when all is said and done, the movement could lay the groundwork for a promising mid- to long-term retail opportunity. Egypt moved up one spot this year, to 12th place.

Egypt's retail market is expected to grow 10 percent over the next five years, driven by a large, active and growing population of more than 80.4 million that is gaining purchasing power. Still, Egypt has a low share of modern retailing compared to other North African countries such as Morocco and Tunisia. This, coupled with low levels of market consolidation and growing consumer demand, continues to make Egypt attractive for large global retailers.

Within grocery, international retailers have a strong foothold in the hypermarket sector, where the focus is on the middle-income population and the sale of local products. Competition in this space is increasing with the arrival of new international grocery retailers and the expansion of

existing international retailers. The modern grocery retail area is expected to grow by 23 percent annually over the next few years. Lulu Hypermarket, from Abu Dhabi-based EMKE, entered in 2010, with plans to expand in coming years. Carrefour has doubled its sales area in Cairo and Alexandria over the past five years, with plans for 15 more stores in Egypt. Metro Group entered in 2010 under its Makro Cash & Carry banner and plans to open 20 outlets in the long-term. Metro sources 90 percent of its products locally. Dubai-based Spinneys also plans to expand its presence in coming years. Growth in grocery, and particularly hypermarkets, is partly driven by an increase in women in the workforce who are looking for more convenient food preparation.

Policy reforms in Egypt, such as tariff and tax reductions, helped pave the way for entry by foreign non-grocery retailers. In 2010, Marks & Spencer opened its first Egyptian store in conjunction with UAE-based franchise partner Al-Futtaim Group, while Debenhams expanded into Africa with its first store in the Alexandria City Centre mall. Al-Futtaim has stated that future plans to expand the IKEA brand into Cairo depend on regional stability—both international retailers were forced to shut down temporarily in Cairo and Alexandria due to the violent protests early in 2011.

**Morocco: Retail sales bolstered.** Morocco drops from 15th to 17th place this year. The retail sector represents 13 percent of the country's GDP and is expected to grow 5 percent annually in coming years. A strong performing tourism sector and a shift toward more modern retail channels has bolstered retail sales. Key drawbacks in Morocco (population 31.9 million) include low consumer spending per capita compared to Tunisia, complexities in the distribution models and the need for local knowledge.

In 2010, the grocery sector saw significant consolidation and growth. Metro Group, which entered in 1998, agreed to sell its eight Moroccan stores to local chain Label'Vie, the first time Metro exited a country. It cited limited growth and expansion potential for its self-service wholesale business in Morocco. Label'Vie also partnered with Carrefour to open Morocco's first Carrefour hypermarket last year. In addition, Turkish supermarket retailer BIM announced plans to open approximately 40 new stores, increasing its Moroccan footprint to 85. Elsewhere in retail, luxury players are drawn to Morocco's expanding and progressive middle class. Dior opened a store in Marrakesh and has plans to open a second in Casablanca. The suburbs of both of these cities present new and interesting retail opportunities.

**Tunisia: Slowing consumer spending.** After a year of political turmoil and a drop in consumer spending growth to 1 percent per year, Tunisia, a nation of 10.5 million inhabitants, drops eight spots to 19th. By regional standards, Tunisia has a more advanced and diversified economy, and the government has gradually loosened its control of the market in favor of greater privatization. However, retail space development continues to lag behind its neighbors. While Tunisia remains on the radar as a good opportunity, we envision a two- to three-year slowdown in store openings and development due to the political uncertainty.

## Eastern Europe and Russia

Eastern Europe is a diverse region, with several markets dropping off the Index because of slow retail and GDP growth rates relative to Latin America, the Middle East and Asia. Russia also continued its decline in the GRDI and is now outside the top 10.

**Russia: Hurdles are surmountable.** The Russian economy recovered from the downturn,

with the retail market returning to pre-crisis levels and expected to grow at a CAGR of 10 percent over the next five years. Food retail is at pre-crisis levels, while non-food retail is expected to grow faster. Nevertheless, Russia fell four spots in the GRDI this year to 14th place. While some underlying metrics have grown stronger—retail sales per capita has increased to about \$3,700 in

*Russia, expected to become Europe's largest consumer market with rising disposable incomes and an expanding middle class, is a priority for many retailers.*

2010—Russia is hampered by its relative political instability and a drop in newly created retail sales area. Still, the fact that Russia (population 141.9 million) is expected to become Europe's largest consumer market with rising disposable incomes and an expanding middle class makes it a priority for many retailers seeking long-term options.<sup>6</sup>

Russia's retail market continues to consolidate through mergers and acquisitions (M&As), particularly among local companies. We expect this trend to continue, with the largest domestic chains acquiring both national and medium-sized regional players. For foreign companies, entry via M&A has proven difficult as local companies have strong lobbying advantages. Entering Russia requires

understanding and adapting to local operating conditions, including logistical challenges. Lines at borders and ports, poor service quality, infrastructure issues and long distances between large cities cause delays and make the supply chain a strategically crucial function. Additionally, there can be long lead times and a steep learning curve to build and open stores in Russia. IKEA, for example, spent years overcoming bureaucratic hurdles before opening stores in Russia. Nevertheless, it is possible to overcome these hurdles and be successful in the market. Multinationals such as Metro Group and Auchan have operated in Russia for years, understanding the rules of the game and continuing to grow through expansion. Companies entering Russia should also pay close attention to risk-mitigation strategies, including establishing government relations.

**Albania.** Albania slides one spot to 13th position this year. Albania is relatively tiny (population 3.2 million), but its high ranking is driven by a lack of market saturation. It is a good country to have on the radar in the medium term, but it may not be the most pressing country to enter today. Carrefour's plans to enter Southeastern Europe in partnership with Greece's Marinopoulos will include stores in Albania.

### The Retail Apparel Index

In 2008 and 2009, A.T. Kearney published the Retail Apparel Index, and this year it returns with an improved methodology that highlights the subset of GRDI markets most attractive from an apparel perspective. We have evaluated more than

<sup>6</sup> See *Riding Russia's Consumer Boom* in Executive Agenda at [www.atkearney.com](http://www.atkearney.com).

30 apparel markets to identify the top 10 countries in terms of clothing market attractiveness, levels of retail development and country risk (see sidebar: *About the Retail Apparel Index*).

In the past two years, a few trends shaped the global apparel market. After a downturn in 2009, the market is recovering and forecast to accelerate, thanks to more apparel consumption, increased disposable income, low interest rates and improving consumer sentiment. E-commerce is also helping, as clothing retailers use it to “test” a market without significant capital expenditures. A few retailers use this tactic, including J. Crew, Gap, Inc. and Victoria’s Secret.

Let’s look at the Apparel Index’s top three countries (see figure 4):

**China.** China’s top ranking is driven by its large population and the growing disposable income of its middle class. Apparel retail in China has grown at a CAGR of 20 percent for the past few years, a trend expected to continue for the next five years. Retail formats are diversifying in China—beyond traditional department stores, specialty stores, outlets, discount stores and online sales are growing.

Foreign companies, including luxury brands, have aggressively entered the market. American

**Figure 4**  
The 2011 Retail Apparel Index

2011 rank	Country	Market attractiveness	Retail development	Country risk	Score
1	China	37.0	14.3	10.1	61.4
2	UAE	38.8	8.2	11.9	58.9
3	Kuwait	31.4	7.2	9.9	48.6
4	Russia	30.4	8.1	7.8	46.4
5	Saudi Arabia	25.6	7.4	10.9	43.9
6	India	25.8	8.0	8.2	42.0
7	Brazil	23.6	7.5	9.0	40.1
8	Turkey	21.3	7.3	8.8	37.4
9	Vietnam	23.3	6.9	7.1	37.3
10	Chile	16.4	8.3	12.2	36.9

Source: A.T. Kearney

Note: Scores are rounded.

clothing retailer Gap, Inc. opened stores in Beijing and Shanghai in late 2010 and may tap the online market with the simultaneous launch of Gap.cn. PVH Apparel Group entered China with its Izod Apparel Group and plans to open 3,000 stores in the next five years. Italian retailer RDM announced an investment of \$910 million to set up five Italian-style luxury outlet centers in China under the

## About the Retail Apparel Index

The Retail Apparel Index is calculated by analyzing three metrics:

**Clothing market attractiveness (60 percent).** This includes clothing sales, clothing sales growth, youth and urban populations, and level of international presence.

**Retail development (20 percent).** The retail development indicator

includes share of modern retailing and sales area growth.

**Country risk (20 percent).** Country risk indicators include political and financial risk, business readiness and the business cost of crime, terrorism and corruption.

Within each metric, a country’s value is indexed from 0 to 100 to

allow for relative comparison to be made across metrics. For example, UAE had the highest clothing sales per capita at \$785, giving it a score of 100 points for that metric.



brand “Florentia Village.” Established players, including Adidas (2,500 planned stores), are also expanding in the tier 3 and 4 cities.

Beyond brand and retail format extension, specific apparel segments are also growing. Sportswear and outdoor gear have boomed in recent years—20 and 50 percent annual growth rates respectively—as a result of the 2008 Olympics and the 2010 Asian Games. These sectors are expected to continue upward, particularly as minimum wage increases in several Chinese provinces.

**UAE.** The UAE takes 2nd place thanks to its population’s high disposable income and immense fashion consciousness, a large expatriate population and tourism, and the country’s role as a MENA commerce hub. The UAE has become a preferred point for entering the overall MENA market and testing new products.

Dubai has become a hotbed for upscale retailers. Prada and Gucci recently signed joint ventures with Al Tayer Insignia to develop a retail network across the Middle East. Hugo Boss re-opened a Boss store in Dubai in collaboration with BinHendi Enterprises. Other international players are entering the UAE as part of a regional strategy. For example, American Eagle Outfitters opened its second Dubai store as a platform for regional expansion. Bloomingdale’s recently opened a location in the Dubai Mall. Azadea Group opened a Decathlon sports store and a Superdry youth fashion store, with plans to roll out 13 stores over the next three years. Destination Maternity also announced plans to open a Dubai store under a franchise agreement with Multi Trend.

With tax-free shopping and the annual Dubai Shopping Festival, established in 1996, Dubai has embraced the notion of being a “shopping capital.” The festival (along with the Dubai Summer

Surprises festival) provides shoppers with discounts and offers special ticket fares for tourists.

**Kuwait.** Kuwait takes 3rd place in the Apparel Index this year. The main factors include a favorable long-term economic outlook, a sophisticated consumer base with high levels of disposable income and fashion awareness, more women entering the workforce and significant expansion in retail real estate. Kuwait is among the top countries in attracting new retailers, and Kuwait City is becoming a fashion hub.

The gross leasable area expanded from 345,000 square meters in 2006 to 1.15 million in 2010. In particular, ultramodern shopping malls are expanding—the 2010 openings of 360 Mall and The Avenues are good examples. Kuwait has a strong luxury presence, including Givenchy, Versace, Cartier, Gucci, Bottega Veneta, Burberry and Yves Saint Laurent, which entered last year. Other mid-market retailers are entering the country, including Hong Kong’s Shanghai Tang, American Eagle Outfitters, Destination Maternity and Redtag.

### Expansion and Long-Term Success

As we look ahead, the distinct and significant challenges of operating internationally will persist, as will the ever-changing competitive environment that forces retailers to consider balancing their domestic businesses with investments in developing markets. Considering their performance in the past 10 years, the top retailers in the next 10 years will be those that focus on a portfolio of countries—with different levels of risk, at different stages of maturity and with distinct consumer profiles. The top retailers will create a balance of short- and long-term opportunities to meet their short- and long-term objectives.

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