ATKearney

Global Retail Expansion: Keeps On Moving

Global retail is finally growing into its name and becoming "global." While the largest developing markets continue to attract most leading retailers, a handful of smaller untapped countries are getting a second look.

While Europe faced another year of economic turmoil in 2011, developing countries forged full-speed ahead. With consumer confidence improving and spending increasing, global retailers continued their expansion into these markets. In the past five years, U.S.-based Wal-Mart, France-based Carrefour, U.K.-based Tesco, and Germany-based Metro Group saw their revenues in developing countries grow 2.5 times faster than revenues in their home markets.

The 2012 A.T. Kearney Global Retail Development Index™, the 11th annual edition, finds a wide array of possibilities for retailers seeking to capture an immediate impact and a growth advantage in developing countries. Possibilities abound not only in the biggest markets, but also in many smaller countries around the world. The GRDI ranks the top 30 developing countries for retail investment. Figure 1 on page 3 highlights the rankings, while the study methodology is the appendix on page 26.

Global Retail: An Evolving Profile

The 2012 GRDI finds global retail expansion with a different profile than it had a decade ago when we published findings from the first Index. While the world's largest developing markets—particularly the BRIC nations of Brazil, Russia, India, and China—still tempt the largest global retailers and show no signs of slowing down, many smaller, untapped markets are providing new profit frontiers, particularly for regional and specialty players. New entrants in the 2012 Index include several small gems such as Georgia, Oman, Azerbaijan, and Mongolia that are becoming attractive destinations for global retailers, particularly specialty and luxury players. These markets, though small in total retail market size, appeal to retailers targeting a concentration of wealth and seeking to be first movers in fast-growing markets.

For the second year in a row, Brazil holds the top position in the GRDI, leading the way for Latin America, which has seven markets represented in the Index. Botswana, new on the Index, stands as a precursor to steady development of Sub-Saharan Africa, which could emerge as a major player in the GRDI in coming years.

Georgia, Oman, Azerbaijan, and Mongolia are small gems for retailers seeking a concentration of wealth and a first-mover advantage.

Additionally, technology is transforming the way retailers operate in developing markets. Shoppers' expectations and behaviors are evolving, driven by both the economic climate and increased access to information through technology. Consumers are more connected than ever to brands, merchandise, and their fellow shoppers. The proliferation of channels and media outlets for retailer-consumer interactions has forced retailers to approach international expansion from a multi-channel perspective. Even in developing markets, people are increasingly willing to purchase online. Growth in e-commerce and mobile commerce outpaces physical

Figure 1

2012 Global Retail Development Index™

On the radar screen | To consider | Lower priority

2012 rank	Country	Region	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2011
1	Brazil	Latin America	100.0	85.4	48.2	61.6	73.8	0
2	Chile	Latin America	86.6	100.0	17.4	57.1	65.3	0
3	China	Asia	53.4	72.6	29.3	100.0	63.8	+3
4	Uruguay	Latin America	84.1	56.1	60.0	52.3	63.1	–1
5	India	Asia	31.0	66.7	57.6	87.9	60.8	–1
6	Georgia	Central Asia	27.0	68.7	92.6	54.0	60.6	N/A
7	United Arab Emirates	MENA	86.1	93.9	9.4	52.9	60.6	+1
8	Oman	MENA	69.3	98.3	17.4	50.4	58.9	N/A
9	Mongolia	Asia	6.4	54.4	98.2	75.1	58.5	N/A
10	Peru	Latin America	43.8	55.5	62.9	67.2	57.4	–3
11	Malaysia	Asia	56.7	98.1	18.9	54.8	57.1	+8
12	Kuwait	MENA	81.1	88.7	36.4	20.3	56.6	–7
13	Turkey	Eastern Europe	78.8	69.3	32.3	33.1	53.4	–4
14	Saudi Arabia	MENA	63.1	81.8	35.4	33.0	53.3	–4
15	Sri Lanka	Asia	12.7	68.3	79.0	51.3	52.8	+6
16	Indonesia	Asia	39.6	61.6	47.0	62.4	52.7	–1
17	Azerbaijan	Central Asia	19.2	41.5	93.6	53.2	51.9	N/A
18	Jordan	MENA	45.8	65.3	69.5	23.8	51.1	N/A
19	Kazakhstan	Central Asia	31.5	47.5	75.5	47.5	50.5	–5
20	Botswana	Sub-Saharan Africa	44.4	88.1	42.7	23.7	49.7	N/A
21	Macedonia	Eastern Europe	34.6	46.5	55.9	56.6	48.4	+8
22	Lebanon	MENA	60.2	30.2	48.9	54.2	48.4	–10
23	Colombia	Latin America	47.8	70.1	36.7	36.6	47.8	+1
24	Panama	Latin America	53.4	68.8	42.0	25.2	47.4	+2
25	Albania	Eastern Europe	24.6	47.6	74.8	39.9	46.7	–12
26	Russia	Eastern Europe	80.2	53.6	19.6	32.2	46.4	–15
27	Morocco	MENA	23.5	58.2	48.2	49.2	44.8	–7
28	Mexico	Latin America	71.9	70.0	15.1	20.3	44.3	–6
29	Philippines	Asia	28.3	54.6	52.5	38.3	43.4	–13
30	Tunisia	MENA	35.7	55.4	65.0	14.4	42.6	–12
		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: 2011 rankings have been updated to include revised data from Planet Retail to take into account prevailing macroeconomic conditions in the retail space. MENA = Middle East and North Africa.

Sources: Euromoney, Population Data Bureau, International Monetary Fund, World Bank, World Economic Forum, Economist Intelligence Unit, Planet Retail; A.T. Kearney analysis retail in nearly every market, demonstrating that the Internet is both a viable complement to bricks-and-mortar operations and a pure-play channel for market entry.[1]

Lastly, this year we highlight retail talent as a crucial differentiator in developing markets. Attracting and retaining talented workers is a core component of success for retailers in developing markets. As consumers become more sophisticated, the retail talent pool must keep up. Retail, more than other industries, is finding it more challenging to attract and retain skilled workers. The new generation joining the labor force is vastly different from just 10 years ago in terms of the opportunities and the workers' values and workplace expectations. Cheap labor is not always good, and available labor is not always what you need. The A.T. Kearney Retail Talent Index, on page 22, offers a more in-depth discussion of this issue.

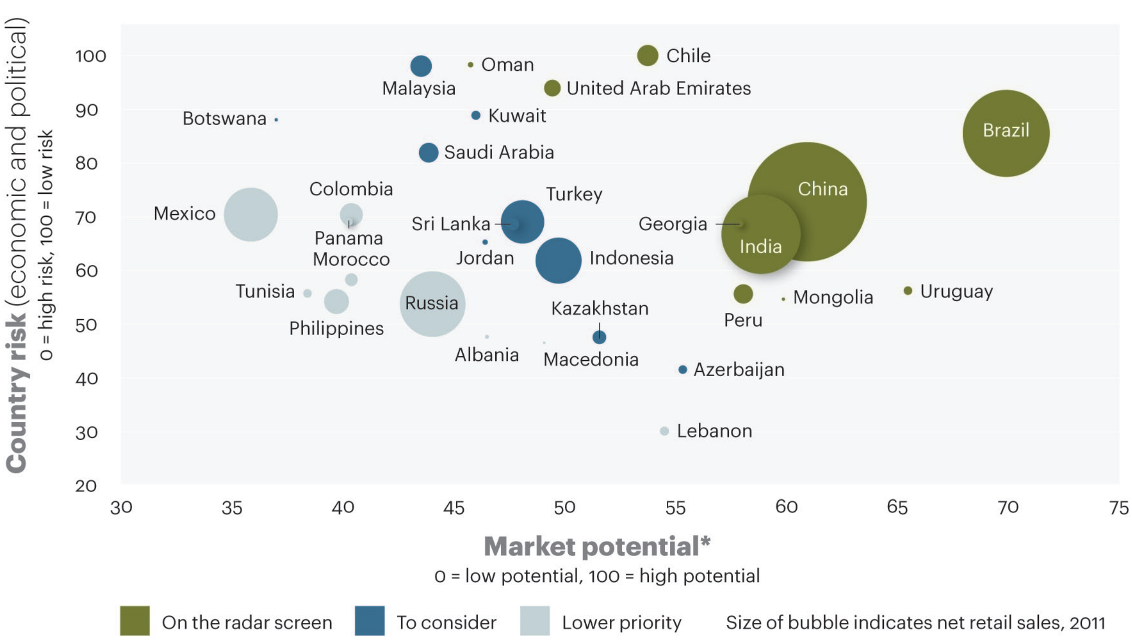
The 2012 GRDI Findings

The following is a region-by-region look at the countries in the 2012 Index.

Latin America

Latin America's expanding, dynamic retail sector and strong economic growth has kept it a leader in the GRDI. The region features several of the most attractive markets in the Index when comparing country risk and market potential (see figure 2).

Figure 2
2012 GRDI country attractiveness



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

Source: Planet Retail, Economist Intelligence Unit; A.T. Kearney analysis

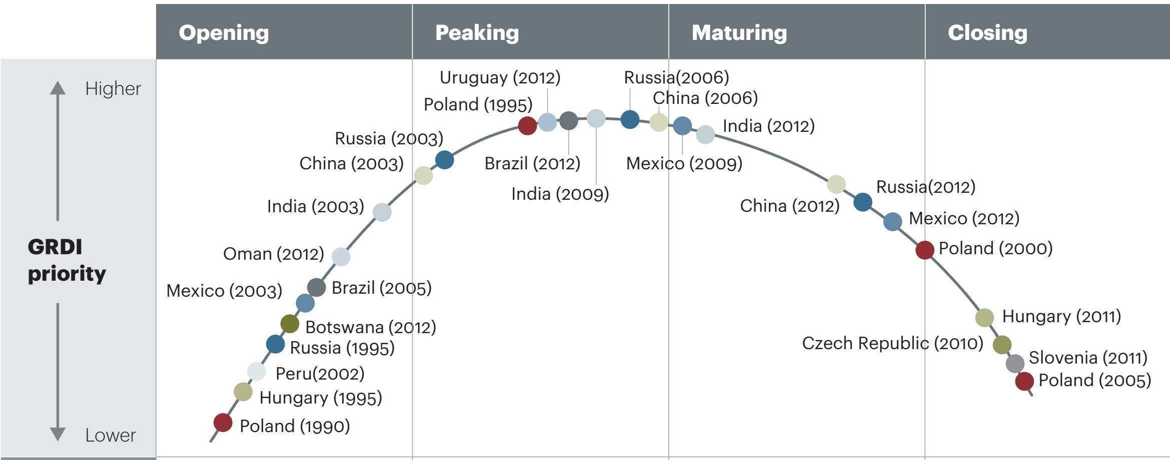
[1] A.T. Kearney's new E-Commerce Index will provide additional insight into a vital area of retail growth. "Online Retail: The New Frontier for International Expansion" will be available 1 July 2012 at www.atkearney.com.

For some retailers, Carrefour and French grocery giant Casino for example, Latin American growth compensated for slower growth in other regions. Other retailers, including British department store Debenhams and Spanish supermarket chain Dia, are following this trend and making their own Latin America expansion plans. Although international retailers now dominate many Latin American markets, local regional leaders pose stiff competition. Cencosud and Falabella have expanded significantly, mostly to neighboring countries and by acquiring local players.

Mergers and acquisitions (M&A) remains an important growth vehicle for both international and regional retailers. In 2011, Cencosud acquired Prezunic, the largest chain of supermarkets in Rio de Janeiro, and acquired a majority stake of Chilean retail chain Johnson's. Carrefour recently acquired EKI's chain of Argentina mini-markets.

Brazil: sustained performance. Brazil leads the GRDI for the second straight year as the middle-class economy continues to gain strength. High consumption rates, a large urban population, and reduced political and financial risk make Brazil a top destination for international retailers. As shown in our window-of-opportunity analysis in figure 3, Brazil's retail market is in the peak phase after years of growth.

Figure 3
The GRDI window-of-opportunity analysis



	Opening	Peaking	Maturing	Closing
Definition	Middle class is growing; consumers are willing to explore organized formats; government is relaxing restrictions	Consumers seek organized formats and greater exposure to global brands; retail shopping districts are being developed; real estate is affordable and available	Consumer spending has expanded significantly; desirable real estate is more difficult to secure; local competition has become more sophisticated	Consumers are more used to modern retail; discretionary spending is higher; competition is fierce both from local and foreign retailers; real estate is expensive and not readily available
Method of entry	Minority investment in local retailer	Organic, such as through directly operated stores	Typically organic, but focused on tier 2 and 3 cities	Acquisitions
Labor strategy	Identify local skilled labor for management positions	Hire and train local talent and balance expatriate mix	Change balance from expatriate to local staff	Use mostly local staff

Source: A.T. Kearney analysis

Retail sales per capita have grown 12 percent per year for the past four years to reach $5,514, the third-largest of the GRDI countries. Moreover, retail market size increased 15 percent last year, and consumer spending has increased by 9 percent per year since 2007. In 2011, retail sales accounted for 70 percent of consumer spending.

Cencosud and Wal-Mart are expected to grow both organically and through acquisitions in the Southeast region. Cencosud acquired local chains Supermercados Cardoso and Prezunic for their synergy potential. As more retailers expand their service offerings to stay on top, Cencosud plans to triple the number of credit card customers from today's 1.5 million in an effort to increase consumer spending and secure a leading position in retail financial services, which accounts for 16 percent of its profits.

Drugstores in Brazil have undergone significant consolidation in the past year. The merger of Droga Raia and Drogasil in early August followed soon after by the merger of Drogaria São Paulo and Pacheco created Brazil's two largest drugstore chains. With strong cash flows, both firms are expected to expand in 2012 outside of the Southeast states. Moreover, BTG Pactual, Brazil's largest independent investment bank, invested in Brazil Pharma and launched its initial public offering late last year.

In large cities, the development of close-to-home convenience store formats, such as Spanish chain Día, is driving growth. E-commerce is on the rise, sparked by recent regulatory changes, increased consumer confidence in home delivery, quality assurance, and an enforced returned-goods policy. Foreign hypermarkets such as Wal-Mart and Carrefour have entered the segment to tap into the country's 24 million online shoppers. Netflix has launched subscription movie-streaming services in Brazil and is expected to expand to several other countries across Latin America this year.

Other retail developments in Brazil include U.S.-based coffee chain Starbucks' plans to double its store count to 64 by the end of 2012. Debenhams is reportedly venturing into South America with a store planned for Brazil.

Luxury retail will see a boost, particularly with a new luxury mall in São Paulo. JK Iguatemi's new luxury mall, which features Brazil's first Topshop, Sephora, Lanvin, Miu Miu, and Gucci, is expected to open in 2012, although the opening has so far been delayed. Less than a mile away, rival Cidade Jardim has planned several changes to compete more effectively, including launching the first Brazilian stores for designer labels Prada and Balmain, among others.

Chile has one of the most **sophisticated and competitive** retail markets in Latin America.

Chile: sophisticated and competitive. Chile (2nd in the Index) has one of the most sophisticated and competitive retail markets in the region. It is one of Latin America's fastest-growing economies, with expected gross domestic product (GDP) growth of 6.2 percent in 2012. Additionally, the country has low financial risk—its inflation rate of 3.3 percent is close to the Central Bank's target—and country risk roughly the same as developed nations such as the United States, France, and the United Kingdom.

Modern retail has surged in Chile because of a strong economy, significant investments by local retailers, and the 9 percent annual increase in modern retail space over the past five years.

In 2011, Wal-Mart opened 35 new stores in small, convenience, and hypermarket formats, and the favorable conditions attracted other international retailers. Some have chosen Chile as their first operations in South America; for example, U.S. clothing retailer Gap Inc. opened a store in Santiago and has plans to open two more, in addition to a Banana Republic store. Costanera Center, a massive new shopping destination, will host the Chilean debut for several top-end brands, including Swiss watchmaker Longines, Dutch clothing manufacturer G-Star RAW, and French apparel retailer Façonnable. International restaurant chains are also benefiting from the favorable conditions. U.S.-based Dunkin' Donuts plans to grow significantly in Chile over the next five years as part of its international growth strategy.

Uruguay: coming into its own. While historically dependent on its larger neighbors Argentina and Brazil, Uruguay (4th) is becoming a retail destination of its own for locals and tourists alike. Despite its relatively small local population, Uruguay's high rate of urbanization and strong consumption levels are attractive to retailers. The economy is progressing (annual GDP growth of 6 percent since 2007), unemployment is at an all-time low, and the country has made significant gains in reducing poverty, all of which are driving consumer purchasing power. Retail has risen 30 percent a year since 2008.

Retail real estate development is increasing outside of Montevideo, the capital. A new shopping mall in Ciudad de la Costa has 70 stores, a supermarket, a cinema, a food court, and 40 offices. Gap lists Uruguay as a target market for its Latin America expansion plans.

The retail industry remains highly fragmented. Three of the five largest retailers are domestic, with the exception of Casino, whose Colombian unit Exito owns 53 Disco and Devoto stores in Uruguay. Expansion plans by locals, including grocers Disco, Ta-Ta, and Mimatec and specialty goods seller Uruforus signal a growth opportunity for international retailers.

Peru has continued its strong economic growth for a decade, evident in an **increase in disposable income and consumer confidence**

Peru: an opportunity in modern retail. Peru (10th) has continued its strong economic growth for a decade, evident in an increase in disposable income and consumer confidence. Peru's GDP rose 5 percent in 2011, and retail sales increased 13 percent. With modern retail making up a relatively small share in Peru, many regional players see an opportunity to enter, causing the country's organized retailers to play catch up. A major driver of growth is easier access to consumer credit—the value of credit card transactions rose 25 percent in 2011. Local and regional retailers are aware of this: Cencosud will become the third Chilean retailer to open a commercial bank in Peru.

While the largest city, Lima, has limited space to attend to middle- and upper-income consumers, retail growth outside of the city boundaries continues. Cencosud plans to open 15 new stores in the country, Chile-based supermarket chain SMU will add five new stores in Lima, and Chilean department store Falabella expects double-digit sales growth in Peru.

Several specialty apparel retailers have entered Peru, where most formats still cater to low- and middle-income consumers. Mass-market players such as Gap and Spain-based Inditex (which includes Zara), luxury retailers Giorgio Armani, Chanel, and Brooks Brothers, and sporting goods retailer Puma all opened or will soon open their first stores in Peru. Fast-food restaurant KFC (owned by U.S.-based Yum! Brands) is set to open 10 new outlets, the first in Cusco followed by others in Chiclayo, Cajamarca, and Huancayo. German pharmacist Celesio's plans for more acquisitions in Latin America in 2013 and 2014 will focus on Peru, Colombia, and Argentina.

Colombia: a growth story. Colombia (23rd) continues its impressive economic growth. With solid fundamentals, 6 percent annual GDP growth, and moderate inflation of 3.4 percent, the country was rated investment grade by all rating agencies in 2011.

In grocery, retailers continue to enter and expand in Colombia. Portugal's Jerónimo Martins plans to enter the country, and Exito is gearing up for further expansion and launched a private label, Cautivia, for personal care and cosmetics. Other retail segments, such as warehouse clubs and department stores, are also attracting foreign investments. U.S.-based PriceSmart will open its second store in 2013, Falabella plans to expand in Colombia as part of a regional strategy, and Chile-based Ripley is also considering expansion into Colombia.

In addition, Colombia is part of the South America expansion strategy for apparel retailers such as Gap and Emporio Armani, which opened flagships in Bogota and Medellin.

Panama: high growth draws investment. Panama's GDP growth of 10 percent in 2011 was among the highest rates in the region. Although Panama (24th) is small, income distribution is highly skewed toward an economically powerful upper class. The country also boasts strong growth in retail real estate development.

Its free-trade zone puts it in a unique position as a regional shopping center and continues to attract global retailers. In 2011, Gap selected Panama as its first Central American location, opening one Gap outlet and one Banana Republic store, and it plans two more stores for this year.

Mexico's retail industry has recovered to pre-crisis growth rates and **is picking up momentum.**

Mexico: regaining momentum. Mexico's retail industry has recovered to pre-crisis growth rates and is picking up momentum. Last year's strong retail performance and GDP growth fueled plans for expansion across formats, with hard discounters and convenience stores leading the way.

Despite the saturation and high penetration of international retailers, many still see Mexico as a major investment opportunity. In 2012, Wal-Mart is planning to expand its sales area in Mexico by 12 percent. While expansion plans may be stalled by recent corruption allegations, the focus of Walmex is to compete with mom-and-pop stores with low-cost, small formats such as Bodega Aurrera Express, which accounts for 60 percent of Wal-Mart's investment plans. Small formats account for 50 percent of the investment plans for Soriana, the second-largest retailer. Local chain 3B also is in this sector and expanding rapidly. Mixed retailers, including discount warehouses and department stores, have seen accelerated growth of almost 10 percent in the past five years. Falabella decided to enter Mexico this year, and European fashion retailer H&M plans to launch a Mexico City store in 2012.

And in another sign of a well-developed retail market, Mexican retailers are expanding to other countries. Notable examples include OXXO entering Colombia, and Famsa and Coppel expanding to South America.

Asia Pacific

Asia Pacific continues to have impressive growth potential. Even as its tier 1 cities become saturated, global retailers are moving into tier 2 and 3 cities to become first-movers in untapped growth markets. High GDP growth rates, a burgeoning middle class, and rising consumer spending have contributed to the attractiveness of large markets such as China, India, and Indonesia. Malaysia is the biggest mover in the GRDI, up eight spots from 2011.

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In addition to growth in modern grocery retail, the luxury market is particularly strong. Consumers are well-educated about brands, and demand is rising in China, India, Malaysia, and Indonesia. In recent years, Asia has been a target for Japanese and Korean retailers seeking to offset domestic declines.

China: more opportunities and more challenges. China climbs to 3rd place in the GRDI. The country's future retail growth remains positive, with a double-digit rise in annual sales expected. However, inflationary pressures are driving up rents 30 percent per year, and labor costs are rising by 15 percent a year.

While domestic players still dominate the Chinese market, major international retailers are expanding rapidly, with a focus on tier 2, 3, and 4 cities. Metro Group is planning to expand its cash-and-carry format, adding 10 more outlets in 2012 to its existing 52 stores, with plans for 100 total outlets by 2015. Additionally, its consumer electronics chain Media Markt is vigorously developing e-commerce solutions. Malls with multiple functions—shopping, cinemas, amusement parks, among other attractions—are booming in both tier 1 and 2 cities. The number of shopping centers and total floor space has doubled in the past five years.

China has become the world's largest luxury-goods market, with $12 billion in sales. More than 100 brands are active in the country and rising fast—experiencing an average growth rate of 30 percent for the past few years. Louis Vuitton Moët Hennessy (LVMH) plans to add 20 to 30 stores in 2012.

In apparel, China is now Inditex's largest market outside of Europe. The Spain-based company, whose brands include Massimo Dutti and Zara, opened 132 new stores in China last year and plans to maintain the pace in 2012, with additional plans to add online sales for the autumn-winter season. Gap is planning to increase its store total in China from 14 to 45 this year, and it is considering introducing additional brands such as Banana Republic. China is also Apple's second-largest market after the United States. It has six stores in the country now and is planning to invest in more stores this year to support additional growth.

Despite its size, attractiveness, and many success stories, China remains a battlefield for some retailers as they struggle with location, suppliers, and regulations. For example, British home improvement retailer B&Q was forced to close stores in Qingdao and Nanjing after failing to meet sanitation regulations; its do-it-yourself business model is wrestling with China, especially since the 2008 downturn. Korean retailer E-Mart shut down 10 of its 25 stores, and Wal-Mart closed three Smart Choice convenience stores in Shenzhen that were part of an initial pilot (Wal-Mart reportedly will continue to explore the small format). Carrefour scaled back its China operations last year and encountered problems in securing suppliers in tier 2 and 3 locations. Still, the grocery retailer plans to expand, opening 30 new stores in China in 2012, up from the 20 to 25 openings of recent years.

Chinese consumers have become more price sensitive. They are receptive to more targeted below-the-line marketing activities and are less brand loyal than consumers in other countries, in part because of the constant entry of new brands.

Local retailers' increasing sophistication is also making this a tougher market for international companies. Some locals have more market share than global giants Wal-Mart and Carrefour, each with 6 percent share. Examples include China Resource Vanguard in Shenzhen and Yonghui in Fujian province. Local knowledge and savvy management teams allow these local grocers to develop rapidly.

India's changing FDI climate provides an **interesting dynamic** to several international retailers' entry and expansion plans.

India: regulatory improvements. India (5th) remains a high-potential market with accelerated retail growth of 15 to 20 percent expected over the next five years. Growth is supported by strong macroeconomic conditions, including a 6 to 7 percent rise in GDP, higher disposable incomes, and rapid urbanization. Yet, while the overall retail market contributes to 14 percent of India's GDP, organized retail penetration remains low, at 5 to 6 percent, indicating room for growth.

Changes in foreign direct investment (FDI) regulations were a major story last year. In December 2011, limits for FDI in single-brand retail went up to 100 percent, with an added constraint that sourcing must be 30 percent local. There are no limits for multi-brand retail FDI, despite initial government proposals to bring it to 49 percent. The changing FDI climate provides an interesting dynamic to several international retailers' entry and expansion plans. Companies such as Gap, IKEA, and Abercrombie & Fitch are stepping up inquiries to enter the market, while others are seeking local partners. For example, LVMH has linked with local player Genesis Luxury Fashion in multi-brand retail. Others, such as Amazon and eBay, are considering alternate business opportunities and platforms to overcome FDI restrictions. At the same time, the government is still working through the implementation plan for these regulatory changes.

The food and beverage segment is seeing increased activity from foreign players. Starbucks partnered with Tata Group to own and operate cafés, and Dunkin' Donuts recently opened its first store in Delhi, in partnership with local franchisee Jubilant FoodWorks.

Grocery remains India's largest source of retail sales. Hypermarkets and supermarkets continue to dominate, but cash-and-carry is growing fast, with significant expansion planned from Bharti Wal-Mart, Metro Group, and Carrefour.

Apparel is expected to grow 9 to 10 percent year-over-year for the next five years. Players such as Zara, Marks & Spencer, and Mango are actively scouting locations to open more stores across the country. The luxury retail sector saw 20 percent growth last year, with luxury malls becoming entrenched in Delhi, Mumbai, and Bangalore.

Private-equity firms are more interested in retail. As many as 29 transactions were conducted during the first half of 2011 in the retail-consumer products space, among them L Capital's acquisition of an 8 percent stake in chain retailer Fabindia.

Mongolia: a thriving economy. Mongolia enters the GRDI for the first time, landing in 9th place overall. The International Monetary Fund (IMF) predicts that Mongolia's economy will grow 14 percent yearly through 2016, behind a thriving mining industry and China's increased demand for coal. Despite a relatively small GDP and retail market, Mongolia's tremendous growth potential and democracy present an opportunity for retailers seeking a steady base of wealthy customers and a stable political environment.

Although the population is small, wealth is concentrated. Luxury retail is rising with numerous companies developing a presence there, and boutique hotels, restaurants, and pubs expanding to Ulan Bator, as it becomes a modern city. LVMH was the first luxury brand to open an outlet in Mongolia (2009), and it was soon followed by Zegna, Hugo Boss, Cartier, L'Occitane, and Dunhill, among others. Burberry is planning to open its second store in Mongolia in a new Shangri-La Hotel complex.

Much of the population is slowly moving out of poverty and entering the ranks of lower-middle-income earners. Mongolian consumers are following Western trends gathered from fashion magazines and the Internet. As the population becomes more urban, more people are buying Western goods and shopping in modern retail formats.

Malaysia: consumer confidence. Economic growth in Malaysia (11th) is being fueled by a young population, increasing disposable income, and strong consumer confidence. Consumer spending has risen steadily at 3 percent a year for a decade, and its business environment continues to improve, as demonstrated by its improved rank (18th overall) in the World Bank's Ease of Doing Business survey.

Retail in Malaysia is still fragmented, revealing an opportunity for expansion. Modern chains continue to spring up in city centers, catering to the urban population. By 2015, more than three-quarters of Malaysians are expected to live in cities. Currently, foreign players dominate grocery, including Carrefour, Tesco, Hong Kong-based Dairy Farm, and Japan's AEON, along with local retailers such as Parkson and The Store.

Debenhams is planning to expand its footprint in Malaysia and almost double its space to 37,000 square feet as Malaysia represents its second-best growth market outside of the United

Kingdom. H&M, which plans to open 275 new stores in 2012, will open its first store in Kuala Lumpur this year. Coach plans to acquire its Malaysian retail business in July of 2012 from the Valiram Group.

Sri Lanka: ambitious growth. Sri Lanka's improved political and economic stability helps it move up to 15th in the GRDI. Unprecedented levels of tourism (46 percent growth in 2010 and 31 percent in 2011), strong GDP numbers (6 to 7 percent), healthy consumer spending, and increased exposure to global brands augur well for the retail industry. Post-war stability also brings infrastructure development and expansion in the retail footprint.

Traditionally, local players dominate retail in Sri Lanka. Organized retail makes up only about 3 percent of the $25 billion to $30 billion market, but is expected to grow, especially in apparel and food.

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Spurred by Sri Lankans' fashion consciousness, foreign apparel retailers and domestic garment manufacturer-exporters are setting up shop in Sri Lanka. Brands such as Mango, Levi's, and United Colors of Benetton opened stores last year. Several Indian brands, such as Nalli Silks and Madura Garments (which includes Louis Philippe, Allen Solly, and Peter England), have a significant presence in Sri Lanka.

Sri Lanka is a major apparel manufacturing hub for overseas players. H&M, Marks & Spencer, NEXT, Gap, and others are drawn there by the quality, service, and cost advantages.

In the food segment, Singapore's BreadTalk entered Sri Lanka in April, while India's Barista and U.S.-based The Coffee Bean & Tea Leaf have been longtime players.

Domestic retailers have ambitious in-country expansion plans. Arpico increased its number of supermarkets from 10 to 35 in 2011; Keells Super, Laugfs SunUp, and Lanka Sathosa are opening new outlets in different formats, including hypermarkets, supermarkets, express outlets, and mini supermarkets. Fashion retailer ODEL opened three new stores in 2011 and has three more lined up. Local names such as Singer and Softlogic dominate consumer durables.

Indonesia: attractive middle class. An expanding middle class, steadily growing economy (roughly 6 percent per year), and declining debt-to-GDP ratios are enticing retailers to Indonesia (16th).

The organized grocery sector in Indonesia has strong growth potential given its currently lower penetration than other developing Asian markets. Malls have sprung up across the country, with five new projects reaching completion in 2011. Japanese retailer Lotte Group opened a duty-free shop at the Soekarno-Hatta International Airport in Jakarta, its first outside of South Korea.

Yum! Brands and Japanese food and beverage maker Suntory are also investing in Indonesia. Following the success of convenience store giants 7-Eleven and Circle-K, a number of other chains, including Japan's Lawson and FamilyMart, are hoping to tap into Indonesia. In addition, furniture seller IKEA signed a franchise agreement to open a store with local retailer PT Hero Supermarket.

The Philippines: rising consumer demand. Several factors contribute to a growing middle-class and rising consumer demand in the Philippines (29th). While salaries remain low, household incomes are bolstered by overseas remittances that help maintain positive economic growth. The bulk of this income goes to retail spending. The domestic job market is improving as the outsourcing industry grows, thus bringing more dual-income, middle-class families and young professionals with disposable incomes to urban areas.

Most of Indonesia's retailers and shopping centers are in urban areas, with about half of total retail sales concentrated in the Manila area. Recently, the J Centre Mall opened in Mandaue City, and the SM chain is set to open the City Consolacion shopping mall in the northern region by the end of 2012. As more real estate becomes available in city centers, foreign firms have entered, including Japanese clothing retailer Uniqlo, U.K. women's apparel seller Topshop, Japanese convenience store chain FamilyMart, and U.S.-based sandwich shop Quiznos.

Central Asia and Eastern Europe

Retailers in Central Asia and Eastern Europe have not faced the same economic instability as their Western neighbors. Growing, oil-rich countries Georgia and Azerbaijan enter the GRDI as their citizens adopt modern retail formats quickly, making them targets for luxury goods brands. Macedonia and Albania remain attractive to some international retailers, particularly from neighboring markets, but others are skeptical worried about their small size and low consumer wealth. Russia is drawing global retailers as it is a large, attractive market, but penetration from international retailers is greater than that of emerging market retailers in the region.

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Georgia: stabilizing and healthy. Georgia (6th) enters the GRDI with a growing economy. Since 2007, real GDP has grown 2 percent year-over-year, and private consumption has grown 7.4 percent annually for the past decade.

Georgia's improving business climate and investment attractiveness led Standard & Poor's to upgrade its rating from BB- to B+, citing strong growth prospects. Taxation and customs have become more transparent and less complicated, and Georgia and the European Union conducted free trade negotiations in December.

The favorable business conditions are helping the real estate market. Despite the fact that Georgia's overall population is aging, a young, urban population is propelling modern retail, both in food and apparel.

Modern retail penetration and saturation are low. Traditionally a country of sprawling bazaars and corner shops, Georgia is gradually becoming a supermarket nation. Populi, Georgia's biggest supermarket chain, opened 20 stores over the past two years and plans to open 20 more this year.

International firms are targeting the region. France's Auchan acquired local player Goodwill, while Carrefour will open its first hypermarket in the Tbilisi Mall. Inditex enters Tbilisi in 2012 through a franchise agreement with Retail Group Georgia.

While the apparel market is on the rise, with many new entrants setting up shop in the past two years, most consumers still shop at traditional bazaars. Brands such as Peacocks, De Salitto, Giovane Gentile, and Geox are recent entrants, while Mango, Sisley, Benetton, Mexx, and Gerry Weber already have a presence in Georgia. Gap will enter by expanding its agreement with partner Al Hokair.

Turkey: more consolidation to come. Impressive economic growth (8.5 percent in 2011) and strong consumer spending (20 percent growth since 2009) drives the retail industry in Turkey (13th).

The market remains relatively fragmented, signaling further consolidation ahead. In grocery, the top five players account for less than 15 percent of the total market, as modern grocery is largely confined to major cities and local stores called bakkals remain important. Turkish retailers, including hard discounter BIM, dominate the market even as international retailers such as Carrefour and British retail giant Tesco increase their presence. Although hypermarkets and supermarkets are spreading, major retailers are opening small-store formats, such as Carrefour Express and Migros Türk's M-JET, to compete with bakkals and grow in smaller cities. Private-equity firms have targeted retailers in recent years, signaling an interest in international investment and an opportunity for growth.

Europe's economic slowdown and Middle Eastern political unrest have **made Turkey attractive to new entrants and incumbents seeking to expand.**

With disposable incomes on the rise, non-food retail, including electronics and clothing, is growing faster than grocery. Europe's economic slowdown and Middle Eastern political unrest have made Turkey attractive to new entrants and incumbents seeking to expand. Well-known brands such as Pinkberry, Converse, Payless ShoeSource, Virgin Megastores, Marc Jacobs, Michael Kors, Victoria's Secret, and Bath & Body Works have entered the market, while Chanel and Hermès are expanding by opening new stores. International fashion retailers H&M and C&A continue to expand aggressively, while Koçtaş, Metro Cash & Carry, IKEA, bauMax, and Darty are expanding in major and secondary cities. German shoe retailer

Deichmann opened 44 stores in 23 Turkish cities last year and hopes to open 200 more within 10 years, as Turkey is one of its strongest markets.

Shopping center space rose 19 percent in 2011, with further growth forecast in coming years. With Turkey's increasing attractiveness, soaring consumer demand, and growing modern retail formats, future retail growth should be strong.

Azerbaijan: a window of opportunity. New to the GRDI, Azerbaijan (17th) has low market saturation, high fragmentation, and few strong national players—making it a favorable environment for international players. Since 2007, the country has had 5 percent year-over-year real GDP growth. Consumer spending remains moderate, with roughly three-quarters of spending going to food; credit offerings and improved banking are leaving a positive impact on the retail sector.

Consumers still prefer traditional formats such as bazaars, markets, and mom-and-pop stores. Direct selling is also strong in beauty and personal care, with Oriflame owning more than half of the market. Very few supermarkets, hypermarkets, or discounters dot the landscape and grocery chains such as New World Market, Continental, Almali, and Neptun have yet to capture significant share. Indeed, Azerbaijan's top seven grocers represent less than 5 percent of food sales. The success of modern retailers and malls will depend on how well retailers can reach local consumers.

Most international retailers operate on franchise agreements with local brand investors, such as Novco (Benetton and Lacoste) and Sinteks (Gucci, Dolce & Gabbana, Burberry, Ferragamo, and Ermenegildo Zegna). As part of an expansion agreement with Saudi Arabia-based Al Hokair, Gap will enter Azerbaijan following its debut in Georgia. Inditex also opened Zara stores in Azerbaijan in the past year. Other retailers in the market include Baskin-Robbins, Debenhams, Dunkin' Donuts, GNC, KFC, L'Occitane, Migros Türk, Mothercare, and Tom Ford.

Corruption remains a major problem in Azerbaijan; the country ranks 143 out of 183 countries in Transparency International's 2011 Corruption Perceptions Index. Nestlé recently suspended its supply in Azerbaijan, reportedly because of corruption between local distributors and tax authorities and Nestlé's refusal to pay bribes.

Kazakhstan: a hidden gem. Kazakhstan moves forward in terms of economic development and consumer spending. With low market saturation, Kazakhstan (19th) is one of the GRDI's hidden gems where new entrants can become market makers and gain first-mover advantage.

The country has worked hard to improve investment attractiveness, both in terms of regulations and macroeconomic stability. Kazakhstan is experiencing positive social and economic development, resulting from a growing population and more consumer purchasing power, industry production, and trade revenues. Growth is motivating investment in the country's limited transportation and logistics infrastructures, which must be addressed to spur retail development.

Kazakhstan is currently 47 in the World Bank's 2011 Ease of Doing Business ranking. In 2010, Belarus, Kazakhstan, and Russia formed a customs union to improve cross-border cooperation and minimize border costs between the countries. The union has opened up trade and growth potential in the region.

Retail trade volume increased 12.5 percent year-over-year in 2011. Sales of non-food products (64 percent of total retail volume) rose 11.3 percent, while food retail increased 16 percent. Consumer spending is growing faster than income, a trend expected to continue because of positive consumer attitudes, income growth, declining unemployment, and positive economic changes. The European Bank for Reconstruction and Development recently invested $105 million in Metro Cash & Carry's development program. Other international retailers in Kazakhstan include Russia-based grocer Vester, Finnish clothing retailer Finn Flare, Russian consumer electronics and appliance retailer Eldorado, and Turkish supermarket chain Migros Türk.

Macedonia: forecast for growth. Macedonia (21st) might be small and one of Europe's poorest markets, but the country has potential. GDP growth has reached 4 percent per year for five years, and the growth is expected to accelerate. Macedonia's fragmented market is dominated by the small, neighborhood stores Macedonians prefer. Local leader Tinex leads the way along with supermarkets from neighboring countries, such as Veropoulos (Greece) and Migros (which owns Turkey's largest chain), that are drawn to the supply chain synergies.

International companies are moving in, enticed by plans to open the first modern mall in the capital, Skopje, in September 2012. Carrefour is opening a 50,000-square-foot hypermarket, and Inditex will introduce five brands (including Zara) with total space of 47,000 square feet. German retailer dm-drogerie markt will enter in mid-2012. French do-it-yourself chain Mr. Bricolage recently opened its first Macedonia store, and Veropoulos plans to add two more supermarkets by the end of 2012. However, the success of these plans remains to be seen.

Albania: channeling wealth into retail. Similar to its neighbor Macedonia, Albania (25th) is also small and relatively poor. However, the country has weathered the global recession, with 4 percent GDP last year and a steady growth forecast in coming years.

While Albania's market is slowed by government bureaucracy and corruption, it remains a candidate for entry into the EU. The largest shopping center in the capital, Tirana, opened in 2011 with 38,000 square meters of retail space. Companies from neighboring countries are drawn to Albania for its strong logistics.

Grocery still accounts for a large portion of consumer spending, so any further wealth in Albania will likely be channeled to other retail formats. Grocery retail remains fragmented, with few international players and neighborhood stores being the dominant format. Supermarket density is in Tirana, Durres, and Fier. Italy's CONAD is Albania's second largest supermarket retail chain and mostly serves the premium segment. CONAD also operates a cash-and-carry store in Tirana.

Unlike Western European consumers who tightened their belts during the downturn, **Russian shoppers kept spending.**

Other international players include Euromax, owned by Belgium's Delhaize Group, with 18 supermarkets and plans for 13 more; Slovenia's Mercator; Carrefour, which recently entered the market in Tirana in a joint venture with Greece's Marinopoulos; and Greek toy store Jumbo, which entered last year. The only exit was German retailer Praktiker, which is undergoing a restructuring.

Russia: increasingly established. Russia (26th) continues to grow, and consumption has rebounded to pre-downturn levels. Its market is also relatively more mature than other countries in the GRDI. While Russia may not be an early-opportunity market anymore, it may be entering a phase in which it is compared to established European markets.

The challenges of doing business in Russia are well documented, and the real estate market is limited and expensive. However, near-term growth prospects and market fundamentals appear strong, with retail sales at $600 billion per year. Leading local retailers such as X5 Retail, O'Key, and Magnit have grown 30 percent or more in the past few years as modern retail expands.

Unlike Western European consumers who tightened their belts during the downturn, Russian shoppers kept spending. With low savings rates, rising disposable income, and a strong sense for premium and luxury brands, Russian shoppers returned quickly from the downturn. The market is increasingly attractive to international retailers seeking to make up for falling demand in established markets.

In grocery, Russia added 100 new hypermarkets last year, with foreign retailers that have been present for years continuing to expand aggressively. Auchan and Metro Group, now Russia's third and fourth biggest food retailers, are reacting to evolving consumer demand by moving to new formats. Auchan is opening six hypermarkets in 2012 and plans to expand its Atak supermarket chain from 50 to more than 200 by 2015. Metro Group plans to open 15 outlets this year, and its Real chain recently launched a small-box format.

Russia's still-fragmented retail industry—the top five control less than 15 percent of the market—has led to speculation about when (not if) international retailers not already present will enter, including Carrefour and Tesco.

Russia's luxury market is experiencing a strong recovery after contracting during the downturn. The proportion of very rich households is growing, and by 2020 we expect nearly three times as many Russian households with annual disposable income of more than $100,000. Most international luxury brands are already in Russia, with many shifting from franchise to direct operations in the past five years to capture the full growth potential. Prada recently opened its first flagship store, and Ralph Lauren, Chanel, and Cartier will open more in Moscow by the end of the year. St. Petersburg is challenging Moscow as the top luxury shopping destination with the opening of DLT, a large luxury mall. This in-country growth could help retain Russian shoppers who go abroad, mostly to Dubai, to shop for luxury items.

In addition, Russians are engaging in e-commerce, running up more than $9 billion in online sales per year.

Middle East

The Middle East grabbed the headlines in the past year, particularly as the Arab Spring movement spread. But the attention did not stop the growth of international and local retailers.

Retail trends in the Middle East region include the growth of private labels and the spread of e-commerce. As markets mature, retailers are turning to private labels to focus on bottom-line growth. Private labels account for 10 percent of sales today, up from 3 percent three years ago.

Middle East shoppers are also turning to e-commerce and trusting online shopping, as social media becomes more popular and logistics improve. The success of sites such as Groupon and Living Social is a clear example of e-commerce's potential in the region. Many retailers are still testing their online shops in the United Arab Emirates (UAE), including Carrefour and Nespresso, but their success will likely spread to other countries.

UAE: a bright future. The UAE (7th) celebrated its 40th year in 2011, and it celebrated by increasing public spending to improve the welfare of its citizens. Increased tourism, population growth, and government stimulus put the UAE back on the map for many retailers. After two years of stagnation, overall retail sales increased by more than 5 percent and consumer confidence rose.

Tourism has always been an important retail growth factor. During the Arab Spring, the UAE benefited from its perception as a safe and welcoming nation for tourists and investors. Dubai Mall is the world's most-visited shopping and leisure destination, with more than 54 million visitors in 2011 (up 15 percent from 2010) and a 35 percent increase in average retail sales. The 12-million-square-foot mall is expanding by one-million square feet to serve more local and international retailers. A similar trend is occurring at Majid Al Futtaim Holding, which owns the Mall of the Emirates, the country's second biggest. Last year, it had its best performance since its founding in 1992.

Unregulated rental prices for space in top-tier malls are good for developers but squeezing retailers' profits—motivating many players to move to lower-tier malls. French supermarket chain Géant, for example, is opening a new hypermarket in the Dragon Mart.

Convenience formats are becoming more popular in the UAE. While big-format is still dominant, convenience formats are a way for retailers to expand their local footprints. Abu Dhabi-based LuLu Hypermarket Group is planning 50 neighborhood stores across the Gulf region over the next three years, and Carrefour is expanding its express convenience stores across the country.

Luxury retailers had another good year. The UAE is a top importer of Swiss watches, with Dubai alone importing between 800,000 to one million premium watches per year. The country is the fourth biggest market for Rolls-Royce.

The Middle East grabbed the headlines as the Arab Spring movement spread. But the attention **did not stop the growth of international and local retailers.**

Oman: a small but growing market. Oman joins the GRDI in 8th place. It is small (3.1 million people) and has a lower GDP per capita ($26,000) than other countries in the region, but it is on the radar of many international retailers.

The sector has changed dramatically in the past few years, thanks to infrastructure spending, greater consumer purchasing power, a rising number of expatriates and tourists, and more modern retail formats. Wholesale and retail trade contributes to 8.7 percent of Oman's GDP.

Although modern outlets are gradually replacing the traditional souks (open-air marketplaces) and small shops, especially in the capital, Muscat, the expansion of supermarkets and shopping malls is slower than other Gulf countries. Nevertheless, mass grocery and electronic items are fast-growing segments. The luxury goods segment is also developing, illustrating the country's appetite for high-end products. Marks & Spencer, LVMH, and L'Occitane have been in the country for five years.

Oman allows foreign ownership, which makes it a more favorable investment environment than its neighbors. Several ongoing high-end projects offer future growth, including the Muscat

Grand Mall and the Mustafa Sultan complex in Qurum. Moreover, the unique Opera Galleria, hosting a high-end retail area and an opera house, is expected to attract locals, expatriates, and wealthy tourists, as it will house one of the region's few cultural experiences.

Carrefour, with three stores and another planned for 2012, and LuLu, with 11 stores, are the main international players in Oman, but many other companies have expansion plans. Géant plans to enter the market, and U.K.-based retailer WHSmith will open a flagship store in Muscat with a local partner.

Kuwait: economic expansion. Heavy public spending helped Kuwait (12th) grow 6.1 percent. Kuwait's government implemented a five-year plan in 2010 to strengthen the country's private sector with investments in infrastructure, health, and education. The country is urbanizing—98 percent of citizens live in cities—driving the growth of the modern retail format. More foreign workers crossing the border from Iraq are adding to retail growth.

The country's retail sales will increase $4 billion from 2011 to 2015. Hypermarkets' popularity is increasing, with a 7.5 percent increase in sales in the past year, with young people spending more on consumer electronics.

The Avenues Mall, Kuwait's largest shopping center, opened in 2011 and features the largest number of international brands in the country. Two other modern shopping centers are opening soon, including 360 Kuwait, with more than 800,000 square feet of retail space, and Mall of Kuwait, with more than 1.6 million square feet. The new malls are pushing many secondary malls toward renovation as a way to attract international brands.

International brands are popular in Kuwait. Unlike other Gulf Cooperation Council (GCC) countries, fashion sales are not driven by expatriates, but by locals with a lot of disposable income (GDP per capita in Kuwait is about $40,000). Many retailers are considering Kuwait. For example, Ivanka Trump, daughter of Donald Trump, announced plans to debut her latest jewelry line in Kuwait. Harvey Nichols, the British luxury retailer, will open a store in the country, and Marks & Spencer is considering expansion. IKEA, American Eagle Outfitters, Mothercare, Victoria's Secret, and Build-A-Bear Workshop are already in the market. EMKE Group and Carrefour opened their first hypermarkets, and Géant plans to open 10 supermarkets by 2012.

The censorship of Western material has stymied some retailers in Kuwait, including book sellers, record stores, film outlets, and even clothing stores. In 2011, Dubai-based record distributor Music Master and music retailer Virgin pulled out of the country.

Saudi Arabia: strong fundamentals. Saudi Arabia is 14th this year as it continues to exhibit a strong market, evident in rising GDP and population, increased government spending, and a more stable political environment. With 28 million citizens, Saudi Arabia is the largest and among the most attractive markets in the Middle East. Saudi Arabia's drop of four spots from last year's GRDI rankings is the result of new countries entering the ranking, rather than a change in Saudi Arabia's attractiveness. Rising disposable incomes and acceptance of modern formats and foreign brands are driving consumer spending. Furthermore, a government stimulus plan will inject about $110 billion into the economy in the next five years.

Saudi Arabia's large population and its relatively low GDP per capita compared to its neighbors suggest that the Saudi middle class could be a source of growth as incomes rise. Moreover, religious tourism is driving sales in many sectors, as millions of Muslims make the annual trek for Hajj.

Yet restrictions on women still have an impact, even as many believe the country is improving in this regard. Women are still not allowed to drive, so local nearby convenience stores are popular shopping venues. In addition, the rigid rules on entertainment have turned shopping trips into popular social activities and a preferred way for Saudi families to spend their free time.

Several brands announced expansion plans to capture Saudi spending. Gap plans to open 44 Gap stores and 10 Banana Republic stores by the end of 2012. Savola Group, owner of Panda Hypermarkets, plans 120 supermarkets and 40 hypermarkets this year, and the group has also acquired 11 Géant stores. Burberry entered Saudi Arabia a year ago through a joint venture.

Jordan: a strong debut. Jordan enters the GRDI in 18th place. With six million citizens and $8,000 GDP per capita, retail is gaining strength with expectations of more double-digit growth. Jordan on its own is an attractive market, but its status as a gateway to Iraq makes it even more so.

Modern grocery retail is fairly undeveloped. The major players own less than 5 percent of the market, with the largest, Sultan Center, with sales of $160 million. Although Jordan is in the early stages of growth, opportunities will increase as consolidation and strong economics change the playing field. The government is on a mission to boost the economy, applying to join the GCC and investing in developing the country.

The main mass grocery retailers are Sultan Center, Carrefour ($55 million in sales), and C-Town ($43 million in sales). Together they claim about 550,000 square feet of retail space. The Body Shop and Debenhams are already in Jordan (albeit on a limited scale), and other retailers are exploring entry strategies. Spinneys and LVMH entered last year.

As in other Middle East countries, e-commerce is on the rise in Jordan. A recent survey reveals that 15.4 percent of Jordanian Internet users shop online. GoNabit, the group-buying website, plans to be an e-commerce pioneer in Jordan.

Lebanon: vibrant and progressive. Lebanon’s 22nd ranking is a 10-spot drop from last year, the result of political instability and the Syrian uprising taking place next door. However, Lebanon’s capital, Beirut, is home to a vibrant and trendy bourgeoisie who follow international fashion trends and prefer shopping in high-end malls for products from renowned international designers, including wristwatches and luxury cars. Although Lebanon is small and still counts as a low-income country, its array of celebrity designers is helping it regain a reputation as a global fashion capital. With strong growth and repeated periods of stability in recent years, foreign capital has surged and retail has flourished. Mass grocery grew considerably in 2011; supermarket sales rose by almost 13 percent, and hypermarket sales increased 16 percent.

The retail sector, although still traditional, is shifting toward modern retail. Future growth depends on political stability and infrastructure development. Food and beverage retail sales are projected to rise by almost 80 percent between 2011 and 2016. Hypermarket sales are expected to grow by 41 percent by 2016, but rising real estate prices could limit these growth perspectives. Carrefour announced its first Lebanese store, slated to open in 2013. Apparel retail is also an attractive sector: Gap signed an agreement with Azadea Group to open its first store in Lebanon this year.

Majid Al Futtaim is making a $300 million investment to build a mall on the outskirts of Beirut. The mall will have 645,000 square feet of retail space, 200 stores, and 40 unique brands. Spinneys recently opened the first of four new stores in Lebanon, part of a regional expansion strategy.

The country's luxury market is strong. Zeituna Bay, a high-end retail center overlooking the yachts of the Beirut Marina, recently opened, while premium mall ABC saw year-over-year growth of almost 20 percent. More single-brand shops are appearing in Lebanon, especially in the sought-after Beirut Central District, including IWC Schaffhausen and Hermès.

Africa

Botswana enters the rankings and is the only country in Sub-Saharan Africa to make the list, highlighting the region's long-term growth prospects. In coming years, we expect global retailers to evaluate many other African nations as Nigeria, Ethiopia, and the Democratic Republic of Congo (DRC) are expected to be among the most populous countries in the world by 2050.[2]

South Africa dropped from the rankings this year because of market saturation of international retailers compared to other countries in the GRDI. Gap and Zara opened stores in South Africa, seeing it as a stepping stone to the rest of Sub-Saharan Africa. South African grocers have a dominant presence in Sub-Saharan markets: Pick 'n Pay and ShopRite plan to enter the DRC and Malawi in the next year, and Woolworths recently opened stores in Nigeria. South African retailer JD Group is expanding in the next 18 months to Zambia, Ghana, and Mozambique and is considering opening operations in Angola.

The two North African markets featured in the GRDI this year, Morocco and Tunisia, have watched their rankings drop seven and 12 positions, respectively, because of regional political uprisings. Still, there are signs of growth as the markets stabilize and stores reopen.

Botswana: developing a middle-income economy. Botswana (20th) enters the GRDI for the first time. The country has become a middle-income nation over the past three decades and is projected to have 7 percent GDP growth for 2012—well above Sub-Saharan Africa's expected growth rate.

Botswana's government is dedicated to shifting away from a dependence on diamonds to increasing investment in the private retail sector. Most retail expansion has been from regional players, primarily based in neighboring South Africa.

Modern grocery retail is growing fast. Wal-Mart's acquisition of South Africa's Massmart gave the U.S. retail giant an instant footprint of 11 stores.

Expansion into Africa is challenging for retailers, primarily because they have to compete with a long-established, active, and informal trading sector that African consumers are accustomed to. As the region develops, formal retailers are finding opportunities and focusing on the long-term benefits of investing in and developing the communities that they serve. Retailers also face challenges in developing a secure local supply base. This requires developing a sustainable sourcing strategy that ensures maintaining supplier returns, managing the environmental impact, and adhering to regulations and industrial standards.[3]

While most retailers choose corporate or franchise stores to enter Africa, some opt for joint ventures with local partners. Also, in addition to developing infrastructure and expanding operations, store footprints must be structured efficiently. Clustering stores in specific areas is a must for the successful management of operations and supply chains.

[2] Sources: A.T. Kearney Global Business Policy Council, United Nations Population Division

[3] To read more about Sub-Saharan Africa, see "Supplying Sub-Saharan Africa: Bring Common Sense, Patience and Ingenuity," in Executive Agenda at www.atkearney.com.

Morocco: dealing with instability. Morocco fell to 27th in the GRDI (from 20th in 2011), primarily because of the increased risk posed by political instability. The economy continues to grow about 5 percent per year, but a trade deficit and slowing growth of Morocco's main trading partners are creating significant pressure.

Although traditional retail formats are proving resilient in rural areas, consumer preferences and government support illustrate the continuing transition to modern retail, such as bulk purchasing and shopping malls. Late last year, the largest mall in Morocco opened in Casablanca, bringing with it many foreign retailers. Making their entrance: H&M, American Eagle, Payless ShoeSource, Starbucks, Pinkberry, and anchor department store Galeries Lafayette. In grocery, there is room for modern retail formats, as they account for only 10 to 15 percent of sales. Players preparing for expansion are testing new formats and deep-discount food outlets, which are gaining traction.

Morocco's economy continues to grow about 5 percent per year, but **a trade deficit and slowing growth of the country's main trading partners are creating significant pressure.**

Tunisia: dealing with political unrest. Following the Arab Spring protests, Tunisia drops 12 spots to 30th. Before the Arab Spring, per capita income was on the rise, and a growing middle class was forming more sophisticated purchasing patterns. The political unrest in early 2011 led to GDP growth of only 1.1 percent. While the government still supports a favorable environment for foreign investment, international retailers are hesitant to enter this recovering market.

With just 230 modern grocery retail outlets in Tunisia, there are plenty of growth opportunities if the country manages to stabilize. Many major outlets closed in 2011, but some are already returning to Tunisia. For example, this year, hypermarket Géant is expected to return, Carrefour expects to increase retail sales and, outside of grocery, Japan beauty brand Shiseido has announced plans to enter the market.

The Retail Talent Index

In a decade spent examining retail expansion in developing countries, we know that new markets are only as effective as their workforces, and harnessing a local talent pool is crucial to reaching customers. Expatriates deployed from their home markets provide much-needed support in the early stages, but long-term success hinges on a skilled, reliable, and affordable local workforce.

This year, we have reintroduced the Retail Talent Index, which examines the best markets for retail talent (see sidebar: About the Retail Talent Index on page 23).[4] The Index ranks the top 30

[4] The Retail Labor Index was introduced in 2006 within that year's published GRDI findings; in 2012, the name was changed to the Retail Talent Index.

countries in the GRDI based on talent availability, labor regulations, and labor costs for in-store employees. A high ranking indicates a strong retail labor market for both corporate and in-store retail. The analysis is based on 11 human resource and human capital variables; scores are determined on a 100-point scale (see figure 4).

Four countries with multifaceted landscapes in retail talent are as follows.

Malaysia. Malaysia, 11th in the GRDI, leads our Retail Talent Index. In the past, Malaysia's economy was faulted for focusing too much on low-wage foreign workers to drive economic growth. Since then, the government has made a concerted effort to change those perceptions and develop more skilled local workers. The low cost of labor, favorable regulations, and a well-educated population support the operations of international retailers that enter and expand in the market.

This year, Malaysia approved a national minimum wage of 800 to 900 ringgit (about $265 to $298) per month and now sits above the poverty line. In addition, the country is introducing a residence tax to help facilitate the presence of expatriates in the country.

China. China ranks 3rd in the Retail Talent Index. While Chinese manufacturing wages are rising, from a retail-labor perspective China is still among the lowest-cost destinations in the world. Importantly, employees now have many choices thanks to the explosive economic and employment growth in recent years. Rather than waiting for a wage increase, China's

Figure 4
The 2012 Retail Talent Index

2012 rank	Country	Talent availability (40%)	Labor regulations (20%)	Labor costs (40%)	Score
1	Malaysia	62.8	77.9	85.7	75.0
2	China	56.5	71.3	79.0	68.5
3	Chile	66.7	56.7	68.5	65.4
4	Indonesia	51.0	55.9	84.5	65.4
5	Azerbaijan	42.1	95.9	72.5	65.0
6	India	48.5	64.2	75.6	62.5
7	Lebanon	56.1	74.8	61.4	62.0
8	Saudi Arabia	57.4	93.5	50.8	61.9
9	United Arab Emirates	67.7	94.2	39.6	61.8
10	Sri Lanka	48.7	49.4	80.5	61.5

Note: Scores are rounded.
Source: A.T. Kearney analysis

About the Retail Talent Index

The Retail Talent Index is calculated based on a country's performance in three areas: talent availability, labor regulations, and cost of labor. A country's value is indexed on a 0- to 100-point scale to allow for relative comparisons across three areas:

Talent availability (40 percent): **Scores are based on the quality of the educational system and management schools, secondary and tertiary education enrollment, labor-force participation, and "brain drain."**

Labor regulations (20 percent): **Scores are based on hiring and firing practices and flexibility of wage determinations.**

Cost of labor (40 percent): **Scores are based on retail salaries for an average sales associate and pay and productivity metrics; a higher score indicates a lower-cost labor country.**

white-collar workers are prone to leave their jobs for other opportunities. As one example, annual turnover rates in Shanghai are estimated to be 18 to 20 percent.

To address this issue, China is moving quickly and often to increase the minimum wage. Recently, Beijing's minimum wage rose 8.6 percent, and Shenzhen's increased 14 percent. Many retailers are increasing their pay packages to retain skilled talent. In March, Tesco entered into a collective labor agreement that structures wage adjustments around a mutually beneficial platform.

New markets are only as effective as their workforces. Harnessing a local talent pool is crucial to reaching customers.

Qualified management is an evolving issue in China as foreign companies realize that expatriates alone will not solve the talent dearth and so struggle to cultivate talent at the top. Retail executives in China must be well-versed in the nuances of the Asian consumer—which cannot be taught overnight. Foreign companies, therefore, often lean on local managers for an authentic perspective. A balance of local and expatriate talent is essential for retailers entering China.

Chile. Chile, 4th in the Retail Talent Index, has seen explosive economic growth, which is directly impacting the nation's retail sector. Retail growth is supported by an available, well-trained pool of labor. But these workers are tied up in the thriving construction, industrial, and retail sectors. Unemployment in Chile is relatively low at approximately 6 percent.

In retail, the number of sales associates has increased, but their salaries have not, indicating that supply has exceeded demand. The government is making a concerted effort to expand the workforce by encouraging more women to join the ranks of the gainfully employed. Female employment in Chile is relatively low (37 percent versus 45 percent in the United States). To attract more women to the workforce, President Sebastián Piñera is proposing an additional three months of government-funded maternity leave, for a total of seven months.

Recognizing their value to the retail sector, Chileans are taking a more active role in wage negotiations. In 2010, the retail sector had its largest number of employees collectively negotiating their contracts. Of the 27,000 retail employees involved in collective bargaining, 8,000 were from Cencosud. As the wage issue gains more press, some retailers are in the crosshairs of negative publicity, which is helping to fuel change.

India. India ranks 6th in the Retail Talent Index thanks to many years of a large, young, well-educated, and attractive labor market. The information technology (IT) and business process outsourcing (BPO) industries have taken advantage of this talent pool, thus experiencing rapid growth for a decade. India also provides an attractive talent pool for international retailers. The retail sector employs approximately 8 percent of India's population, with demand for skilled workers expected to rise. A shortage of talented professionals, especially at the middle-management level, will pose a significant challenge for the country's retail sector in the years ahead as retail is not yet a preferred career option for young people. To address this issue, the Retailers Association of India and leading local retailers such as Bharti and Vishal are increasing the number of specialized retail courses offered. Coca-Cola partnered with the Indian School of Business to launch a retail academy.

Saudi Arabia. Saudi Arabia ranks 8th in the Retail Talent Index. Labor availability is a pressure point, largely because of low participation rates, but availability is projected to improve in the near term as more women enter industries such as retail, marketing, fashion, and cosmetics. The government is committed to hiring more women and helping with their transition. For example, the Human Resource Development Fund in Saudi Arabia provides financial support and training to Saudi women interested in working in women's fashion shops. And many well-established Saudi companies, such as Nayomi, Mikyaji, and The Body Shop, are focused on creating jobs and opportunities for both sexes. Programs like this will continue to increase labor force availability and attractiveness. Retailers are also hiring women to fill call centers and e-marketing positions. Telecommuting makes job opportunities for women even more viable and could represent two million jobs.

About 27 percent of 20- to 29-year-olds in the Saudi labor force are unemployed; this is mostly attributed to jobs being filled by expatriates. For years, the government has been trying to address the issue with its "Saudization" quota system that requires companies to employ Saudis for at least 30 percent of their positions. Unfortunately, to date, only a third of the target has been achieved, according to the Labor Ministry. As a result, there is a sense of animosity among locals toward some of the expatriate population.

New Globalization

The 2012 GRDI finds a world that is truly globalizing. While the usual giants of the developing world, particularly the BRIC nations, still make their impact, there are also many exciting and lucrative opportunities in some of the smaller, more far-flung markets around the globe. By finding the right locations—and tapping into the local talent there—retailers can make an immediate impact and create a long-term advantage in competitive markets.

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Appendix: About the Study

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

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

GRDI scores are derived from an analysis of the following four variables.

Country and Business Risk (25 percent)

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

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

Market Attractiveness (25 percent)

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

Population (20 percent): A score of zero indicates that 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 retail (30 percent): A score of zero indicates a large share of retail sales is from a modern format within the average Western European level of 200 square meters per 1,000 inhabitants. Modern formats include hypermarkets, supermarkets, discounters, convenience stores, department stores, variety stores, warehouse clubs, and supercenters.

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

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

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

Time Pressure (25 percent)

The time factor is based on 2007 to 2011 data, measured by the compound annual growth rate of modern retail sales weighted by the general economic development of the country (CAGR of GDP and consumer spending) and CAGR (2006 to 2011) 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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