A.T. Kearney

The 2013 Global Retail Development Index™

Global Retailers: Cautiously Aggressive or Aggressively Cautious?

Retailers are taking a step back from rapid expansion strategies as they move into developing markets.

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A.T. Kearney's Global Retail Development Index™ (GRDI) has guided global retailers with their strategic investments for more than a dozen years, and the 2013 Index reflects some important changes to the retail environment. But one thing hasn't changed: As developed markets face flat or anemic growth, developing markets remain important sources of growth. The 12th annual edition of the GRDI finds many opportunities for retailers seeking to grow and expand in fast-growing developing markets big and small.

Of course, there's nothing easy about a global expansion strategy in retail. Every market has unique challenges that require unique strategies for success. And this year's GRDI finds several examples of countries where global retailers are taking a step back from the aggressive expansion of the not-too-distant past in favor of more cautious strategies. For example, as retailers confront challenges in China, many are scaling back plans for new stores and choosing sites more carefully. In some regions, such as Latin America and Central Asia, more retailers are opening in smaller countries to hone their regional strategies before entering larger markets.

The GRDI ranks the top 30 developing countries for retail investment based on several macroeconomic and retail-specific variables (see appendix: About the Global Retail Development Index on page 25). The study is unique because it not only identifies the markets that are most successful today, but also focuses on those that offer the most potential. Some markets are flourishing and exciting, and some, frankly, are challenging for strategic retailers. Figure 1 on page 2 highlights the top 30 countries in the rankings. This year's GRDI also includes the fourth Retail Apparel Index; the E-Commerce Index, which was unveiled last year, will be published later this year.

The 2013 GRDI Findings

South America is blossoming as Brazil, Chile, and Uruguay take the top three spots in the Index. Peru, Panama, and Mexico also shine, but some other markets, such as Venezuela, Argentina, and Bolivia, have room for improvement.

The BRIC markets (Brazil, Russia, India, and China) remain the magnificent monsters for global retailers—huge, attractive markets—but their paths have diverged. Whereas the BRIC countries were in unison in their growth 12 years ago—when the BRIC concept was first conceived by British economist Jim O'Neill—now each is following different paths to the future (see sidebar: Is the BRIC Crumbling? on page 4).

Sub-Saharan Africa continues to build momentum, with Botswana and Namibia in the rankings and a few other nations on the cusp. Considering that by 2100, five of the 12 most populous countries in the world will be in Africa, there is no doubt that this continent is a dramatic retail opportunity—for those that can navigate the business and political risks.

Once again, some new markets on the rise may surprise even the most seasoned retail veterans. The strong rankings for "little gems"—small-population countries with unique characteristics of wealth and consumer focus—remain a main theme of the GRDI. This year's gems include Uruguay (3rd in the rankings), Mongolia (7th), Georgia (8th), and Armenia (10th), among others. For luxury retailers, these are newfound hubs. For general retailers, they can be the beginning of a regional strategy.

Figure 1
2013 Global Retail Development Index™

On the radar | To consider | Lower priority

2013 rank	Country	Region	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2012
1	Brazil	Latin America	100.0	86.2	43.3	48.3	69.5	—
2	Chile	Latin America	95.6	100.0	18.7	54.3	67.1	—
3	Uruguay	Latin America	92.0	73.9	63.5	36.5	66.5	+1
4	China	Asia	62.1	67.9	34.3	100.0	66.1	–1
5	United Arab Emirates	MENA	95.8	94.6	3.0	60.8	63.5	+2
6	Turkey	Eastern Europe	86.8	83.7	28.9	50.9	62.6	+7
7	Mongolia	Asia	17.7	37.0	99.0	96.5	62.5	+2
8	Georgia	Central Asia	36.6	63.8	83.4	61.9	61.4	–2
9	Kuwait	MENA	87.8	87.1	36.4	22.2	58.4	+3
10	Armenia	Central Asia	32.3	63.6	93.5	43.6	58.2	N/A
11	Kazakhstan	Central Asia	44.1	51.9	76.2	57.8	57.5	+8
12	Peru	Latin America	52.9	60.4	63.4	49.3	56.5	–2
13	Malaysia	Asia	63.4	95.8	22.0	39.8	55.3	–2
14	India	Asia	36.8	59.4	63.3	60.6	55.0	–9
15	Sri Lanka	Asia	16.6	60.5	81.8	58.6	54.4	—
16	Saudi Arabia	MENA	71.4	79.2	35.6	30.7	54.2	–2
17	Oman	MENA	77.5	97.8	11.3	29.1	53.9	–9
18	Colombia	Latin America	59.2	73.6	43.0	32.4	52.1	+5
19	Indonesia	Asia	47.4	49.6	49.3	61.4	51.9	–3
20	Jordan	MENA	53.1	65.0	65.9	19.6	50.9	–2
21	Mexico	Latin America	79.0	75.0	12.1	30.6	49.2	+7
22	Panama	Latin America	49.7	70.8	37.2	37.2	48.7	+2
23	Russia	Eastern Europe	92.4	44.0	21.1	37.4	48.7	+3
24	Lebanon	MENA	74.1	32.9	48.6	38.4	48.5	–2
25	Botswana	Sub-Saharan Africa	38.7	82.0	31.8	38.5	47.8	–5
26	Namibia	Sub-Saharan Africa	20.8	77.1	12.6	73.2	45.9	N/A
27	Morocco	MENA	30.1	60.5	48.7	44.0	45.8	—
28	Macedonia	Eastern Europe	40.7	42.3	56.0	43.9	45.7	–7
29	Azerbaijan	Central Asia	28.5	26.0	90.3	37.3	45.5	–12
30	Albania	Eastern Europe	30.6	35.0	73.6	40.9	45.1	–5
			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: 2012 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

Shopping centers and malls (including strip malls and forecourts) drive much of the progress in organized retail, as they solve regulatory and real estate issues for many retailers as they expand. They also provide local, urban, and regional attractions for shoppers—not only as retail outlets, but also as town centers and multi-use environments. And when individual retailers cannot always account for the demographic impacts of aging, obesity, sustainability, and resource usage, shopping malls must, for reasons of economics (since energy is often more costly than real estate) and social responsibility.

The following is a region-by-region look at the GRDI's top 30 countries.

Latin America

Latin America has taken a dominating position in the GRDI, occupying the top three positions and seven of the top 30 overall. A strong and growing middle class, controlled inflation, sustained economic growth, and continued economic and political stability have increased consumer and investor confidence and created a favorable environment for retail development.

The expanding middle class continues to offer important growth opportunities, particularly as the retail footprint expands beyond main cities into the second and third tiers, where consumers increasingly prefer modern retail. And many local and regional retailers are providing strong competition for many of the international leaders. For example, Chile's Cencosud has expanded into neighboring countries, gaining strength in markets such as Peru and Colombia.

This year we also see important shopping mall activity. Brazil's Village Mall and JK Iguatemi and Chile's Costanera Center have served as platforms for the launch and expansion of international brands in Latin America.

Brazil: On top again. Brazil tops the GRDI for the third consecutive year. Despite a GDP slowdown (1 percent in 2012), retail spending remains strong and is expected to rise 11 percent in 2013 thanks to continued expansion, organic growth, infrastructure improvements, and rising consumer confidence. Stronger employment rates and increased credit access for Brazil's middle class—expected to grow to 113 million people by 2014, or roughly 56 percent of the population—are proving attractive to retailers. And the physical room for growth in Brazil remains wide. As international players continue expanding in São Paulo and Rio de Janeiro, modern retail is also spreading in Brazil's north and northeast and to larger interior cities.

Many international funds are showing confidence in the market. J.P. Morgan Asset Management invested more than $45 million in online fashion retailer Dafiti, and The Carlyle Group acquired an 85 percent stake in toy store chain Ri Happy, which will add 20 new stores to an existing 110 by the end of 2014.[1]

Brazil's leading retailers are adding sales area. Major players such as Wal-Mart, department store Riachuelo, apparel retailers Hering and Lojas Renner, and supermarkets Pão de Açúcar and Polishop are investing billions to open new stores, expand current ones, and improve technology. Drugstore RaiaDrogasil, fresh off the 2011 merger of Droga Raia and Drogasil, announced the acquisition of five of Drogaria's six stores, leading an expansion into Brazil's northeast. Chilean retailer Falabella recently acquired a controlling stake in Brazilian DIY chain Dicico, which operates 58 stores in the state of São Paulo.

[1] All monetary values are in U.S. dollars unless otherwise noted.

Is the BRIC Crumbling?

When British economist Jim O'Neill came up with the idea of the BRIC countries to describe Brazil, Russia, India, and China a dozen years ago, he was posing a growth challenge to the G7 nations. Today, not only has the G7 become the G8 and then the G20, but the idea that the BRIC countries would follow the same paths to growth—or even similar ones—is falling apart as all four take different paths.

Brazil is in the midst of a great run, with the 2014 World Cup, the 2016 Summer Olympics, terrific levels of foreign direct investment, and vibrant fashionable shoppers. But what happens after 2017? In the World Economic Forum's most recent Competitiveness Index, Brazil ranks high in size, sophistication, access to financing, and the use of information and communications technology. However, it posted low scores in key areas such as infrastructure, health, primary education, and government regulation and spending. Labor laws, a swollen welfare and pension budget, and an industrial sector that is shrinking as a percentage of GDP are hampering the country's long-term development. The next couple of years will be wonderful, but what happens after that?

Russia is in a difficult position—a triple threat of sorts. Natural resource prices are falling, the country has a current account debit balance and a budget deficit, and its demographic profile places a large burden on government funding mechanisms. Although geographically massive, Russia's population of 143 million (including autonomous regions) is relatively small and growing minimally. While middle-class spending and shopping behavior are vibrant and the Russian market is well-developed, what happens when the oil money dries up and the aging population starts to shrink? Could Russia benefit from shale gas?

India has a bumpy road to drive over the next few years. The country is a modern economy the size of Mexico working to provide educational and other opportunities to a rural population the size of sub-Saharan Africa. Two-thirds of the Indian states are surprisingly against open imports and foreign direct investment (FDI), in what could only be perceived as a conscious policy to stop global competitiveness. Still, there is a lot of good news in India as Indians get richer and more mobile. With the country poised to enjoy a demographic advantage for the next 40 years, it would be a shame not to seize all of the potential opportunities.

China needs to shift gears. Once everyone's darling as a source for manufacturing, China is facing problems that more investment will not solve. The biggest issue is that the Chinese continue to be savers rather than buyers, which means all the global monetary shenanigans and fiscal intensity cannot "push" when there is no "pull." To meet the expectations of becoming the world's number two economy in a few years, China must move from first gear—a high-energy, high-stress, high-ratio government push market—to second gear—a consumer pull market. Ideally, the country would take four to five percentage points of growth and use it to address environmental concerns about land, water, and human capital.

Luxury malls, such as JK Iguatemi in São Paulo and Village Mall in Rio de Janeiro, have served as the platform for the launch of several international brands, including Valentino, Miuccia Prada, Miu Miu, Goyard, Lanvin, Van Cleef & Arpels, Bare Minerals, Topshop, Dolce & Gabbana, and Nicole Miller. Gucci opened its first men-focused store, Mont Blanc is opening its 10th store, and Tiffany & Co. will open its fifth in Curitiba later this year.

Sephora opened at JK Iguatemi in June and plans to open four more stores in São Paulo and Rio de Janeiro. Zara has plans to open its first Zara Home in South America at JK Iguatemi.

The FIFA World Cup in 2014 and the Olympic Games in 2016 are drawing important investments in travel retail. Brasília International Airport plans to add more than 50 retail stores, and Dufry, the country's duty-free leader, will add retail space at São Paulo's Guarulhos International Airport and begin operating in Campinas's newly privatized Viracopos International Airport.

Chile: Sophisticated, attractive market. A highly sophisticated retail market once again propels Chile (2nd) to near the top of the GRDI. Retail sales are increasing steadily, and disposable incomes have expanded 10 percent in the past year. At $8,241, consumer spending ranks sixth among the GRDI's 30 countries. The country has maintained a high rate of economic growth for the past two decades, thanks to structural reforms, political stability, and an export-oriented economy that rewards investment. Low inflation (about 3 percent) supports growth in domestic consumption. As a result, Chile ranks highly in the GRDI for financial and political risks, which are in line with developed nations.

In a region historically dominated by strong domestic retailers, Walmart Chile's fast emergence as the country's supermarket leader has showed international players that they can win in this market.

After a downturn-related delay of a few years, the giant Costanera Center in Santiago opened in June. South America's largest mall is six stories tall and holds more than 100 shops, and is part of an ongoing development that will include the second-tallest building in the Southern Hemisphere. The mall's tenants include domestic hypermarkets Jumbo and Santa Isabel, Chile-based department stores Falabella, Paris, and Ripley, and foreign retailers such as Armani Exchange, Brooks Brothers, Hugo Boss, Swarovski, Tommy Hilfiger, Banana Republic, G-Star Raw, Façonnable, Longines, and Hard Rock Cafe.

Uruguay: Consumer spending on the rise. Uruguay (3rd) moves up one spot as consumer spending continues to increase. Historically dependent on its neighbors Brazil and Argentina, the country is becoming a core retail destination on its own merits.

There's nothing easy about a global expansion strategy in retail. Every market has its unique challenges that require unique strategies for success.

Several global brands have moved into the capital city of Montevideo and popular resort city Punta del Este to take advantage of Uruguay's economic growth, real estate availability, strong flow of tourists, and political stability. Louis Vuitton, Cartier, Yves Saint Laurent, Ermenegildo Zegna, Emporio Armani, and Calvin Klein have opened stores in Uruguay or plan to do so. Gap opened its first Uruguay store in December 2012 to enter its second South American market.

Peru: Steady growth. Peru (12th) has emerged as an attractive retail destination, with a growing economy and strong consumer confidence. As in other Latin American countries, the middle class is behind the opportunity: Income levels are rising following a minimum wage increase, employment rates are high, and access to credit remains strong.

Modern retailers are gaining against informal street vendors—the country's historical retail leaders—as consumers become more sophisticated and demanding. More are shopping in supermarkets for their wider variety of higher-quality products, particularly in Lima, the capital. To accelerate growth, supermarkets are now expanding to Lima's peripheral areas to target lower-income consumers, and big chains including Chile-based Cencosud and Supermercados Peruanos are expanding to other large cities such as Arequipa, Trujillo, and Chiclayo.

Department stores are drawn to the increased consumer spending. Cencosud launched its first Paris store and plans to open 12 more by 2014. Its competitors Falabella and Ripley have announced plans to expand operations across the country.

Colombia: Continuing its rise. Colombia (18th) reaches its highest GRDI ranking since the first Index in 2002. Long-term growth prospects appear strong, and strengthening domestic capital markets could reduce the economy's vulnerability to external forces, particularly the U.S. economy. Steady GDP growth (about 4.2 percent per year since 2001), low inflation rates (3.2 percent in 2012), moderate deficits, a floating exchange rate, and a strong political consensus on major economic policies give ample reason for optimism in coming years.

Portuguese retailer Jerónimo Martins began operating in Colombia at the start of 2013, with plans to open 30 to 40 new stores and invest $523 million in Colombia through 2015. French giant Carrefour sold its Colombian groceries to Cencosud for $2.6 billion. Colombian retailer Éxito is also expanding with the launch of a private label for personal care and cosmetics.

South America is blossoming as Brazil, Chile, and Uruguay take the top three spots in the Index.

Mexico: Renewed optimism. Mexico (21st) rises seven spots in the GRDI behind renewed optimism about the economic and political environment. Per-capita consumer spending grew 5.3 percent year over year, boosted by a stronger peso, lower interest rates that led to more credit availability, and moderate inflation. The medium-term outlook appears strong, thanks to a growing population, expected GDP growth, an improving job market, improving wages, and more consumer credit availability. Government investments in infrastructure and structural reforms will aid the overall business environment for attracting foreign direct investment and fostering additional economic growth.

Mexican retail sales were $211 billion in 2012—half through traditional channels such as mom-and-pop stores. Wal-Mart, Soriana, Comercial Mexicana, and OXXO account for roughly 60 percent of modern retail, and each has plans to expand. Modern retail is heavily concentrated in the largest cities, so midsized cities—40 in Mexico have more than 400,000 people—offer a prime expansion opportunity. Wal-Mart (with its Bodega Aurrera discount format), Soriana, Chedraui, and OXXO have already started moving into these cities.

Activity picked up in 2012. Costco Wholesale bought Comercial Mexicana's 50 percent stake in Costco Mexico to become sole owner. Payless ShoeSource signed an agreement with Mexican franchise operator Grupo Axo to open 41 stores in the next three years. Fashion retailer H&M opened its first store in Mexico City late in 2012.

Established bricks-and-mortar retailers lead the e-commerce market, which has grown to $3 billion. Top players include Liverpool, El Palacio de Hierro, Coppel, Wal-Mart, and Soriana, along with U.S. online shopping giant Amazon. Apparel retailers such as Gap, J. Crew, and Nordstrom now offer shipping to Mexico.

Panama: Big spenders. Panama (22nd) has one of the world's fastest-growing economies as infrastructure developments (such as expansion of the Panama Canal, the Panama City Metro, and the airport), easier trade, increased foreign investment, rising tourism, and greater manufacturing exports increase spending and reduce dependence on the U.S. economy.

Total grocery spending is $9.3 billion and non-grocery spending is $10.4 billion; of that spending, only 46 percent is in modern retail. Consumers are trading up to higher-value products, and low-income consumers are buying more at retail outlets.

Local supermarket chains Rey and Super 99 own close to 180 outlets. International retailers are now entering, including Gap and Banana Republic, which opened shops in 2011, and Vitamin Shoppe, which entered in 2013.

Asia

Six Asian countries rank in the GRDI. Asia has felt the effects of the global economic slowdown, but consumer spending growth, continued adoption of modern retail, and solid economic fundamentals keep Asian markets attractive to global retailers.

China slips to 4th in the rankings, but it remains a retail powerhouse, both in bricks-and-mortar stores and online, as consumers outside of major cities flock to modern retail formats. Other promising markets in Asia include smaller gems such as Mongolia and Sri Lanka and large markets such as India, Malaysia, and Indonesia.

China: A global retail leader. China (4th) falls one spot in the rankings, but its retail market remains irresistible to global retailers of every stripe. With double-digit sales growth and rising consumer demand (albeit somewhat more slowly), China remains a dynamic retail environment.

Small- and medium-sized stores are gaining popularity due to their lower-priced offerings and formats that cater to Chinese shopping habits. PARKnSHOP, a leading Hong Kong grocer, plans to open 300 midsized supermarkets in South China over the next few years. In 2009, Wal-Mart began operating convenience stores, the focus of its long-term China strategy. Still, the hypermarket format has room for growth. For example, Sun Art Retail Group, which operates Auchan and RT-Mart stores in China, had 14.3 percent revenue growth in 2012 as it expanded rapidly with 43 new stores.

Malls are growing more popular as they add more shopping and entertainment alternatives into the mix. There are now 3,100 malls in China, with 288 added in 2012, primarily in tier 2 and 3 cities.

The luxury segment has suffered recently as consumers purchase more goods abroad and amid tighter regulations on gifting to government officials. Major luxury brands are rethinking their expansion plans in China. For example, Gucci reduced its Chinese expansion plans to three or four new stores per year (rather than 10 to 15) and will now focus more on same-store sales growth. Still, Chinese consumers are hungry for luxury goods, and we expect demand to recover eventually.

E-commerce now represents as much as 10 percent of retail revenues in some categories. Total online sales reached $207 billion in 2012, and continued growth is expected. Online players are using heavy promotions to grab share from bricks-and-mortar stores. For example, on Singles Day, a Chinese equivalent of the U.S.'s Cyber Monday, online sales surpassed $3 billion. Another encouraging sign: Alibaba, the leading business-to-business e-commerce player, announced that it is earning a profit again.

Still, distribution and a strong presence in the right bricks-and-mortar channels remain crucial to success in China. In personal care, department stores remain the most important channel, especially in tier 3 and 4 cities. Successful traditional players are able to manage real estate and labor costs, understand local customer preferences, and take advantage of the growing online channel and competition.

Mongolia: A strengthening economy. Mongolia (7th) boasts Asia's fastest-growing economy, thanks to copper and coal mining. As the retail sector grows, the demand for an educated workforce is growing, so the focus is on training, education, and ensuring that enough resources are available.

Retail in Mongolia is evolving rapidly. Due to its relatively small population and size, specialty retailers are slow to move in, but large retailers have not been shy. There are an estimated 60 supermarkets and hypermarkets and 2,500 local operations as of 2012, and those numbers are growing. Carrefour opened its first hypermarket in early 2013, and KFC is planning four stores in 2013.

Continued adoption of modern retail and solid economic fundamentals have kept **Asian markets attractive to global retailers.**

The Central Tower in capital city Ulan Bator hosts Louis Vuitton, Zegna, Hugo Boss, Mont Blanc, and Apple, among other brands. Burberry, already in Central Tower, plans a new store in Mongolia's first Shangri-La Hotel, slated for completion in 2013. The Village @ Nukht will open in 2013 and become one of Mongolia's largest retail and office spaces.

Local food chains Nomin, Orgil, Sansar, and Bosa and department store Sky continue to dominate; they bring in outside influences by importing many of their goods.

Political developments are worth monitoring, and the risk of inflation has also been a concern, although it has slowed down in 2013 from the double-digit rates of 2012. With only 2.8 million people—40 percent of whom work in agriculture—immigrants may be the next source for retail employees. Foreign retailers will have to keep an eye on any additional limitations and delays in importing goods into Mongolia.

Malaysia: A continued standout. While growth is slower than in years past, Malaysia (13th) has had steady economic growth, solid retail growth, and overall political and infrastructure stability. By 2030, more than four-fifths of its population will live in cities, which will increase the demand for modern retail. Contentious 2013 elections—the closest in the country's history—have slightly dampened consumer enthusiasm on big-ticket retail items, but sales are expected to pick up again and government initiatives have been targeted to improve the retail sector.

A larger middle class will drive demand for premium food items such as confectionaries and functional foods. High-value imports have strong growth potential in Malaysia, a net importer of food products. Traditional grocery outlets, wet markets, and vegetable vendors remain the most popular grocery channels, but modern retail is gaining ground, and Malaysia is at the forefront

of many international retailers' expansion plans. Tesco expanded in both Malaysia and Thailand, and Japanese grocer Aeon acquired Carrefour's Malaysian assets in November of 2012, part of a plan to make Malaysia its Southeast Asian headquarters. It plans to expand its existing footprint to 100 outlets by 2020.

In other areas of retail, Italian jeweler Damaini named Malaysia as one of the brand's most appealing emerging markets. Japanese apparel retailer Uniqlo expanded with two new stores in shopping malls in 2012.

India: Growth slowdown, but still strong. The global slowdown hasn't spared India, whose GDP growth rate slipped to 5 percent, down from a 10-year average of 7.8 percent. Same-store sales volume growth slowed in 2012 across retail, particularly for lifestyle and value-based formats. India falls nine spots in the GRDI to 14th; its previous low ranking was 6th place in the inaugural Index in 2002, and it was first as recently as 2009.

High operating costs, low bargaining power with vendors, and heavy discounting to improve sales have affected profits and expansion plans. Real estate cost and space availability also remain important issues. Many players are actively looking at improving sales productivity, cutting operating costs, and reducing store size.

However, the long-term fundamentals remain strong: in particular, a large, young, increasingly brand- and fashion-conscious population. Retail growth of 14 to 15 percent per year is expected through 2015. Modern retail remains limited (7 percent in 2012), but it is expected to grow as the country urbanizes and retailers make new investments.

In 2012, India's retail sector reached an important landmark: The government allowed 100 percent foreign direct investment in a single brand for the first time. Several single-branded retailers entered India in many sectors: apparel and beauty (including Brooks Brothers, Kenneth Cole, Sephora, and Armani Junior), standalone boutiques (including Roberto Cavalli and Christian Louboutin), and food (including Starbucks and Dunkin' Donuts). Large retailers such as IKEA are finalizing their India entry strategies.

In multi-brand retail, the government allowed 51 percent FDI starting in early 2013. However, there are preconditions about investment, sourcing, store locations, and state government approval. Although the government has received multiple investment proposals, many multi-brand players are taking a "wait-and-see" approach due to apprehensions about how the policy will be implemented.

Retailers are expanding in tier 2 and 3 cities as real estate costs in major metro areas skyrocket. Carrefour, Metro, and Bharti-Walmart have increased their presence in these markets.

Online shopping is in the early stages, with e-commerce sales equal to less than 1 percent of all retail sales, but growth is expected as more people access the Internet. Mobile phones, electronic appliances, apparel, movies, music, and books are the fastest-growing categories. New entrants, new business models, and new niche categories have flooded the market, yet few players have turned profitable yet.

Sri Lanka: Thriving with fresh investment. Since its civil war ended in 2009, the economy of Sri Lanka (15th) has grown, thanks in part to investments for roads and ports and tourism gains. GDP growth slumped recently due to economic struggles for key trading partners (the United States and Europe) and a devastating monsoon that weakened agricultural output.

As urbanization increases, demand for related housing goods will increase. Luxury goods demand is also growing among a small subset of the population. As the working-age population grows, spending on footwear, recreational activities, and apparel will rise.

The FDI policy is fairly open, with some conditions on partnership and investment requirements. Several global retailers entered in 2012, including British shoe retailer Clarks, Dubai-based Pure Gold Jewellers, Malaysian department store Parkson Retail, and Hong Kong-based apparel retailer Giordano.

Indonesia: Challenges for retail. Indonesia (19th) has had steady economic and retail growth, but slumping consumer optimism and increased regulatory pressures pose challenges.

Policymakers are targeting the retail sector to raise tax revenue and encourage local investment and manufacturing. New rules about the number of outlets a foreign franchiser can own and additional red tape concerning the import of foreign goods (for example, electronics and eggs) are aimed at boosting traffic for local goods. Recent rulings have indicated that foreign franchised stores and restaurants must carry 80 percent "local content." Government intervention in hypermarket planning may benefit smaller-scale groceries. And minimum wage increases and higher electricity bills could lower retailers' revenue growth.

Despite the regulatory pressures, Indonesia remains a magnet for foreign retailers, thanks to an expanding middle class and attractive real estate environment. Apple recently received government approval to open a bricks-and-mortar store in Jakarta and to begin direct-to-consumer retail online. Uniqlo is planning to enter in 2013, part of its Southeast Asian expansion plans. Courts Asia, a Singapore-based electronics and furniture retailer, is opening its first Indonesian store in 2014 and plans 10 more within five years. Thai retailer Central Retail Corporation plans to open its first store in Jakarta, and Japan's Aeon has confirmed plans to open new department stores.

Indonesians are becoming more accustomed to private labels, price promotions, and bulk selling—indications that they are becoming more accepting of modern retailing. Private label brands, which account for about 8 percent of sales, saw the highest growth in all of Southeast Asia.

Central Asia and Eastern Europe

Central Asia and Eastern Europe offer fertile ground for retailers. With economic stalwarts such as Turkey and Russia improving their standing and little "gems" such as Armenia becoming more attractive to global players, these markets have avoided the stagnation of their more developed Western European neighbors.

In Turkey and Russia, retail expansion is fueled by strong consumer demand and high levels of disposable income. The modern retail environment is becoming more diverse in these markets, with sectors such as luxury, apparel, and consumer electronics booming and quickly expanding outside of major cities.

Smaller countries such as Georgia and Kazakhstan may not be the first destinations for international retailers, yet their growing pockets of wealth, improving economic stability, and consistent growth have proven attractive to specialty retailers. These markets are adopting modern retail formats, providing a window of opportunity for international retailers to establish presence in the

region. Meanwhile, Macedonia and Albania remain attractive to some international retailers, particularly from neighboring markets, yet their potential has fallen compared to other developing markets in the GRDI because of their small size and low levels of consumer wealth.

Turkey: Growing and attractive. While Western Europe struggles, Turkey continues to grow. It moves up seven spots in the GRDI to take 6th place—its highest ranking since 2003. Based on our "window of opportunity" analysis, Turkey is nearing its peak growth stage (see figure 2 on page 12).

Turkey's market is competitive, with expansion leading to lower profitability. Finding available spots in attractive retail locations is difficult and has been a major reason for retail acquisitions. In coming years, retailers will likely focus more on improving store operations as the incremental returns from store expansion diminish.

Central Asia and Eastern Europe have avoided the stagnation of their more developed Western European neighbors.

The growing economy, favorable consumer demographics, and a relatively fragmented retail landscape make Turkey attractive to international retailers. Disposable income has increased at a CAGR of 3.6 percent since 2005, while the percentage of households earning less than $15,000 dropped from 53 percent to 45 percent. The middle class's expanding purchasing power is spurring sales growth, while wealthy locals and international tourists are increasing luxury goods sales.

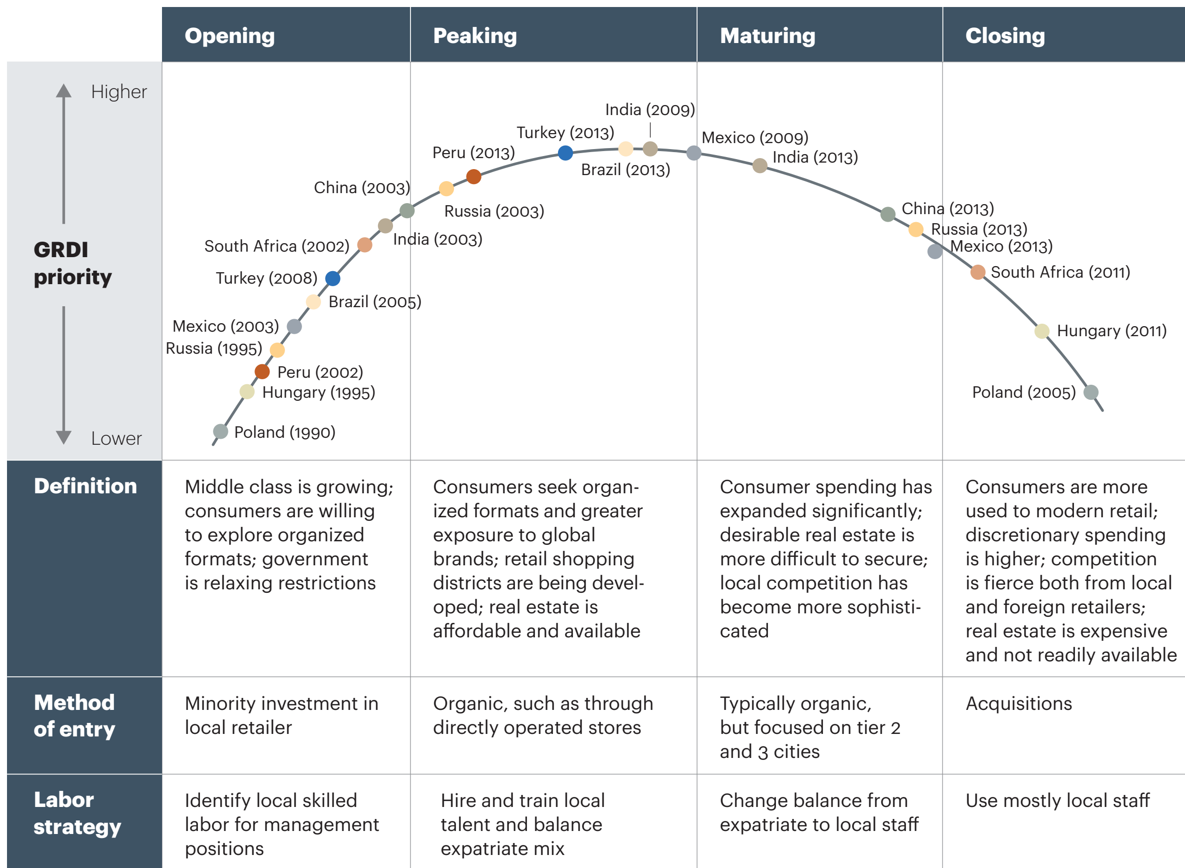
Modern formats account for only 40 percent of retail in Turkey, but new malls, e-commerce, and international entries will increase this share. Modern formats now make up 46 percent of a fragmented grocery market, with the top five grocers accounting for roughly one-tenth of the market. Independent convenience stores called *bakkals* remain popular but are slowly losing share. Modern grocers are aiming for *bakkals'* share by opening smaller shops, and hard discounters are making gains with price advantages. While regional grocers have consolidated in recent years, Tesco and Migros have made plans to expand with new store openings.

Shopping malls are now expanding to unexploited regions where traditional retail reigns, while e-commerce has grown 25 percent per year since 2007.

Many large international players are drawn to Turkey's growth prospects and low regulatory barriers. Apple is set to open its first retail store in Istanbul in 2013. French furniture company Conforama is expected to open its first store in a Carrefour hypermarket, and German furniture company Porta will open its first branded store outside of Germany. Dubai-based international retailer Landmark Group acquired a majority share in Turkish women's apparel retailer Park Bravo, and Qatar First Investment Bank purchased 40 percent of domestic furniture brand English Home. French cosmetics firm Yves Roches bought a majority stake in Turkish beauty products company Flormar. Premium shoemaker Christian Louboutin has partnered with Turkey's Boyner Group to open two stores. U.S.-based gourmet food retailer Dean & DeLuca opened its first store in Europe through a domestic licensee.

Figure 2

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

Exits from Turkey have been limited. German DIY chain Praktiker, facing operational and competitive challenges, left the market as part of a restructuring. Rocket Internet, a German firm with websites covering sports equipment, home accessories, and apparel, also closed down its Turkish operations in 2012.

Georgia: A good place to do business. A growing economy, rising household incomes, and a focus on reforming the business climate have international retailers seeking to set up shop in Georgia (8th). Georgia ranked 9th in the 2013 Ease of Doing Business rankings from the World Bank and International Finance Corporation.

The grocery sector has great potential, as traditional formats still dominate. In Tbilisi, the capital, only 20 percent of grocery retail is in modern formats, the rest dominated by traditional shops and open markets. Outside of Tbilisi, the share of modern grocery is only 8 percent. Carrefour opened its first store in Tbilisi in September 2012 and will open two more before targeting other larger cities, including Batumi, Rustavi, Kutaisi, and Telavi. French retailer Auchan signed an agreement with local grocer Goodwill to sell private-label products.

Local retailers are also driving growth. The Smart chain will open a new distribution center and as many as 28 new supermarkets and convenience stores, and grocer Nikora has plans to invest further. Ioli is expanding its supermarket presence, with plans to increase the number of stores to 30, and Populi plans to add 12 new convenience stores in Tbilisi.

Retail Group Georgia has driven much expansion in non-food retail. It opened 16 apparel stores in Tbilisi malls in April 2012 and plans to open five more by the end of 2013, including brand stores for Desigual, Marks & Spencer, Promod, Wallis, Miss Selfridge, Topshop, Topman, Red Equal, Banana Republic, Aldo, and Inditex.

Armenia: Accelerated retail growth. Rising incomes and improved living standards in Armenia (10th) have paved the way for retail growth. Armenia's government officially welcomes foreign investment, and several global indices rank it as a strong place to do business. There are challenges, however, including a small population (about 3 million), geographical isolation due to closed borders with Turkey and Azerbaijan, a relatively low per capita GDP of about $5,600, and corruption in both the official and commercial spheres.

Armenia's retail sector is still dominated by local players, and organized retail comprises only 10 to 12 percent of total sales, so foreign investors have significant room for development as supermarkets and grocery chains gradually replace open-air bazaars and street vendors.

Local grocers nearly doubled their number of stores in 2012; this year, they are focusing on expanding in smaller formats. The supermarket segment has grown and consolidated in recent years. Local retailer Star acquired the Fresh and Yerevan City chains, continuing its expansion into suburban areas and now accounting for half of modern retail sales in Armenia. Carrefour plans to enter the market by the end of 2013, but until then international grocers will have little presence in the market.

The Dalma Garden Mall, which opened in 2012, is Armenia's first Western-style shopping mall and the country's biggest retail area, with 24 international brands and plans to add 20 more. International retailers that entered the market in Dalma Garden include Gap, Zara, Bershka, Marks & Spencer, Stradivarius, Pull & Bear, Topshop, Accessorize, and New Yorker.

Kazakhstan: Improving prospects. Kazakhstan (11th) is moving up in the GRDI behind improving incomes, a growing economy, positive demographics, and an educated population. Household spending grew in 2012, and wage increases and government social spending will likely boost consumer spending into the future.

The retail market remains fragmented and unsaturated because of a scattered population, poor infrastructure leading to high logistics costs, and the population's relatively low purchasing power. However, some residents have money to spend, so international players are increasingly seeing Kazakhstan as an important destination.

Ten larger malls are under construction or planned for development in Kazakhstan. Almaty, the largest city, and Astana, the capital, account for more than half of retail sales in the country, and with competition becoming fierce, some developers are targeting other regions.

Most global players are working on a franchise basis through local and regional partnerships, but Inditex's 2011 buyout of its Zara, Pull & Bear, Stradivarius, Bershka, and Massimo Dutti brand stores demonstrates that this could change. Saks Fifth Avenue opened its first store in the new Esentai Mall in Almaty in October, and brands such as Louis Vuitton, Burberry, Stella McCartney, Gucci, Ralph Lauren, Dolce & Gabbana, Loro Piana, Tommy Hilfiger, Fendi, Breitling, G-Star Raw,

Lacoste, and Omega have entered as they seek new fashion hotspots. Saudi retailer Alhokair is set to double its presence in Kazakhstan, where it currently operates stores for many brands, including Gap, Accessorize, Monsoon, Aldo, La Senza, FG4, Topshop, and Lipsy, with more European and American brands in the pipeline. Russian online clothing leader Lamoda entered Kazakhstan's nascent e-commerce market in March 2012 as part of a broader regional push.

Russia: Spending slowdown, but still attractive. Although GDP growth is slowing in 2013, retail spending continues to develop, and Russia (23rd) remains attractive to retailers for several reasons.

First, Russia is entering the first stage of maturity, in which consumers don't necessarily cut their spending during turbulent times, but instead start spending wiser. Second, while Moscow and St. Petersburg are increasingly saturated, retailers are moving into other regions of Russia, which has 42 cities of 500,000 or more people. As of September 2012, Inditex had expanded its network to 274 stores across Russia with plans to open more, including a Zara outlet in the far eastern city of Vladivostok. H&M's sales in Russia grew 43 percent in 2012 as it opened 18 new stores across the country.

Although there was an influx of new shopping center space in 2012—46 percent more than in 2011—modern retail space and infrastructure remain in short supply, increasing the upfront costs and time to enter the market.

The food sector continues to expand. Major Russian grocers, including X5 Retail Group and Tander, are seeing double-digit yearly growth and enjoying solid margins. Auchan, which manages 52 outlets in Russia and has plans to triple its number of stores within five years, is unveiling its first Russian Auchan Drive outlet in Moscow in 2013; customers will be able to order groceries online and pick up the goods at a store without leaving their car.

Consumer electronics is another compelling sector in Russia, with growth of 30 percent or more expected between 2013 and 2016. With a switch to digital broadcasting expected by 2015, new TV sets and equipment could offer impressive growth. Additionally, smartphones are proliferating, thanks to technological investments by telecom operators.

Consumers' increasing sophistication has stimulated the beauty and luxury sectors. Ralph Lauren, Chanel, and Cartier opened new stores recently, and Sephora entered in 2012.

Macedonia: Still in early development. Prospects in Macedonia (28th) remain strong, although the eurozone recession, particularly the troubles for neighbors Greece and Italy, have hurt the economy.

Retail growth is concentrated in the expansion of hypermarkets, supermarkets, and convenience stores in the grocery sector. Marinopoulos SA (a Greece-based Carrefour franchisee) opened in the new Skopje City Mall, which opened last September in the capital and could draw apparel and specialty retailers to the country. Greece-based Vero, one of Macedonia's largest retailers, also launched a hypermarket format.

U.S.-based Domino's Pizza and German drugstore chain Drogerie Markt are among the new entrants in the market. Drogerie Markt's entry spurred local supermarket chain Tinex to add health and beauty products.

Azerbaijan: Challenges remain. Azerbaijan (29th) economy continues to grow, but the country is still struggling to improve economic freedom and attract foreign investment. The average income in Azerbaijan remains modest, with 75 percent of consumer goods spending on food.

The retail market has no standout national players. Bazarstore supermarket chain saw a sales increase in 2012 and announced it will triple the number of stores in Azerbaijan. Carrefour is also planning to open a store in Azerbaijan.

Baku, the capital, has become an attractive location for luxury retailers, as much of the country's wealth is concentrated there. Many major luxury and fashion brands are already in Azerbaijan, and more will enter with the opening of the Emporium, to be located in Port Baku Tower. It will house international fashion brands, including Victoria Beckham, Marc Jacobs, DKNY, DSquared2, Azzaro, Alexander McQueen, Amor & Psyche, Fendi, Carlos Miele, Herve Leger, Christopher Kane, Junya Watanabe, Sienna Miller, Andres Sarda, MSGM, Moncler, J Brand, and Paul Smith.

Albania: Positive growth continues. Although the economic situation in Greece and Italy has affected consumer spending in Albania (30th), government moves to liberalize the economic framework and improve the business environment are expected to drive recovery.

Belgian food retailer Delhaize has emerged as a leader in the market after its 2011 acquisition of Delta M Group, with 19 outlets in the country. Delhaize has been able to capitalize on its existing supply chain presence in Greece, Serbia, Bulgaria, and Romania. Carrefour's Marinopoulos franchise acquired the Euromax supermarket chain to strengthen its position in Albania and in the region overall. Slovenia's Mercator chain announced in January 2013 that it is leaving the Albania after three years to cut costs. Still, the market has plenty of room for growth. With small, independent stores dominating the landscape, the top five grocery players represent only 2 percent of the market.

Middle East and North Africa

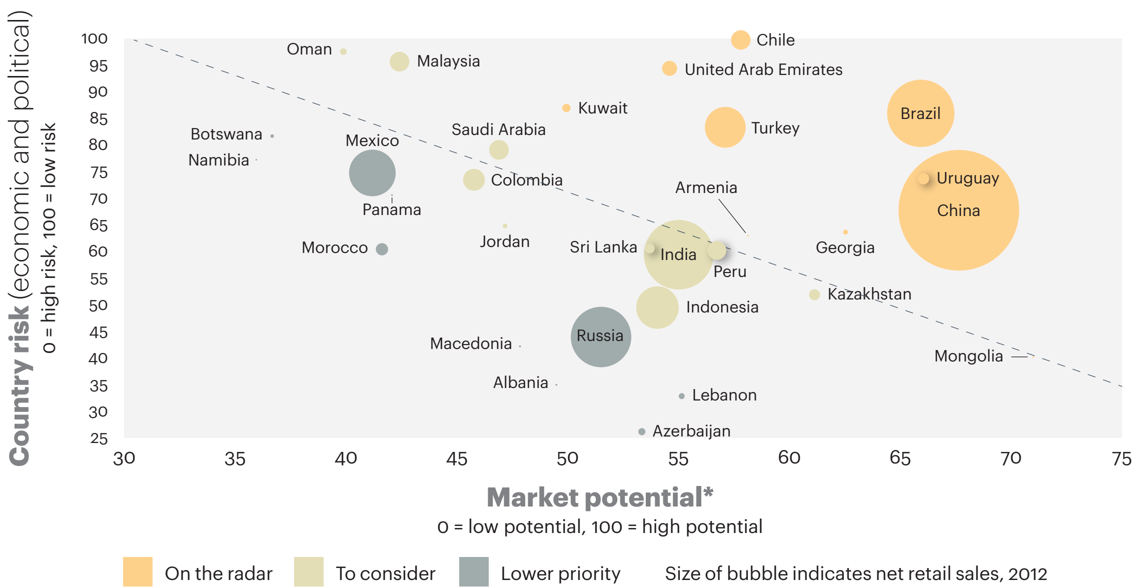
Economic growth and retail demand grew again in 2012 in the Middle East, fueled by increasing tourist flows and new retail projects. Comparing country risk and market potential, the Middle East features several of the most attractive markets in the Index (see figure 3 on page 16). Many industries and markets saw consolidation as they matured. Consumers across the region are becoming more sophisticated, demanding differentiated product and retail formats, with trends such as fresh food taking hold as young consumers strive for healthier lifestyles. Some markets, such as Saudi Arabia, remain largely untapped, with major development potential and increased retail space availability. Online sales are gaining popularity but remain a miniscule share of retail sales.

United Arab Emirates: A growing appetite for differentiated offerings. The UAE (5th) rises two spots, as its high retail sales and per-capita consumer spending, rising consumer confidence, slight population increase, and position as a regional tourism hub make it an attractive destination for retailers.

Malls are investing heavily in increasing their area and improving their mix of tenants. According to Jones Lang LaSalle, Dubai's gross leasable area (GLA) will increase 14 percent by 2015, and in Abu Dhabi, where mall space is scarce (the vacancy rate is 2 percent), GLA will rise 48 percent. Dubai is already home to Dubai Mall, the world's largest mall in terms of total area; plans are in the works for the Mall of the World, which would be the largest mall in the world.

Figure 3

2013 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

Demand continues to grow in Dubai, even as it is fully saturated with global brands. European concepts are fully represented now and no longer represent a way for malls to stand out. Demand is now shifting to American concepts and food and beverage. In 2012, Dubai saw the entry of U.S.-based brands Victoria's Secret, The Cheesecake Factory, and IHOP through franchise agreements. Majid Al Futtaim Fashion announced a joint venture with U.S. apparel retailers Abercrombie & Fitch and Hollister.

Retailers are updating and repackaging their existing offerings. Chalhoub Group, a leading luxury retailer, opened the largest shoe store in the world in Dubai Mall, featuring leading brands such as Gucci, Prada, and Louis Vuitton. Prada opened its biggest boutique in the Middle East in Dubai Mall at the end of 2012. The Dubai-based Apparel Group signed a 10-year agreement with the Children's Place to open stores across the UAE, Kuwait, Qatar, Oman, and Bahrain. Following the successful Saudi Arabia launch of F&F (the fashion line of Tesco), Wal-Mart announced it would expand its George fashion label to the Middle East in its Asda stores, in a partnership with Beirut-based Azadea Group. One store has already been opened in the emirate of Sharjah, with a second planned for May in Amman.

In Abu Dhabi, where famous cultural names such as the Louvre, Guggenheim, and Sorbonne are planning to open branches, tourists and foreign residents are driving retail growth. Major investments in infrastructure, universities, arts, and cultural events are taking place, and consumers are demonstrating an appetite for luxury concepts. The scheduled 2013 openings of Yas Mall and The Galleria, in addition to planned developments such as Sowwah Central and The District, promise to draw top designer brands such as Dolce & Gabbana, Miu Miu, and Cartier, along with famous food and beverage outlets such as Armani Café. Bloomingdale's has announced plans to open a store in Abu Dhabi, and Yves Saint Laurent recently formed a joint venture with Al Tayer and plans to open an Abu Dhabi flagship in 2013.

Kuwait: Continuing its slow climb. Kuwait (9th) rises three spots as its economy grows steadily and outlook remains favorable amid increasing consumer spending and a greater presence of international retailers.

In line with an optimistic economic outlook for 2013, the retail sector is expanding and demand for retail space is growing despite expensive real estate. The country's largest mall, The Avenues, opened its phase-three extension in 2012, and other developments, such as the Gate Mall, are opening their doors in 2013. The country's mostly urban and suburban population has high levels of disposable income, and Kuwaitis are drawn to luxury products and high-end concepts. The Avenues' new extension includes a street area of high-end standalone shops to cater to this luxury demand.

Kuwait is typically the second MENA location (after the UAE) for international brands. International retailers Cheesecake Factory, Victoria's Secret, and COS entered in 2012 with franchise agreements with Kuwaiti retailer M.H. Alshaya Co. Prada opened its second Kuwait store at The Avenues in early 2013.

Comparing country risk and market potential, **the Middle East features some of the GRDI's most attractive markets.**

While the luxury market remains bright, Kuwait is a difficult environment in sectors with slim margins. In grocery, for example, large and well-established retailers (such as Sultan Center, City Centre, and Casino), expensive retail estate, and limited space for expansion pose obstacles for entry by foreign grocery retailers.

Saudi Arabia: Solid growth and untapped potential. The retail fundamentals in Saudi Arabia (16th) remain strong: The country is a growing retail destination with massive untapped potential. Consumer confidence levels are among the highest in MENA, and many market studies show that Saudis are among the most eager consumers in the world. Retail sales are expected to increase by 11 percent in 2013. Retail sales per capita and disposable income remain lower than some of the neighboring locations, so there is plenty of room for growth. Furthermore, Saudi Arabia is visited by more than 12 million religious tourists per year, driving the need for tailored offerings catering to an important, diverse consumer group. Companies have already started large projects to address this niche, including the Abraj Al-Bait Towers in Mecca that will include hotels and shopping centers.

Saudi consumer electronics retailer eXtra went public in a $105 million offering in 2012, and Saudi sales drove much of the growth of Dubai-based luxury retailer Chalhoub Group. Although smaller store sizes remain most popular in residential areas, hypermarkets are spreading, with Al-Azizia Panda United, Bin Dawood, Majid Al Futtaim, Al Othaim, and LuLu accounting for roughly 60 percent of the market. Supermarkets and convenience stores remain fragmented markets, with leading players accounting for just around 20 to 30 percent of the market.

In apparel, outdoor markets with unbranded products still hold a central role. Still, brands such as H&M, Bershka, and New Look are established in the market, while others such as Galeries Lafayette, Burberry, and Children's Place have recently entered or plan to. Foreign apparel

companies in Saudi Arabia require a local partner with majority ownership, so this has helped the growth of large Saudi companies that distribute for several brands, including Fawaz Al Hokair Group and Al Bandar Trading.

Tesco announced it will expand its F&F fashion line in the Middle East with 19 outlets, in partnership with Saudi Arabia's Fawaz Abdulaziz Al Hokair Group. Globe Group opened second stores for Italian brands Furla and Liu Jo in Jeddah. Among the retailers to leave was Saks Fifth Avenue, which left a 65,000-square-foot store in Riyadh after its 10-year agreement with the Kingdom Centre expired.

Oman: Consolidated yet stable. Oman (17th) dropped nine spots after its strong GRDI debut in 2012, as its retail development slowed down while other faster-growing and developing markets surged forward. Still, Oman remains relatively stable, with steady economic and retail growth and strong consumer confidence.

The top grocery retailers (LuLu, Carrefour, and Al Safeer) represent more than half of the market, and modern retail represents 44 percent of the market. Outside of the capital, Muscat, modern retail opportunities are limited, and traditional stores and souks remain very popular.

The luxury segment is picking up. For example, the high-end residential complex The Wave has ushered in the construction of Al Marsa Village Retail Centre, anchored by a Waitrose convenience store. International beauty brands Bobbi Brown and Bath & Body Works made their Oman debuts in Muscat City Centre. Qatar-based retailer Al Meera has signed an agreement to acquire hypermarkets and supermarkets in Oman as it expands across the Gulf.

Jordan: An attractive opportunity. Jordan (20th) remains a steady spot for retailers despite political turmoil in neighboring Syria.

Jordan's economy is heavily dependent on tourism. Tourism revenues increased 15 percent last year despite a 7 percent decline in arrivals, signaling a shift to more premium tourism.

Tourism industry ambitions have been reinforced by several developments. Jordan recently opened a new $750 million terminal at Amman's Queen Alia International Airport, which includes a new 2,600-square-meter duty-free shop managed by World Duty Free. Jordan is also strengthening its tourism credentials with large mixed-use real estate developments, particularly on the shores of the Red Sea. The multiphase Marsa Zayed project in Aqaba includes hotels and retail outlets, in addition to residential units.

British retailer Marks & Spencer opened its first Jordanian location, a 900-square-meter outlet brought by the UAE's Al Futtaim Group. Italian clothing retailer Ermenegildo Zegna entered Jordan with a new store opening, in partnership with Aishti. U.S. furniture retailer Ashley Furniture HomeStore opened its first Middle East outlet in Jordan and plans three more locations in the next three years. UK grocer Asda (a subsidiary of Wal-Mart) announced it will open a new store in Amman in 2013, part of regional expansion plans.

Lebanon: Stable retail despite political situation. Lebanon (24th) climbs two spots in the GRDI as the country's per-capita consumer spending rose 5 percent. The retail environment in Lebanon remains stable, even as civil war in neighboring Syria has raised anxieties.

Syria's two-year-old armed conflict has affected Lebanon's tourism and retail industries, particularly during the second half of 2012. In the third quarter, retail spending dropped 8.5 percent year-over-year. Additionally, Gulf states such as Saudi Arabia and Qatar issued

official travel bans against Lebanon, hampering tourist arrivals, especially during the popular Eid holidays. Recent rocket attacks into a Hezbollah stronghold in Beirut have raised worries that Syria's troubles could revive sectarian conflicts in Lebanon.

Real estate prices have risen in the past five years, fueled by strong demand from Lebanese expatriates and Gulf nationals. However, prices began stagnating in 2012 as demand dampened amid instability concerns and reduced consumer confidence, and Lebanon's property boom may come to a halt.

UAE developer Majid Al Futtaim has dominated the activity in Lebanon, including the development of the Beirut Waterfront, a $225 million mixed-use complex that includes residential, retail, and restaurant space. In 2013, Majid Al Futtaim opened Beirut City Centre, with 200 stores, 60,000 square meters of gross leasable area, and Lebanon's first Carrefour hypermarket.

Modern grocery, which stands only at 30 percent of the market now, is gaining a foothold. Joining Carrefour in Lebanon is Dutch grocer SPAR, which will enter in 2013 as part of a regional expansion plan that includes stores in Abu Dhabi and Qatar. Khoury Home, Lebanon's leading electronics and home appliances retailer, was acquired by a Middle East private equity fund with growth plans for the brand.

Morocco: Attracting investors. Morocco (27th) is recovering after a slowdown related to the recession in Europe and around the globe. The government has attracted foreign investors with its efforts to reduce the deficit and improve economic productivity.

Although the retail industry in Morocco remains in early development, urban consumers are flocking to shopping centers, supermarkets, hypermarkets, and discounters as they seek lower-cost formats.

Carrefour franchisee Label'Vie plans to open two Carrefour hypermarkets in Fez and Oujda. Carrefour also introduced five new cash-and-carry outlets under the banner of its Brazilian subsidiary, Atacadão. Tunisian grocer Monoprix (owned by France's Casino Group) announced it would open 15 supermarkets between 2013 and 2015, part of a franchise agreement with Mabrouk. Saudi grocer Bin Dawood is also planning stores in Morocco and has taken a 30 percent stake in local retailer Aswak Assalam.

The Morocco Mall in Casablanca, which opened in 2011, is one of the most modern in the world and has received acclaim for its superior shopping experience. It has drawn foreign entrants into Morocco, including Prada, which recently opened a Miu Miu flagship.

Sub-Saharan Africa

Sub-Saharan Africa is getting a closer look from regional and global wholesalers and retailers seeking high-growth opportunities. The population is young (one-third is between 10 and 24 years old) and fast-growing (2.4 percent per year, second fastest in the world), and GDP has grown steadily as well. It is also urbanizing rapidly, with a burgeoning middle-income class and growing discretionary incomes creating growth momentum. Web and mobile connections have also spread rapidly. The region also has unique and challenging obstacles: a largely underdeveloped infrastructure, which makes building a sustainable supply chain difficult; heavy economic dependence on agricultural production; and price-sensitive consumers and high inflation that have slowed the advance of modern retail.

Botswana and Namibia are ranked in this year's GRDI, but the region as a whole bears watching. For example, Ethiopia is a rising retail market, exemplified by recent growth and news reports that Wal-Mart (already present in 12 other Sub-Saharan Africa countries) has negotiated with the government to enter the market. Ethiopia has a large population—roughly 87 million, second in Africa only to Nigeria (170 million) and ahead of Egypt (82 million), Democratic Republic of the Congo (69 million), and South Africa (51 million)—and it is growing 3.5 percent per year.[2] More than half of the population is under 24 years old, and the middle class has grown to 15 percent of the population. The country is urbanizing as more people seek shelter and jobs in city areas, and increasing per-capita wealth is creating a surge in modern grocery. Even as the market remains immature, mini- and supermarkets are spreading, addressing the changing needs of wealthier Ethiopians and new expatriates.

Sub-Saharan Africa is getting a closer look from regional and global retailers seeking high-growth opportunities.

As in Asia and Latin America, retailers must understand the diversity and challenges of different African markets and modify their strategies accordingly.

Botswana: Strong retail growth. A landlocked country of 2 million people north of South Africa with a stable political situation, Botswana (25th) saw nearly 6 percent GDP growth in 2012. Retail has grown 11 percent annually in the past five years and is now the economy's second-biggest job provider. However, the country still faces challenges such as unemployment, low wages, and high rates of HIV in its working population.

In grocery, local chain Choppies (which has expanded to pharmaceutical products) and SPAR lead the market. Wal-Mart has a presence in the cash-and-carry, home improvement, and supermarket formats through its 2011 acquisition of Massmart. South African department store Woolworths has plans to acquire its franchised business in Botswana, while Shoprite also plans to expand its presence.

Shopping malls are spreading, a clear sign of retail development. Rail Park Mall opened in late 2011, and in 2012 the Airport Junction shopping center added 50,000 square meters of retail space. Tenants at Airport Junction include KFC and Samsung, which opened its second Botswana brand store, following the opening of a Ghana store, part of a broader African expansion plan.

Namibia: Rising regional star. Namibia (26th), one of Sub-Saharan Africa's fastest-growing markets, makes its GRDI debut amid strong consumer spending growth, political stability, and a business-friendly environment. High unemployment and income inequality are challenges in Namibia, but a government program is aiming to create new jobs.

Retail remains a largely unexplored territory in Namibia, although international investors have flooded the market with money in natural resources and primary sectors in recent years. The leading domestic retailer is grocer Woermann Brock, but regional players such as Shoprite, Pick & Pay, Woolworths, and Massmart from neighboring South Africa and Netherlands-based

[2] Population statistics are from the Population Reference Bureau.

grocer SPAR dominate. More South African retailers are entering and expanding in the country, including Scooters Pizza, which recently opened its third Namibian store, and Van Schaik Bookstore.

South African developer Atterbury has announced plans to develop the largest mall in Namibia, to open in September 2014. This mall will include electronics retailer Game, Shoprite, Woolworths, Edgars, and SPAR, along with several other regional brands that are making their Namibian debuts.

Most apparel brands are local or from South Africa, but an expansion of the Maerua Mall and the construction of the Grove Mall, both in the capital of Windhoek, are expected to draw more international retailers.

GRDI Apparel Index

This year we release our fourth Retail Apparel Index, which identifies the top 10 countries ranked in the GRDI in terms of market attractiveness, retail development, and country risk for their clothing retail industries (see appendix: About the Retail Apparel Index on page 26).

Since the last Apparel Index in 2011, Western apparel retailers have increasingly looked for growth from developing markets, where apparel spending remains strong as disposable incomes rise. E-commerce has also developed significantly for both local and international players. Although it remains a relatively small percentage of total apparel sales, e-commerce could significantly alter bricks-and-mortar strategies, particularly in tier 2 and 3 cities.

Eight of the top 10 from 2011 remain the same, with China on top again. Meanwhile, Latin America and the Middle East continue to offer compelling regional opportunities (see figure 4).

Figure 4
The 2013 Retail Apparel Index

2013 rank	Country	Market Attractiveness	Retail Development	Country Risk	Score
1	China	40.2	10.8	11.8	62.8
2	United Arab Emirates	39.1	7.2	16.0	62.4
3	Chile	32.8	7.8	17.4	57.9
4	Kuwait	38.8	5.5	12.8	57.2
5	Brazil	33.5	9.9	12.1	55.5
6	Saudi Arabia	36.2	5.6	13.2	55.0
7	Russia	36.5	9.3	8.6	54.4
8	Malaysia	30.4	6.0	15.7	52.1
9	Mexico	26.9	11.8	11.7	50.4
10	Turkey	28.4	9.3	12.6	50.3

Source: A.T. Kearney analysis

Following is a look at some key regions among the top 10 apparel destinations.

China

China remains the top apparel market due to its market size and strong growth in clothing sales. Three trends have shaped China's apparel market: the rise of e-commerce, a boom in fast fashion, and the evolution of the luxury market.

The rise of e-commerce. In most emerging markets, e-commerce is less than 1 percent of total sales; in China, it is 6 percent, higher than in the United States, with growth predicted for the future. Importantly for the apparel industry, more than three-quarters of online sales in China are in apparel.

Taobao and Tmall (owned by Alibaba) processed $170 billion in transactions in 2012. Western brands and e-commerce players—including Macy's Neiman Marcus, Net-a-Porter, Yoox, and eBay (which partnered with xiu.com after a 2003 attempt to enter the market failed)—have entered the online fray, taking advantage of their access to inventory and brand recognition.

A "fast fashion" boom. The past year saw aggressive expansion plans from several "fast fashion" firms catering to a growing middle class that wants the latest apparel trends. Uniqlo opened 65 stores in China in fiscal year 2012, bringing its total count to 145, and it plans to add 100 stores a year to reach 1,000 stores. H&M opened 52 stores in 2012 and now has 134, while Zara launched 37 stores (for a total of 138 as of January 2013) and an online store. Gap has plans to open 35 stores in 2013.

With double-digit sales growth and rising consumer demand, **China remains irresistible** to global retailers of every stripe.

Other players are testing the waters with more cautious market entries. J.Crew will distribute apparel through luxury department store Lane Crawford's stores and website, while Topshop formed a retail subsidiary with Lane Crawford to open its first standalone store in Hong Kong. Forever 21 opened a flagship store in Beijing in January 2013 and plans to open a second store later this year.

Luxury evolution. China's luxury market remains strong—it surpassed Japan to become second largest in the world in 2012—but it is not growing as fast as in the past. One main reason is that a large portion of luxury purchases are made abroad, due to lower prices and a strong renminbi.

Still, global luxury retailers are drawn to China's massive market. Furla recently formed a joint venture with Fung Group to open more than 100 boutiques in Greater China. Ralph Lauren plans to open 60 stores in the next three years as it transitions from licensees to company-owned stores.

Luxury firms are adapting their expansion strategies. Several major players, such as Kering (formerly PPR), LVMH, and Richemont, are cutting back on store openings in tier 2 and 3 cities; Hermes will now only open one store in one new city per year. Apparel firms are focusing on quality rather than quantity: finding the right locations in existing cities and improving customer experience. This makes prime real estate and good salespeople crucial for success.

Consumer tastes are evolving. Chinese consumers are seeking newness and are growing more interested in lesser-known brands and multibrand and department stores. Lane Crawford will open two stores in Shanghai and Chengdu in 2013, 10 Corso Como will open its first store in fall 2013, and Galeries Lafayette will return to Beijing in fall 2013 after its failed entry in 1997. In May, Camera della Moda, which organizes Milan Fashion Week, signed an agreement to bring smaller Italian brands to China through new, multibrand distribution channels.

Latin America

As in the main Index, Latin America takes a strong position in the Apparel Index, led by Chile (3rd), Brazil (5th), and Mexico (9th).

Apparel retailers have aggressive expansion plans for the region. Gap, which has currently has 36 Latin American stores (including 28 in Mexico and four in Chile), plans to open 30 more by 2014, including its first Brazilian store in 2013. Zara has 150 stores in Latin America (including 56 in Mexico and 39 in Brazil), including 12 new ones in 2012. Façonnable has plans to open directly operated stores in Latin America, including units in Peru, Mexico, and Brazil. Michael Kors recently entered into a joint venture with Exclusive Brands International to expand its retail and wholesale presence in Central and South America.

Brazil is by far South America's largest apparel market, with $42 billion in sales, compared to $14 billion for second-place Mexico. The luxury market alone is forecast to grow to more than $48 billion by 2025. Still, up to 80 percent of luxury purchases are made outside of Brazil due to import challenges, including high tariffs that nearly triple the cost of imported products relative to the United States and France. Zara has countered the challenge of high tariffs by moving roughly 40 percent of its production onshore, according to *Financial Times*. However, most retailers lack the scale to make this a viable option.

What this means is that while Brazil's fashion market remains attractive, retailers typically expand first (or faster) into Chile and Mexico before tackling the challenging business conditions of Brazil. In Mexico, tariff reductions on goods made in China have helped open the market to fast fashion brands. Forever 21, Gap, and H&M all opened their first Mexican stores in late 2012, American Eagle plans four new stores in 2013, and Payless ShoeSource plans 41 stores by the end of 2013.

Middle East

The Middle East remains attractive in apparel, with the UAE (2nd), Kuwait (4th), and Saudi Arabia (6th) leading the way. Apparel retailers that have entered the Middle East range from mid-price to luxury, including Muji, Destination Maternity, Prada, and Furla. Many retailers are testing the waters in the UAE before venturing into the other markets due to its ease of doing business, sizeable retail segment, large expat community, and tourism. As an additional testament to the Middle East as fashion hub, Condé Nast's Style.com will launch in the Middle East in both Arabic and English in 2013.

Several notable apparel openings occurred in the UAE in 2012, including Level Shoe District, Prada, Muji, COS, Gap, Pomellato, Calvin Klein, Juicy Couture, and Destination Maternity. Bvlgari and Bloomingdale's plan new stores in 2013 in Abu Dhabi. Hollister opened its first Middle East store this year in the UAE, and Abercrombie & Fitch plans to open in 2014. Yves Saint Laurent formed a joint venture with local partner Al Tayer for direct entry but plans to open a flagship store in Abu Dhabi in 2013.

Newly available shopping space is bolstering the apparel industry's expansion. Most foreign retailers have found success by working with local partners such as Al Tayer, Alshaya, Rivoli Group, Majid Al-Futtaim, and Chalhoub due to FDI requirements and the ability of these major local players to operate in multiple countries within the Middle East. Some notable apparel entries in Kuwait include COS, Muji, Harvey Nichols, and Coach, which opened a dual-gender store.

Turkey

Foreign apparel retailers have gone from dipping their toes to entering Turkey with wide-eyed interest. The country continues to grow as a fashion capital with a slew of talented local designers. It even garnered the attention of Mercedes-Benz, which was Istanbul Fashion Week's title sponsor in 2013.

Turkey's strong macroeconomics—big population, rising middle class, and credit growth—are drawing apparel retailers such as Christian Louboutin, Aeropostale, Moncler, Superga, Dirk Bikkembergs, and Galeries Lafayette. Turkey is also in an ideal position as a production and logistics hub, with a 3.6 percent share in global textile and ready-wear exports. It ranks 7th in global cotton production, 4th in global open-end yarn production, and 2nd in European footwear production. Turkey's apparel exports have steadily climbed 22.7 percent since 2009.

Tapping into Developing Markets

In a dozen years, we've seen many changes, and this year's GRDI reflects continued change across the global retail landscape. But the role of developing markets—both big and small—as sources of growth for global retailers has not changed. Even amid global uncertainty, the leaders are seeking success by tapping into the fast growth of developing markets.

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This material was prepared in conjunction with the A.T. Kearney Global Consumer Institute, a worldwide network of professionals and executives. The Institute combines proprietary and public data resources with local knowledge to deliver strategic and operational insights to executives in consumer-facing industries seeking long-term growth and competitive advantage. For more information, please contact gci@atkearney.com.

Appendix:
About the Global Retail Development Index

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

- Country risk: 35 or higher in the Euromoney country-risk score
- Population size: two million or more
- Wealth: GDP per capita of more than $3,000 (Note: The GDP per capita threshold for countries with more than 35 million people is more flexible because of the market opportunity.)
- Modern grocery distribution sales area per capita: fewer than 200 square meters per capita

GRDI scores are based on the following four variables:

Country and business risk (25 percent)

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

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

Market attractiveness (25 percent)

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

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

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

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

Market saturation (25 percent)

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

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

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

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.

Appendix:
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.

A.T. Kearney

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