

The 2015 Global Retail Development Index™

Global Retail Expansion: An Unstoppable Force

Despite significant regional challenges, international retailers are taking the long-term view on investments in developing markets and are persisting in finding solutions.



Understanding the Retail Game

A.T. Kearney's Global Retail Development Index™ (GRDI) has guided global retailers with their strategic investments since 2002, a period in which the retail environment in developing markets has undergone massive transformation. Since the first edition, we have seen retailers entering smaller, prosperous markets as well as large ones, and a game that was once dominated by big-box retailers has now opened up to a great variety of specialty retailers. International retailers are also now more adept at tackling the individual challenges of each market, which require different strategies for success. Retailers' increased understanding of developing countries is more important today than ever before, as these markets struggle with shifting economic and political trends—sometimes in an extremely short timeframe.

Overall, retailers over the past year took a longer-term view of developing markets, staying put in turbulent regions while making targeted investments in areas of growth. In the Middle East and Latin America, for example, retailers took a more cautious approach to international expansion, but at the same time few made significant market exits. Russia is an exception. There, the heightened political risk has prompted sizeable closures or complete exits from players such as Adidas, franchisee Maratex, and Mexx, among others.

The GRDI ranks the top 30 developing countries for retail investment (see figure 1 on page 2). Using more than 20 macroeconomic and retail-specific variables, we identify not only the markets that are most successful today, but also those that offer future potential (see appendix: About the Global Retail Development Index on page 29).

In this year's special feature, we examine the prospects for luxury goods in developing markets. Luxury remains a bright spot in emerging markets, as the wealthy have proven less vulnerable to economic woes than the general population, and mall developers have taken advantage of increased consumer spending and mobility. In that section, we take a deep dive into which markets present the most long-term opportunity and how luxury brands are adapting their strategies to succeed.

The 2015 GRDI Findings

The relative instability in the developing world is reflected in the 2015 rankings. In the Middle East, markets were rocked by a record drop in oil prices and ongoing regional conflicts. Latin America falls from last year's heights as growth has decelerated amid concerns over structural economic issues. Meanwhile, Russia takes a big step back in the rankings under the weight of international sanctions and a financial crisis.

Regional winners this year include Asia, which outpaced other regions despite a slowdown in growth. China is the GRDI's top country for the first time since 2010, and its retail market is expected to grow to \$8 trillion by 2022.¹ Sub-Saharan Africa continues to make inroads into the rankings, with three countries (Botswana, Nigeria, and Angola) in the top 30 and several more on the verge of entering soon. And across the world, "small gems" such as Uruguay, Qatar (ranked for the first time), and Mongolia provide pockets of untapped potential in less populated markets.

¹ The GRDI defines retail as the sale of goods through physical and online channels. Categories considered include grocery, beauty and personal care, apparel and accessories, home goods, toys, electronics, and appliances. Categories such as motor vehicles and hotels are excluded. All monetary figures are in U.S. dollars unless otherwise noted.

Figure 1
2015 Global Retail Development Index™

2015 rank	Country	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2014	Population (million)	GD per capita (thousand)
1	China	66.7	55.7	42.3	96.6	65.3	1	1,364	13
2	Uruguay	93.3	60.4	68.0	38.9	65.1	1	3	20
3	Chile	98.2	100.0	13.0	37.9	62.3	2	18	23
4	Qatar	100.0	89.4	34.3	12.8	59.1	N/A	2	144
5	Mongolia	22.4	19.9	93.1	100.0	58.8	N/A	3	10
6	Georgia	36.5	39.1	78.8	79.2	58.4	1	5	8
7	United Arab Emirates	97.6	84.0	16.5	33.9	58.0	3	9	65
8	Brazil	98.0	60.4	45.2	28.0	57.9	3	203	15
9	Malaysia	75.6	68.8	29.3	52.7	56.6		30	25
10	Armenia	35.4	37.1	82.1	66.3	55.2	4	3	7
11	Turkey	83.1	48.1	40.2	44.8	54.1		77	20
12	Indonesia	50.6	35.5	55.1	65.9	51.8	3	251	10
13	Kazakhstan	49.6	34.2	72.5	50.7	51.8	-3	17	24
14	Sri Lanka	15.8	34.4	77.8	78.8	51.7	+4	21	10
15	India	30.5	39.8	75.7	58.5	51.1	+5	1,296	6
16	Peru	48.9	43.9	58.6	51.8	50.8	-3	31	12
17	Saudi Arabia	78.6	64.4	30.4	27.0	50.1	-1	31	54
18	Botswana	49.2	62.5	33.3	54.2	49.8	+8	2	16
19	Panama	62.3	46.8	49.7	37.6	49.1	-5	4	20
20	Colombia	55.6	49.3	52.0	39.1	49.0	+1	48	13
21	Russia	94.9	28.4	24.5	46.6	48.6	-9	144	25
22	Azerbaijan	33.9	26.9	82.4	46.8	47.5	+8	10	18
23	Nigeria	19.6	8.3	94.0	66.5	47.1	-4	178	6
24	Philippines	39.6	36.0	51.6	60.7	47.0	-1	100	7
25	Jordan	51.1	35.5	64.2	36.8	46.9	-3	8	12
26	Oman	75.0	77.3	24.9	9.8	46.7	-9	4	44
27	Kuwait	81.0	68.1	33.2	0.0	45.6	-19*	4	71
28	Costa Rica	66.9	49.2	38.7	25.1	45.0	-4	5	15
29	Mexico	82.5	56.1	0.2	38.8	44.4	-4	120	18
30	Angola	22.4	9.2	99.4	45.0	44.0	N/A	22	8

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
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Notes: PPP is purchasing power parity. For an interactive map of the GRDI top 30 countries, go to www.atkearney.com/consumer-products-retail/global-retail-development-index.

*The significant decline in Kuwait's position in the GRDI is partially due to a change in country-specific data sources (see page 17 for more details).

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

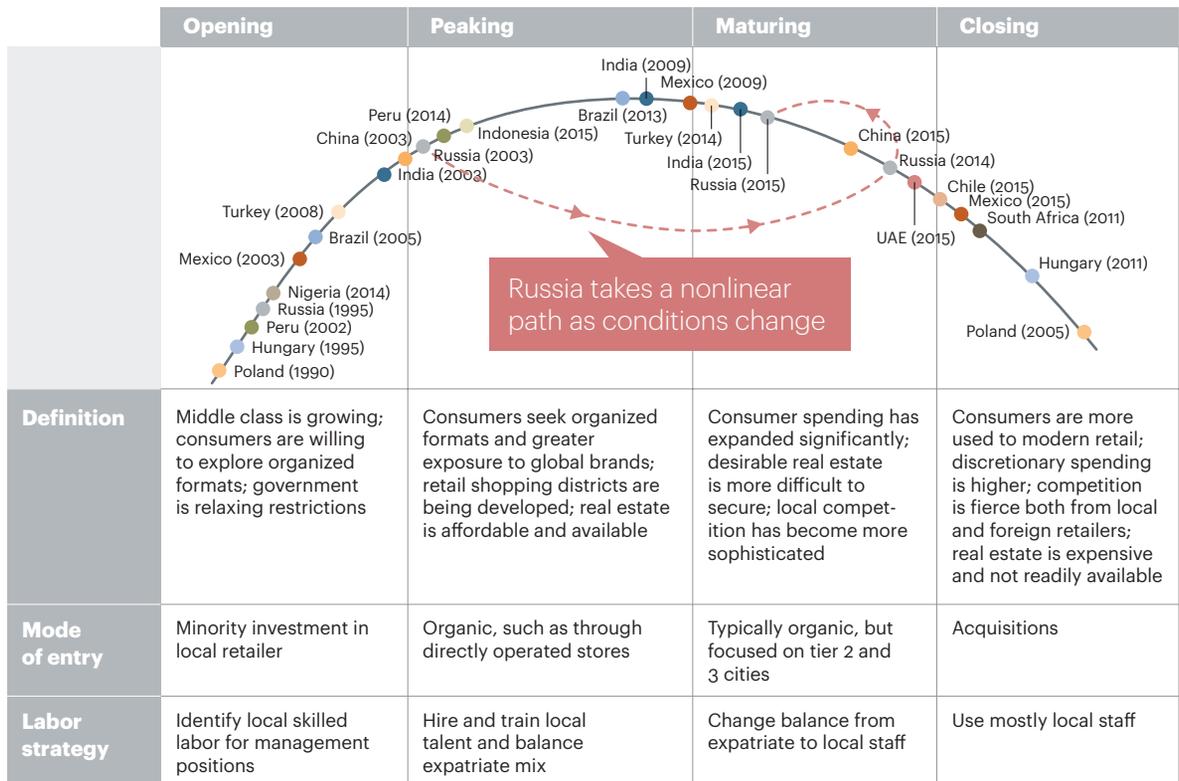
One of the GRDI's recurring themes is the "window of opportunity" for investing in physical retail in developing markets. The concept is based on the reality that markets pass through four stages of retail development (opening, peaking, maturing, and closing) as they evolve from informal trading to more mature, organized markets, in a process that typically spans 10 to 15 years. This year's chart, shown in figure 2 below, shows how markets such as Peru and Indonesia are beginning to peak, while others such as Chile and Mexico are near maturation. It also shows that the typical path and time frame can vary. For example, Russia's development has taken a nonlinear path as the country took a step back in 2014 due to increased risk.

In the following sections we take a country-by-country look at the GRDI's top 30 countries and their development over the past year.

Asia

Asia is always an attractive region for international retailers, and this year is no exception, as illustrated by nearly across-the-board improvement in the GRDI rankings, a continuous inflow of new entrants, and the development of modern retail in tier 2 and 3 cities. China regains the top spot in the GRDI for the first time in five years, while Mongolia (emerging in 5th) and Malaysia (9th for the second year in a row) also crack the top 10. India also rises in the rankings, benefiting from economic stability and regulatory reforms aimed at improving ease of doing business, although FDI restrictions on multi-brand retail still remain.

Figure 2
The GRDI window of opportunity



Source: A.T. Kearney analysis

Perhaps the biggest trend shaping the retail landscape in Asia is this year's launch of the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC). The AEC is expected to take the region to a new level as more standardized and relaxed regulations help retailers expand across the region.

In addition, e-commerce continues to grow rapidly, with Asia's market size (\$525 billion) now exceeding that of North America (\$483 billion).² As Internet penetration expands and online offerings improve, Asia's ecommerce retail sales could grow as much as 25 percent annually. The online channel will continue to be a major focus for retailers in the region in the coming years.

China: Once again leader of the pack

Population: 1.36 billion

Total retail sales: \$2.83 trillion

Retail sales CAGR (2010–2014): 16%

China's GDP growth of 7.4 percent in 2014 was its lowest in a quarter century. Yet, relative to other developing markets, its performance is unparalleled, and in 2014 its retail growth was an impressive 11.6 percent. China's retail market is expected to surpass the United States as the world's largest retail market by 2018. China returns to number one in the GRDI rankings for the first time since 2010; it also ranks second in A.T. Kearney's most recent Foreign Direct Investment (FDI) Confidence Index®.³

Retailers in China are adapting to an environment of slower economic growth. Emphasizing profitability as well as market share, retailers are pruning and optimizing store portfolios. Grocers and department stores, in particular, are driving a lot of change, with leading players closing roughly 200 stores in 2014 compared to just 35 closings the year before. U.S. giant Walmart announced the closure of at least 29 stores in China, although it plans to open 111 new stores by 2016, as it clearly rethinks (but doesn't undercut) its plan. Carrefour closed eight stores and opened 11 in 2014, and launched a new convenience store format, Easy Carrefour, in Shanghai. Marks & Spencer will be closing five Shanghai stores in 2015 while opening flagships in Beijing and Guangzhou.

Some existing retailers are growing by expanding into new sectors. Wumart, a leading Chinese grocery retailer, entered the home improvement space by acquiring a 70 percent share of B&Q China. Chinese conglomerate Sanpower acquired an 89 percent stake in UK department store player House of Fraser, with plans to open up to 50 stores in China. Suning, China's largest consumer electronics retailer, plans to enter grocery by opening 1,000 supermarkets by 2020.

Despite the less exuberant market, some retailers with strong consumer and brand appeal have managed to sustain continued expansion. Apple plans to grow its retail presence in China from 15 to 40 stores in the next two years. Global fast fashion retailers opened a combined 264 stores in 2014, including 80 Uniqlo stores, 60 H&M stores, and 16 Zara stores. Some luxury players are also expanding despite China's anti-corruption policy, which many feared would dampen demand. Hermès opened its fifth Maison Hermès in the world in Shanghai, and Lane Crawford opened its third Mainland China store in Chengdu.

² For more about e-commerce in ASEAN, please see [Lifting the Barriers to E-Commerce in ASEAN](http://www.atkearney.com) at www.atkearney.com.

³ For more about A.T. Kearney's FDI Confidence Index, please go to <http://www.atkearney.com/research-studies/foreign-direct-investment-confidence-index>.

Shopping malls are feeling the pinch as growth slows. After aggressive recent construction and tremendous e-commerce growth, malls are showing signs of over-density and over-capacity. Many malls are trying to draw customers with better food offerings and entertainment experiences. For example, Shanghai K11 Art Mall increased sales by 20 percent after installing a Monet exhibition. Luxury malls such as Beijing's Shin Kong Place and China World Trade Mall are renovating and refreshing their brand lineups. The government is also shining the spotlight on this issue, evaluating local governments on the reduction of overcapacity rather than GDP growth alone.

China's e-commerce market continues to sizzle, and it ranked second in A.T. Kearney's most recent Global Retail E-Commerce Index™.⁴ E-commerce grew 50 percent to nearly \$450 billion in 2014—including \$150 billion in mobile sales, now representing a third of the market—and is predicted to reach \$1 trillion by 2019. Singles Day (November 11) drew a record-breaking \$9.3 billion in sales a single day in, up 60 percent from the year before. China's Alibaba raised \$25 billion in its record-breaking IPO last year.

As the market matures in larger cities, leading e-commerce players such as Alibaba and JD.com are actively working to better serve smaller cities and rural areas to get first-mover advantage. In addition to investing in the China Smart Logistics Network, Alibaba has also teamed with China Post to boost its last-mile delivery capabilities. JD.com launched operations for its automated "Asia No. 1" warehouse in Shanghai, providing same-day delivery in more than 100 counties and districts, and next-day delivery in another 600 counties and districts.

Regulations imposed on the traditional *dàigòu* market—in which a person outside of China acquires goods on behalf of a customer in China—have opened the door for e-commerce players to provide direct access to foreign brands. Alibaba has aggressively grabbed share through its Alipay ePass, a new payment system that takes cares of logistics such as shipping and customs for consumers ordering directly from international sites, including those of Gap, Gilt, and ASOS.

Behind this online growth, some retailers are using e-commerce as their means of entry into China. Costco partnered with Tmall to enter China online, with plans to expand further after raking in \$3.5 million on Singles Day. Topshop opened its first physical store in Hong Kong, but entered Mainland China through Shangpin.com.

Mongolia: A small gem to watch

Population: 2.9 million

Total retail sales: \$4.2 billion

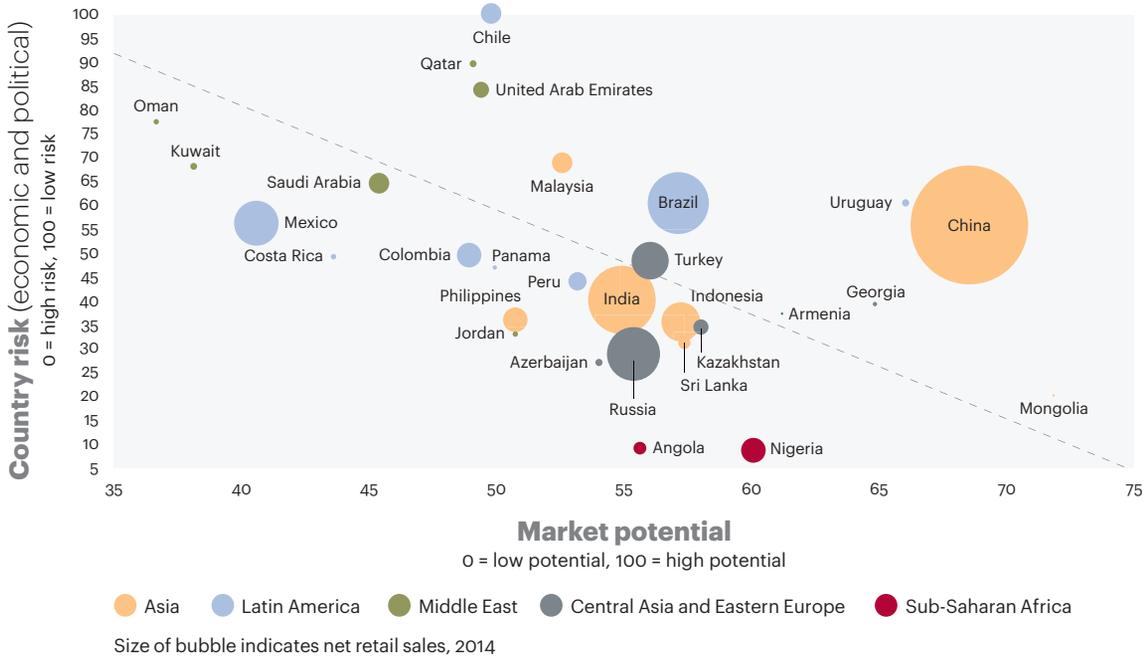
Retail sales CAGR (2010–2014): 15.8%

Resource-rich Mongolia, unranked last year, reemerges in 5th place behind rapid growth and low market saturation. Mongolia's country risk is among the highest in the GRDI, but it also has the highest market potential (see figure 3 on page 6). GDP has grown at a CAGR of 11 percent since 2010, driven mainly by copper and coal mining, while its retail sales growth rate is among the highest of any developing market in Asia.

Although growth has slowed recently, international entrants have plenty of opportunity in a still-fragmented market dominated by traditional retail. The luxury market may have the biggest potential as Mongolia sits on deposits worth more than \$1.3 trillion. The concentration of wealth

⁴ For more about A.T. Kearney's Global Retail E-Commerce Index, please go to <http://www.atkearney.com/consumer-products-retail/e-commerce-index>.

Figure 3
2015 GRDI country attractiveness



Note: Market potential is based on a weighted score of market attractiveness, market saturation, and time pressure.
 Source: Planet Retail, Economist Intelligence Unit; A.T. Kearney analysis

has attracted luxury brands such as Burberry, Damiani, Louis Vuitton, Swarovski, and Zegna, who all have stores in Ulan Bator Central Mall.

Food, representing two-thirds of the total retail market, has also drawn attention from international and regional retailers. Tavan Bogd Foods opened the first KFC franchise in 2013 and plans to open 15 more restaurants over the next five years. Korean cafe Tom N Toms entered Mongolia through a joint venture in 2014, and Korean coffee chain Caffebene opened two stores in early 2015 with plans to open 20 by next year.

Malaysia: Maintaining steady growth

Population: 30.1 million

Total retail sales: \$98.4 billion

Retail sales CAGR (2010–2014): 8.6%

Malaysia remains in 9th place this year, building on GDP growth of 6 percent, rising incomes, a young, urban population, and a stable business environment. Malaysia is well on its way to reaching its goal of gross national income per capita of \$15,000 by 2020. While retail remains concentrated in the capital, Kuala Lumpur, other states have also attracted foreign retailers. For example, Canadian footwear retailer ALDO opened new stores in East Malaysia, and Superdry opened its first store outside of Kuala Lumpur in Penang.

Malaysia’s grocery market has seen rising competition both in hypermarkets and convenience stores. UAE-based Lulu plans to build 10 hypermarkets in Malaysia starting in 2016, with a

long-term goal of 20 percent market share. Malaysian retailers Giant and Mydin each plan to open roughly a half-dozen stores in 2015, and Mydin plans to add 25 new supermarkets by 2018. In the convenience format, Giant's subsidiary G-Express plans to open 500 stores nationwide by 2020. Meanwhile 7-Eleven will invest \$145 million to open 600 stores through 2016, through its franchise partner Berjaya Retail.

Although e-commerce penetration is still just 1 percent of total retail, online transactions are expected to grow 20 to 30 percent per year. Retailers are developing solutions tailored to the local market. For example, 7-Eleven teamed up with MOLPay to launch a new payment option that allows e-commerce merchants to accept cash from consumers at 7-Eleven outlets. Malaysia's new Zilzar.com has targeted Muslim consumers by opening the first e-commerce platform devoted to halal products and services.

Indonesia: New retail heights

Population: 252 million

Total retail sales: \$326 billion

Retail sales CAGR (2010–2014): 3.5%

At 12th place, Indonesia has reached its highest GRDI ranking ever. Economic uncertainty eased after the election of pro-reform President Widodo last July. GDP growth is expected to rebound after reaching a five-year low, and should outpace other regional markets going forward. Despite a slight decline in retail sales per capita last year, total retail sales area grew 14.5 percent as retailers continue to be drawn to Indonesia's large population and growing middle class.

Indonesia reached its highest GRDI ranking ever as GDP growth begins a rebound after reaching a five-year low.

As Indonesia's retail market continues to progress, it will need improved retail infrastructure and a more favorable regulatory environment to mature further. In February 2015, the government announced plans to invest a record \$22 billion in infrastructure projects, though some investors are skeptical due to the potential ineffective use of funds. Regulations still remain stringent with the Ministry of Trade recently reiterating limitations on the maximum number of franchise and company-owned stores.

Underpenetrated tier 2 cities are driving growth in modern retail, led primarily by local players. The convenience store format is popular in a country known for poor traffic, and local minimarts Indomaret and Alfamart plan to increase their footprints across the country. In the hypermarket segment, Hypermart is planning to expand in Eastern Indonesia, while U.S. private equity firm Warburg Pincus has formed a joint venture with Indonesia's Nirvana Development to develop hypermarket-anchored malls in tier 2 and 3 cities.

International players are also moving in. New entrants in 2014 included SPAR International, American Eagle Outfitters, and WHSmith, while South Korea's Lotte, already present in the department store segment, opened its first supermarket in Jakarta. In addition, 7-Eleven, Parkson, AEON, KFC, and Domino's Pizza have all announced ambitious store expansion plans.

Online retail is anticipated to grow rapidly, driven by increased smartphone penetration and investment from major players. For example, Lippo Group plans to invest \$500 million to build an e-commerce platform called MatahariMall, an online version of one of Indonesia's largest department stores; Lippo's goal is to create the "Alibaba of Indonesia."

Sri Lanka: On the rise

Population: 20.7 million

Total retail sales: \$29.8 billion

Retail sales CAGR (2010–2014): 10.3%

The GDP of Sri Lanka (14th) is rising as the services industry grows rapidly, spurred by infrastructure investment and tourism. Sri Lanka boasts double the retail sales per capita and triple the growth in modern retail sales of its much larger neighbor, India. Politically, Sri Lanka is entering a period of relative stability, with a new government expected to remain business- and investor-friendly.

Despite the attractive economics, Sri Lanka remains underpenetrated by international retailers: few are present other than a limited set of single-brand retailers in food (McDonald's, Dunkin' Brands, Domino's, and Yum!) and clothing (Benetton, Mango, and Landmark Group), most as franchises. Sri Lanka is a leading global textile manufacturing hub, but for now it caters primarily to export markets.

Most retailers are confined to the capital Colombo, the central business hotspot and a tourist gateway, with few malls elsewhere in the country. Retail space has increased, but quality remains low and growth has been confined largely to local multi-brand retail chains.

India: Solid growth prospects

Population: 1.25 billion

Total Retail Sales: \$925 billion

Retail sales CAGR (2010–2014): 5.8%

India rises to 15th behind solid growth in retail sales and strong prospects for future GDP growth. India's retail market is expected to grow to \$1.3 trillion by 2020, and GDP is expected to grow at 8 percent over the next three years, making India the world's fastest-growing major developing market. Consumer and investor sentiment have seen an uptick, as the pro-reform government under Narendra Modi sets out on an ambitious goal of improving its Ease of Doing Business ranking from 142nd to 50th in the next two years.

India represents a good opportunity for international retailers in single-brand retail, cash-and-carry, and e-commerce, as the country appears to be on the cusp of a strong growth phase over the next five years. The tipping point for brick-and-mortar retail continues to be the opening up of FDI norms in multi-brand retail, a move that is not expected in the near-term.

For now, international retailers continue to focus on the cash-and-carry and single-brand formats, where 100 percent FDI is allowed. After two years of dormancy, Walmart will open a new outlet in Agra in 2015 and plans to add 50 wholesale stores to its existing 20 in the next five years. Germany's Metro will triple the number of wholesale stores to 50 by 2020. Many single-brand retailers such as Japan-based Asics, Danish retailer Bestseller, and French fashion brand Sisley are breaking away from franchisee tie-ups with Indian partners to go solo. Nike, which has about 400 franchise locations in India, filed an application in September to open company-owned stores.

Meanwhile many new entrants remain undecided between partnerships with local companies versus company-owned stores. IKEA, which also sources locally, plans to open its first solo store in Hyderabad. H&M will also enter India alone with plans to open an initial 50 shops. In contrast, Gap and The Children's Place have chosen to partner with Arvind Lifestyle Brands.

As retailers continue to expand, real estate availability could be the biggest barrier. India has four times the population of the United States but just one-tenth of the mall space. Many malls are also of poor design and lag behind global standards. The dearth of quality space in core areas is prompting some retailers to look online instead.

E-commerce recorded impressive 27 percent growth in 2014 to reach \$3.8 billion, led by online retailers such as Amazon, Flipkart, and Snapdeal. However, this market still has a long way to go as online remains just 0.5 percent of the total retail market, Internet penetration is just 20 percent of the population, and infrastructure needs to improve significantly. Indeed, the Associated Chambers of Commerce and Industry of India estimates that companies will spend between \$1 billion and \$2 billion on e-commerce-related infrastructure over the next five years.

Philippines: International retailers flooding in

Population: 100 million

Total retail sales: \$130 billion

Retail sales CAGR (2010–2014): 9.5%

Prospects are bright for the Philippines, where retail will represent 20 percent of total GDP by 2025, up from 13 percent in 2014. A young population (half of its 100 million people are younger than 25), increasing GDP per capita, and improved consumer sentiment will fuel retail growth.

A highlight this year is the expansion of smaller formats. 7-Eleven plans to open more than 500 stores in 2015 on top of its existing 1,200 stores through its franchisee Philippine Seven Corp. Puregold plans to expand its relationship with sari-sari stores (local convenience stores) through its popular Aling Puring program, and local retailer SM has partnered with Indonesia's Alfamart to expand into convenience stores.

New international players are also entering the market. In December, Ralph Lauren opened its first store in Manila in the upscale Makati area. H&M, Apple, and Crate & Barrel also entered in 2014.

Retail space should increase by another 1.5 million square meters to reach nearly 15 million square meters in 2015. Key new retail destinations include the Mega Fashion Hall at SM Megamall, Estancia Mall in Capitol Commons, Robinsons Place Las Piñas, and City of Dreams Manila.

Latin America

Latin America as a whole once again has a prominent position in the GRDI, with three countries in the top 10. However, the region has begun trending downward in the rankings, and regional GDP growth sank to roughly 1.3 percent in 2014 amid concerns over deep-rooted structural problems since the end of the commodities boom. With poor economic performance, political instability in some leading countries, and strong regional interdependence, pessimism has become widespread in the region, leading to a drop in consumer confidence that could restrict retail consumption.

Nevertheless, retailers can benefit from the still-growing middle class and expansion in some underserved tier 2 cities, particularly in Brazil and Colombia.

Uruguay: Continued potential

Population: 3.4 million

Total retail sales: \$22.7 billion

Retail sales CAGR (2010–2014): 9%

Spurred by Latin America's highest retail sales per capita (more than \$6,500), a dynamic market environment, and a concentrated urban population, Uruguay moves into 2nd place. Although GDP growth slowed down, tracking the economic challenges of its neighbors Brazil and Argentina, internal consumption maintained a positive track in 2014, demonstrating Uruguay's continued potential for retailers.

The new Nuevocentro (opened in late 2013 with 130 stores) and Oh! La Barra (40 stores, 2014) malls as well as the expansion of existing malls such as Punta Carrera and Tres Cruces have boosted the market. Retailers such as Uruforum, Lolita, Motociclo, Hering, Chic Parisien, and Cybe are increasing their store counts, while retailers such as 47 Street have announced plans to enter the market.

Premium retailers are increasingly entering the market. Tiffany & Co., Prada, and Salvatore Ferragamo are among the retailers that entered in the past four years, attracted by high-income locals and tourists, especially in Punta del Este. Even as Latin America's economic downturn impacts Uruguayan tourism (particularly from Argentina) and sales value growth, the numbers remain impressive.

Traditional toys and games stores continued to be an important growth channel within leisure and personal goods, with steady growth as new brands such as Giocattoli, Giro Didáctico, Toy Store, Ulalá, Mundo Mágico, and others entered.

Chile: Still stable and secure

Population: 17.7 million

Total retail sales: \$92.1 billion

Retail sales CAGR (2010–2014): 6.1%

Chile, the leader in 2014, drops two positions due to slower GDP growth (1.8 percent), high inflation, and rising unemployment. Additionally, recently approved redistributive tax reforms will increase the cost of doing business, although likely not enough to scare away investors to a country with a strong reputation for stability and security.

Retail growth is mirroring the macroeconomic slowdown. Still, sales in some areas are growing: apparel sales increased 10.4 percent and consumer goods increased 4.5 percent, compared to sales decreases in durable goods. There were no noteworthy entrants this year, and the market is showing clear signs of saturation. Chile is reaching the closing phase of the GRDI window of opportunity, with strong international retailer presence, a sophisticated local market, high concentration levels (the top five players account for 35 percent of the market), and Latin America's highest level of gross leasable sales area per capita.

Apparel retail is highly concentrated in the hands of two local players: Corona and Tricot, which own one quarter of the market thanks to national coverage. Hypermarkets and department

stores are more competitive, with Falabella, Walmart, and Cencosud continually gaining share in the sector. New players H&M and Forever 21 have shown promise with strong growth in their first year of operation in Chile, but the verdict is still out for the long term.

Brazil: Retail growth despite macroeconomic struggles

Population: 203 million

Total retail sales: \$776 billion

Retail sales CAGR (2010–2014): 1.3%

Even as its GDP growth stagnated, inflation jumped, and consumer confidence sank in 2014, retail sales in Brazil (8th) grew a modest 2.2 percent as unemployment remained low and wages maintained positive (yet slower) growth. Pharma and beauty experienced the strongest growth (9 percent of sales) despite the economic challenges.

International beauty companies expanded their franchises last year. The Body Shop entered with nearly 110 stores, mainly in São Paulo and Rio de Janeiro. L'Occitane opened 90 stores under a new Brazilian brand, and it brought the Le Couvent des Minimes brand to be sold exclusively at Pão de Açúcar. Aesop and Smashbox opened their doors in Brazil, while Lush reentered seven years after it exited the market and has plans to add 30 stores in the next five years. Botica Comercial Farmacêutica launched the *quem disse, berenice?* brand into 90 stores and has found success.

Premium brands remain attracted to Brazil, particularly in São Paulo and Rio de Janeiro, where the share of wealthier consumers has increased in recent years. Shopping malls such as JK Iguatemi and Shopping Cidade Jardim and famous streets such as Oscar Freire in São Paulo have seen an increasing concentration of premium brands in recent years, including Bottega Veneta, Burberry, Carolina Herrera, Chanel, Goyard, Bulgari, and Tod's.

International food chains are also opening their doors in Brazil. Johnny Rockets, P.F. Chang's, Olive Garden, Red Lobster, Jamie's Italian, Ben & Jerry's, and Lindt all opened franchises in Brazil's major economic centers.

Peru: Booming retail

Population: 30.8 million

Total retail sales: \$75.5 billion

Retail sales CAGR (2010–2014): 7.6%

The economy of Peru (16th) has shown continuous growth in recent years, with further growth forecast. Peru has promoted business-friendly policies driven by infrastructure investments and bureaucracy reduction, which has fostered a favorable retail environment.

Retail has grown 7.7 percent per year in the past five years, driven by an emerging middle class eager to spend. There are 17 shopping centers currently under construction, adding significantly to the existing 2.4 million square meters of gross leasable area and indicating readiness for new entrants.

In particular, apparel companies have shown growing interest. Forever 21 entered in 2014, and H&M and Under Armor plan to enter in 2015. Food chains Vapiano, Wendy's, and Lizarran also plan to enter in 2015.

Panama: A burgeoning luxury hub

Population: 3.9 million

Total retail sales: \$10.6 billion

Retail sales CAGR (2010–2014): 13.2%

Panama (19th) is becoming a go-to luxury location for shoppers coming from both the south and north. In Central and South America, a highly sophisticated wealthy consumer base that has historically gone to the United States or Europe to shop is happy to do so closer to home, particularly in Panama, where the sales tax of 7 percent compares favorably with those of Colombia (16 percent), Brazil (19 percent), and Argentina (21 percent).

GDP growth is strong in Panama, and nearly 500,000 square meters worth of retail projects are in development. For example, the lower four floors of the \$360 million Soho Panama project will be a 120-store luxury mall. The Multiplaza Mall in Panama City nearly doubled its space with an expansion that added Gucci, Dolce & Gabbana, and Tory Burch, among others, and created larger stores for existing tenants such as Hermès, Cartier, and Salvatore Ferragamo. Michael Kors and Starbucks also plan to open their first stores in Panama in 2015, while Mac Store (Apple's reseller in Panama) will open three new stores in Panama.

E-commerce is growing, with local players implementing multichannel approaches. Grupo Rey, Panama's leading grocery retailer, recently unveiled the country's first mobile app for grocery customers.

Premium brands are attracted to Brazil, particularly in São Paulo and Rio de Janeiro.

Colombia: Strong fundamentals

Population: 47.7 million

Total retail sales: \$118 billion

Retail sales CAGR (2010–2014): 6.2%

The economic indicators are strong in Colombia (20th): GDP growth of 4.5 percent, low inflation of 3.5 percent, and falling unemployment. Still, structural bottlenecks, a dysfunctional judicial system, and high crime rates and drug cartels increase country risk, leading to the country's moderate ranking.

Retail growth continues to be strong as retailers expand outside of the large urban centers. While Bogotá and Medellín saw retail sales growth of 4.3 and 6.1 percent, respectively, the country's overall retail sales grew 7.7 percent. Cities with fewer than 500,000 inhabitants have seen new commercial center investments, such as Nuestro Centro Comercial in Montería and Unicentro in Bello.

An emerging middle class is boosting demand in fast food, consumer goods, and modern retail formats. International retailers seem enthusiastic: American Eagle, O Boticário, and Starbucks recently entered. Many durable goods sectors have seen double-digit growth as store financing options have improved.

Costa Rica: Continued fast growth

Population: 4.8 million

Total retail sales: \$15.4 billion

Retail sales CAGR (2010–2014): 8.4%

Retail sales in Costa Rica (28th) have grown 83 percent since 2010, boosted by new entrants as well as existing retailers that continued investments and launched sizable promotions that encouraged consumer spending. The country is also a tourism hub and has a sizeable middle- and upper-class consumer base. Demand is booming, and four big shopping centers are scheduled to open in 2015: City Mall in Alajuela (which will be the largest mall in Central America), City Place in Santa Ana, Belén Center in Heredia, and Bambú Eco-Urbano in San José. These will add nearly 150,000 square meters of new retail space.

Convenience stores recorded the largest growth in rate 2014 with sales surpassing \$200 million, led by chain Musmanni's 25 percent growth. Other brands, such as AMPM and Fresh Market, have grown 8 to 10 percent annually. Clothing retailers have also spread. Spanish brands Bershka, Zara, Stradivarius, and Pull&Bear entered through department store chain Grupo Simán in 2014. Michael Kors opened its first store in Costa Rica, and Brooks Brothers will start selling in Costa Rica through its exclusive Central American representative, department store Almacenes Siman.

Mexico: The rebound arrives

Population: 120 million

Total retail sales: \$421 billion

Retail sales CAGR (2010–2014): 5.2%

Retail sales expanded 2.4 percent in 2014 in Mexico (29th) after flat growth in 2013. Growing private consumption, increased access to credit, and strong job creation have helped the retail market expand. While its per capita retail sales of \$3,420 is among the highest in Latin America, Mexico is still well behind its neighbor to the north, the United States (\$11,500).

Mexico's market is well saturated, and is entering the closing phase of the window of opportunity as sales area per capita surpasses 200 square meters. Still, groceries and convenience stores are making moves to grow through inorganic growth and by diversifying revenue sources. For example, OXXO, Mexico's largest convenience store retailer, has partnered with GNP to sell health, life, and accident micro-insurance policies in stores. It has also introduced Andatti Barra-Espresso, offering coffee in stores to compete with brands such as Starbucks.

Mexico's market has seen a wide range of mergers and acquisitions, some by players seeking to expand in Mexico and others by companies seeking to sell off assets to focus on core businesses. Couche-Tard, the convenience store operator, acquired Mexican chain Extra and its 878 stores from Grupo Modelo. Walgreens Boots Alliance acquired Farmacias Ahumada and its 1,400 stores in Mexico and Chile for more than \$600 million in May 2014. Comercial Mexicana, Mexico's fifth largest grocery retailer, sold 160 stores to Soriana, a grocery and department store chain, while retaining 40 stores with a focus on the premium segment. Walmart Mexico has sold its noncore assets to focus on its supermarket business. Banco Walmart was sold to Carlos Slim's retail bank Inbursa, and casual dining chain Vips was sold to Alsea, which runs Domino's Pizza, Starbucks, and Burger King franchises in Mexico, in a full capitalization deal.

Entrants in 2015 include Chico's FAS and Williams-Sonoma, which will enter through a franchise agreement with local department store Liverpool, and American Girl, which is partnering with department store El Palacio de Hierro. Petco is expanding into Latin America through a joint venture with Grupo Gigante of Mexico, and Ann Taylor will open its first Loft store in Mexico through a partnership with Grupo Axo, the exclusive Mexican distributor of brands such as Coach, Michael Kors, Theory, and Thomas Pink.

Internet sales grew by more than 35 percent in 2014 to reach \$12 billion, and many foreign brands entered or expanded their presence in Mexico. Spanish retailer Inditex launched an online store for Zara in September 2014, followed by sites for its other brands Zara Home, Bershka, Oysho, Massimo Dutti, and Stradivarius. The Home Depot launched its online store in October 2014, offering more than 10,000 products with the aim of attracting more customers. Amazon, which has been selling e-books in Mexico since 2013, plans to launch a full Mexican site in the first half of 2015. Meanwhile, Mexican online retailer Linio, launched in 2012, now sells more than 300,000 products across its sites in Mexico, Colombia, Venezuela, and Peru.

Middle East

In the past year, the Middle East has faced substantial economic and political upheaval, and the ranking drops in this year's GRDI reflect the varied environment: market saturation (the United Arab Emirates), increased country risk (Jordan), and GDP slowdown from falling oil prices (Kuwait).

Despite the record drop in oil prices, retail sales growth is expected to continue. Indeed, the retail space pipeline remains strong, with several major projects underway in Qatar, the UAE, and Oman. Kuwait has felt the impact disproportionately, due to its high reliance on oil and relative lack of diversification.

The trend of regional expansion by local champions continues as several UAE and Saudi players, including Majid Al Futtaim (MAF), Landmark Group, and Panda, build strong capabilities and retail networks across the region. Additionally, the Middle East continues to welcome international brands such as Macy's (in the UAE) and Harvey Nichols (in Qatar), and expansion from existing retailers.

Qatar: A new jewel in the Middle East

Population: 2.3 million

Total retail sales: \$12.4 billion

Retail sales CAGR (2010–2014): 9.7%

Qatar makes an impressive GRDI debut: 4th place, highest in the Middle East behind a stable economy, high GDP per capita, and high levels of retail spending. With population growth and an increasing number of expats, Qatar is no longer a market to ignore. The 2022 FIFA World Cup is also leading to infrastructure projects that will benefit the economy in the long term, such as the airport expansion and the construction of Doha Metro.

Until recently, international brands were limited by insufficient retail supply. This is changing as Doha welcomes 1 million square meters of retail space in the next two to three years. Ambitious retail development projects in 2015 and 2016 include Doha Festival City, Mall of Qatar, and Gulf Mall, which will significantly enhance the retail landscape. Like its neighbor Saudi Arabia, Qatar also opened one of the world's few women's-only malls, the Souli Mall.

For now, brand penetration in Qatar remains behind regional leaders such as the UAE. In grocery, supermarkets and hypermarkets are expected to expand; for example, Carrefour plans to be an anchor tenant in the Mall of Qatar. Qataris' affinity for luxury goods has also triggered entry plans by high-end retailers such as Harvey Nichols, which will open its first store in 2017 in Doha Festival City. Other market entrants include Karl Lagerfeld and Juicy Couture.

United Arab Emirates: Major retail development continues

Population: 9.5 million

Total retail sales: \$70.9 billion

Retail sales CAGR (2010–2014): 5.3%

This year UAE drops from 4th to 7th, largely due to new entries in the rankings. The UAE's retail market continues to grow steadily with retail space growing by 7 percent in 2014 to reach 1.6 million square meters and sales growing 6 percent to \$70.9 billion. Although the market is near saturation, Dubai is cementing its position as the Middle East's retail hub. The city's grandiose retail development has an increasing focus on the luxury segment. Dubai Holding has announced plans to build the Mall of the World over the next 10 years. What will be the world's largest mall—and first temperature-controlled city—will span an impressive 4.5 million square meters.

Retail formats are diversifying. MAF launched a new convenience store format under the brand Carrefour City, catering to smaller neighborhoods across Dubai. There is also an increasing focus on more creative entertainment offerings. In early 2015, Landmark Group launched Fun Works, a 5,500-square-meter family entertainment center, in Abu Dhabi's Yas Mall.

Major retail groups are introducing new brands and branches across multiple segments. Macy's and Bloomingdale's plan to open outlets in Abu Dhabi's Galleria mall by 2018—Macy's first store outside the United States and Bloomingdale's second in the UAE. France's Géant entered Abu Dhabi in December 2014 with a new hypermarket at Yas Mall. IKEA will open the Middle East's largest distribution center in Dubai in 2015, and Landmark launched an affordable furnishings brand Home Box while reinforcing its food and beverage offering with Jamba Juice, Pie-Face, and Poparazzi. Meanwhile Dairy Queen is set to return to the UAE in 2015 with as many as 20 outlets, five years after exiting the market. Circle K plans to expand in the UAE with 28 new convenience stores in 2015.

In e-commerce, Landmark Group ventured in with Landmarkshops.com, while top UAE-based luxury retailer and distributor Chalhoub Group is piloting an online beauty retail concept in the second half of 2015.

Saudi Arabia: Still largely untapped

Population: 30.8 million

Total retail sales: \$103 billion

Retail sales CAGR (2010–2014): 7.7%

The retail sector in Saudi Arabia (17th) is still growing fast: retail space grew 5.6 percent to 2.1 million square meters in 2014, and sales increased 6.4 percent. Traditional markets (*bakalas*) still own much of the market, so there remains plenty of room for modern retail to grow.

New entries and expansion announcements demonstrate Saudi Arabia's market attractiveness. MAF plans to open several Juicy Couture stores in 2015 as part of its Middle East expansion plan. IKEA is planning a fourth Saudi store for the upcoming Al Diriyah Festival City. Alhokair Fashion Retail plans to grow the Marks & Spencer store portfolio in Saudi Arabia with 10 new store openings. UAE-based supermarket chain Al Madina Group entered KSA with a first hypermarket in Riyadh, to be followed by a second opening in Jeddah in 2015, while fast food chain Kcal and Lals Group's home furnishings chain Homes R Us plan to enter soon.

Regulatory developments in the past year could positively impact the Saudi retail sector. A proposed law limiting working hours is in its final stages; if approved, would encourage job growth and improve working conditions. Additionally, the government has given the green light to foreign companies to trade up to 10 percent of companies listed on the Saudi stock exchange, which could stimulate FDI in the retail sector. Still, the regulatory environment remains quite complex.

Jordan: Political risk dampening the retail market

Population: 7.6 million

Total retail sales: \$13.7 billion

Retail sales CAGR (2010–2014): 7.1%

Jordan falls three spots to 25th. While Jordan has remained fairly stable, it is surrounded by turmoil: civil war in neighboring Syria (with the resulting refugee crisis in Jordan), the looming threat of Islamic State, and continuing tensions with Israel. Although retail sales continue to progress steadily, international retailers have been timid—IKEA was the only notable entrant last year—and Jordan remains the Middle East's least saturated market in the GRDI.

Despite the regional concerns, Jordan's strong fundamentals recommend it for long-term consideration. GDP is forecast to grow 5 percent annually over the next couple years. The fiscal deficit continues to shrink, and the Jordanian Central Bank is keeping interest rates low to bolster consumer demand. Retail sales have grown steadily at 7 percent per year since 2009, and are expected to grow at 6 percent over the next five years. Last year, the Abdali Boulevard shopping district opened, adding 22,000 square meters of retail space and housing more than 120 stores.

Oman: Stable growth with retail space expansion

Population: 4.1 million

Total retail sales: \$11.9 billion

Retail sales CAGR (2010–2014): 7.6%

While the outlook for Oman is fairly positive and the market still shows plenty of retail potential, retail development has been slower than other markets in the region and remains quite capital-centric. Oman drops nine places to 26th.

Oman has a small population and a relatively low GDP per capita among Gulf nations, but it is fairly untapped in terms of international retail presence. Retail sales are expected to grow at a steady 6 percent per year through 2020.

One notable entrant this past year was Netherlands-based SPAR International, which opened two stores in Muscat in partnership with local company Khimji Ramdas and plans to open nine more by the end of 2016.

The retail market is on the verge of significant expansion with several large-scale projects underway, including the Avenue, Panorama Mall, Oman Mall, Muscat Festival City, and Muscat Downtown Mall. All told, retail space is expected to grow by more than a third over the next couple years. In addition to mega malls, smaller neighborhood malls are expected to grow rapidly to serve the needs of local communities far from Muscat malls.

Kuwait: Cloudy short-term outlook

Population: 3.7 million

Total retail sales: \$16.4 billion

Retail sales CAGR (2010–2014): 6.1%

Kuwait drops 19 spots to 27th, due in part to a change in the data sources used for the country. Because of a lack of consistent data available for Kuwait, last year's results were based on estimates for a couple of macroeconomic variables. As a result, the country's 2014 and 2015 rankings are not entirely comparable.

Other reasons for the drop are rooted in relatively weak macroeconomics. Kuwait's real GDP is forecast to grow less than 2 percent over the next two years, the lowest growth rate among Middle Eastern countries in the GRDI. Oil accounts for 94 percent of Kuwait's export revenues, and the country projects a budget deficit of \$24 billion for this fiscal year, despite spending cuts on fuel subsidies and infrastructure projects. Kuwait's retail sales grew only 2.1 percent per year between 2012 and 2014, compared to 5.7 percent for the UAE and 10.5 percent for Qatar, with few notable market entries this year.

Although short-term factors have led to Kuwait's decline, the long-term prospects remain strong. Retail sales are projected to grow at 6 percent annually through 2020, driven by ongoing urbanization, a growing expatriate workforce, and a rising population of the young and affluent. Kuwait has one of the highest standards of living in the world, with a GDP per capita of \$44,000, making it a prime destination for luxury retailers.

Last year, luxury brands Ferrari and Pandora entered the market, bolstering Kuwait's strong portfolio of high-end names. Marks & Spencer's new store at The View in Salmiya is the UK retailer's largest international store.

Eastern Europe and Central Asia

Once again, this region's top performers in the GRDI are its "small gems": Georgia, Armenia, and Kazakhstan, whose unsaturated retail environments are attractive opportunities for international players. Azerbaijan has become a luxury hot spot as more companies seek to tap into the country's oil-driven wealth. Russia, despite having the world's sixth-largest GDP, plunges in the rankings behind worsening economic conditions and political tension, yet it remains too big to ignore.

Georgia: An economic oasis

Population: 4.8 million

Total retail sales: \$8.4 billion

Retail sales CAGR (2010–2014): 8%

Sixth-place Georgia has a stable GDP, solid per capita spending growth over the past five years, and an underpenetrated retail market.

Georgia remains attractive for retailers across all categories. Despite growth and expansion in food retail, modern formats still represent only 30 percent of the market, with most key players considering traditional *bazaars* their strongest competitors. Carrefour and local Goodwill (which sold a 60 percent stake to Italy's Milan Investment) remain the only hypermarket players, while the minimarket playing field is a bit more competitive. SPAR entered the Georgia market in the summer of 2014 by acquiring Populi, the third-largest retail chain, with plans to rebrand and expand its network from 51 to 80 stores by 2018. Local food retailer Nikora reinforced its leading position by acquiring a small regional chain of 12 supermarkets in December 2014.

A growing tourism sector has boosted the fast food segment. McDonald's, Subway, and Wendy's are among the international brands that have expanded in the capital, Tbilisi, where 80 percent of the country's modern retail space is located. KFC opened its first restaurant in December 2014, and two months later Dunkin Donuts opened its first two restaurants, with plans for up to 35 total by 2017.

Georgia's burgeoning apparel segment is now represented by more than 40 international brands, including Marks & Spencer, Gap, Banana Republic, ALDO, and the Inditex Group's brands.

Despite many positive developments in recent years, the availability of modern retail space still poses a challenge, with many spaces outdated and inappropriate for more premium retail. That said, shopping center space has grown by 30 percent since 2013. EastPoint Shopping & Entertainment Center in Tbilisi will open in 2015 as the second-largest shopping mall in Georgia, trailing only the three-year-old Tbilisi Mall.

Armenia: Room for growth

Population: 3.1 million

Total retail sales: \$6.1 billion

Retail sales CAGR (2010–2014): 5.9%

Armenia dips four spots to 10th after weak economic performance in 2014 caused by regional instability and internal political turbulence. Still, the unsaturated retail market is shifting rapidly to modern formats.

In Yerevan, the country's capital and home to about 80 percent of the country's sales, shoppers spend almost \$100 million monthly on consumer goods, primarily food. Home improvement, clothing, and furniture are the top non-food categories.

The Yerevan Mall opened in February 2014; its major tenants include Inditex Group brands and a Carrefour hypermarket, which is finally making its entry into Armenia after working to do so for several years. This development is a solid sign of improvement for this market, whose high levels of corruption and local monopolism have previously hampered the entry of international players.

Turkey: Growing retail capacity

Population: 77.2 million

Total retail sales: \$282 billion

Retail sales CAGR (2010–2014): 0.7%

For 11th-place Turkey, economic growth has slowed slightly to 3 percent, where it is expected to stay for the time being. Turkey's large and young population is urbanizing and has increasing

disposable income. However, retail challenges in supply chain and tough competition with less organized smaller shops remain.

Turkey saw many first-generation shopping malls refurbished in 2014, and 74 new malls are currently being constructed, with Istanbul seeing the biggest influx. Retail space increased 5.4 percent to reach 10 million square meters. Big-box retailers, which are struggling to meet ambitious growth targets, are reacting by opening more stores.

In supermarkets, key players are experimenting with new formats. Migros introduced 24-7 stores in Petrol Ofisi gas stations, Carrefour rolled out convenience and premium supermarket formats, and Turkish discounter Bim unveiled a new premium supermarket under the File banner.

The flow of wealthy tourists to Turkey, mostly from the Middle East and Russia, has encouraged the spread of international premium and luxury brands in Istanbul and western cities such as Antalya, Ankara, and Izmir. In 2014, Apple, Eataly, Hamley's, KidZania, Fauchon, Crate & Barrel, and Chelsea Tea House entered the Turkish retail market in newly opened shopping malls such as Zorlu Center and Akasya Acıbadem. In addition, Victoria's Secret Pink, Brunello Cucinelli, Stella McCartney, Pucci, Chloé, Tory Burch, and Lanvin have opened single-brand stores.

Kazakhstan: Still a land of retail opportunities

Population: 17.3 million

Total retail sales: \$56.4 billion

Retail sales CAGR (2010–2014): 9.6%

Kazakhstan (13th) had a smooth year with 4.7 percent growth in GDP per capita, but currency depreciation negatively impacted consumer confidence, and total retail volume decreased by 7 percent.

Kazakhstan's two main cities, Astana and Almaty, are hosts to the country's modern retail. Significant investments into shopping mall development were at the forefront this year in a country that has historically lacked quality retail space for both existing players and potential new entrants, particularly for mid-level and premium brands. As a response, the government has put significant effort into supporting retail development despite currency devaluation, including initiatives for simplified loan approvals, advocacy for retail efficiency, and a push to encourage street market players to join shopping centers and malls, including "shopping street" and "shopping village"-type malls. Three shopping malls opened in 2014 and several other large openings are scheduled by 2017, with an expected additional retail area of 550,000 square meters.

For food retail, there remains a lot of room for entry, especially for coffee shops. McDonald's entry in 2015 may spur other international players to enter. Meanwhile, fashion retail experienced moderate growth, with franchise player Alhokair Fashion Retail bringing the New Look brand into Kazakhstan with two stores while also increasing the number of Accessorize, F&F, and SuiteBlanco stores.

Underdeveloped logistics leading to long and unstable delivery times has been a barrier for e-commerce. Government support could help this, but players such as Russian Lamoda are trying to solve it on their own by creating their own logistics solutions. Still, e-commerce has grown in recent years and will likely account for 5 percent of all retail in Kazakhstan by 2016.

Russia: Battling against the perfect storm

Population: 144 million

Total retail sales: \$640 billion

Retail sales CAGR (2010–2014): 5%

Russia's economy entered a perfect storm in 2014: record-low oil prices, currency devaluation, growing inflation, an outflow of capital, declining consumer confidence, and an overall slowdown in economic growth—all coupled with the political implications of the crisis in Ukraine. Immediate economic challenges and risks have become a major headache for international brands that depend on sales in Russia. As figure 2 shows, the country has taken a step back in the GRDI window of opportunity, and in this year's rankings it falls nine places to 21st. However, with the sixth-largest GDP in the world, Russia is too big and important to ignore in the long run.

Grocery retailers were hit hard starting in late summer 2014, when restrictions on food imports from Europe, the United States, Australia, and Canada put stress on supply. Meanwhile, currency devaluation drove price increases of up to 50 percent. To sustain demand, many key retailers fixed prices for approximately 20 essential items through March 2015. In apparel, margin squeezes forced retailers to either close stores or exit the market altogether. Maratex, the franchisee for Esprit, OVS, and River Island, closed more than 60 stores as the worsening economic conditions made operations unprofitable. Mexx, a Dutch clothing brand, filed for bankruptcy at the end of 2014, blaming in part the weak ruble. Zara closed its flagship stores, while Fashion Galaxy closed three stores in Moscow. Meanwhile, Adidas announced the closure of 200 branded stores in March 2015, a big turn from its 2014 plan to add 150 stores.

Russia has faced a perfect storm of economic, fiscal, and political turbulence.

But with the world's sixth-largest economy, it remains too big and important for retailers to ignore.

Luxury has been one beacon of stability and should remain so going forward. Luxury tourism has seen increased demand from foreign travelers seeking more affordable access to high-end offerings. In addition, many wealthy Russians are traveling less and spending more domestically, which could boost demand in Russia.

In the middle of the turmoil are companies looking to take advantage of the situation to strengthen their long-term positioning. Lenta, a low-cost hypermarket chain and sixth largest food retailer in Russia, has announced plans to open 25 big-box stores and up to 15 supermarkets, and has raised \$225 million for expansion. Gucci recently opened two new stores in prominent Moscow locations. Outside of retail, the automaker Volkswagen announced that it will not reduce investment in Russia, with hopes for a payoff down the line. It plans to take over the retail locations that will become available as General Motors leaves the country.

Azerbaijan: A burgeoning luxury hotspot

Population: 9.5 million

Total retail sales: \$20.7 billion

Retail sales CAGR (2010–2014): 10.8%

Azerbaijan (22nd) moves up eight positions, driven by an attractive luxury sector. Last year, the country saw an increase in quality retail space, behind continued support from the government to improve retail infrastructure.

The retail scene in Azerbaijan is largely dominated by traditional street markets, where most citizens in the capital Baku continue to shop. Fresco is the main grocery retail chain with 12 stores; it has announced expansion plans, although local currency depreciation could delay that. Another big player is Bazarstore, which owns 12 grocery supermarkets and plans to build 10 new stores in 2015, including three hypermarkets.

The opening of Port Baku Mall in the spring of 2014 brought 32,000 square meters of new, premium retail space to Baku. The opening ushered in many new luxury entries, including Stella McCartney, Balenciaga, Givenchy, Chloé, Alexander McQueen, Jimmy Choo, Ralph Lauren and Tory Burch. A number of top food retailers also entered, including Starbucks and French franchise Paul, along with key mass-market stores Topshop and Marks & Spencer.

Luxury brands are also seeking to take a bite of the local oil wealth as well as an expected rise in tourism. English department store Harvey Nichols unveiled a seven-story store at Globus Plaza in Baku in March 2015, featuring more than 500 top brands in apparel, footwear, accessories, perfumery, and cosmetics, as well as a café, restaurant, lounge, and club. Outside of retail, Donald Trump is set to open a 33-story hotel in June, and Marriott is among the hotels to open in advance of the inaugural European Games in June 2015.

Sub-Saharan Africa will be the big story by 2040. It will be a bumpy road to get there, but it could emerge as one of the most the most attractive regions for retail.

Sub-Saharan Africa

Sub-Saharan Africa is a region of massive potential. Three countries (Botswana, Nigeria, and Angola) are ranked in this year's GRDI, and three more (Zambia, Namibia, and Ghana) are on the verge of breaking into the top 30 in the near future. The region presents exciting opportunities that are just starting to open up, supported by rising household incomes, fast urbanization, and a growing middle class.⁵

⁵ For more about retail in Africa, see the African Retail Development Index at <http://www.atkearney.com/consumer-products-retail/african-retail-development-index>.

Botswana (18th), Nigeria (23rd), and Angola (30th) rank in the 2015 GRDI but are very different markets. Botswana thrives through proximity to South Africa, and its capital Gaborone is bringing in strong business for retailers such as PEP and Pick n Pay. Nigeria is home to Africa's largest city; its population is 180 million today but is expected to reach 440 million by 2050. At the same time it ranks 170th out of 189 countries in World Bank's Ease of Doing Business, its country risk is high, and consumer data is almost non-existent. Angola is bubbling up, and its capital Luanda is a wonderful place for intrepid retailers to start.

One possible comparison for Africa today is China in 1987. Then, many expected China to be the next big thing. And while many have failed along the way, some 30 years later a lot of local, regional, and global retailers are growing four or five times faster than those in Europe and the United States. Sub-Saharan Africa will be the big story by 2040. It's going to be a bumpy road getting there, but in another 30 years it could be the biggest, fastest, strongest, and most attractive region for retail in the world.

Botswana: A steady opportunity

Population: 2.1 million

Total retail sales: \$6.3 billion

Retail sales CAGR (2010–2014): 7.2%

Botswana is one of Africa's most politically and economically stable countries, its GDP per capita of \$16,377 is among the highest in Africa, and it features fairly well-established infrastructure. As a result, Botswana offers great growth opportunities to retailers looking to enter Sub-Saharan Africa.

Shopping mall development remains strong. Four malls—Sebele, Rail Park, Airport Junction, and Mahalapye—have opened in the past three years.

Organized retail is mostly dominated by South African players such as SPAR, Shoprite, Woolworths, Pick n Pay, and Massmart (whose majority owner is Walmart). However, local chain Choppies remains the market's leading modern retailer with 70 stores.

Nigeria: Steadily growing demand

Population: 178 million

Total retail sales: \$135 billion

Retail sales CAGR (2010–2014): 12.7%

Nigeria is Africa's largest consumer market, and the boom is expected to continue as the population is growing at more than 2 percent per year and the GDP at 5.5 percent annually. More than 85 million Nigerians live in urban areas, and about half of the population is under the age of 20, so it's little surprise the country has huge appeal for international players.

Nigeria's retail market is still dominated by traditional and informal formats, but overall it is becoming more organized and modernized. Government interventions in recent years include banning street trading, revitalizing city centers, and modernizing trading standards, moves that have led to an increase of investments into the construction of shopping malls in Nigeria's major cities. While challenges remain from high rents, difficult regulations, and demanding consumers, the environment is evolving quickly as property developers, retailers, and international brands seek to enter.

South African grocery retailer Shoprite has 14 stores in Nigeria and has plans to add another 30 in the near future. South Africa's Massmart intends to increase its presence with 10 new discount stores by 2016.

A growing amount of Nigerians order goods online, mostly using local sites like Jumia or Konga. With 56 million Internet subscribers and 120 million active cellphones, e-commerce has grown impressively in the past five years and has reached more than \$760 million in sales.

Angola: Rapid growth ahead

Population: 22.4 million

Total retail sales: \$41.9 billion

Retail sales CAGR (2010–2014): 10.3%

Retail sales in Angola (30th) are nearing \$42 billion per year, and with a population of more than 22 million people, 62 percent of whom live in cities, the country presents an opportunity for retailers seeking high-growth opportunities in frontier markets.

Despite the growth, Angola's retail landscape faces challenges: A widespread informal sector still dominates, local production facilities are limited, and infrastructure is underdeveloped, but locally owned retail networks are expanding rapidly. Local retailer Kero opened three new hypermarkets in 2014, and South Africa's Shoprite, global franchiser SPAR, and Portuguese group Teixeira Duarte have announced plans to expand their networks in upcoming years. In addition, Portuguese retailer Sonae and Massmart are expected to enter in 2015.

GRDI Special Feature: A Look at Luxury

Many luxury brands struggled in 2014 amid lower economic growth and political instability in developing markets. Several brands shifted their short-term attention back to growth opportunities in United States, which is rebounding nicely post-financial crisis. Still, developing markets remain long-term targets: Today, emerging markets comprise about 30 percent of the global luxury market. And with wealth creation opportunities and the fast growth in the number of high-net-worth individuals, developing markets will continue to grab share. In this year's special feature, we examine luxury in the GRDI top 30 markets and discuss how luxury brands are adapting their strategies in order to succeed in a diverse and evolving landscape.

To understand the level of luxury development in emerging markets, we analyzed 15 leading luxury brands—what we call the Luxury 15—and their standalone store presence in the GRDI's top 30 countries (see figure 4 on page 24).⁶ In general, brands' presence in countries tends to increase with the size of the wealthy population and is an indicator of the ability and predisposition of local consumers to buy luxury.

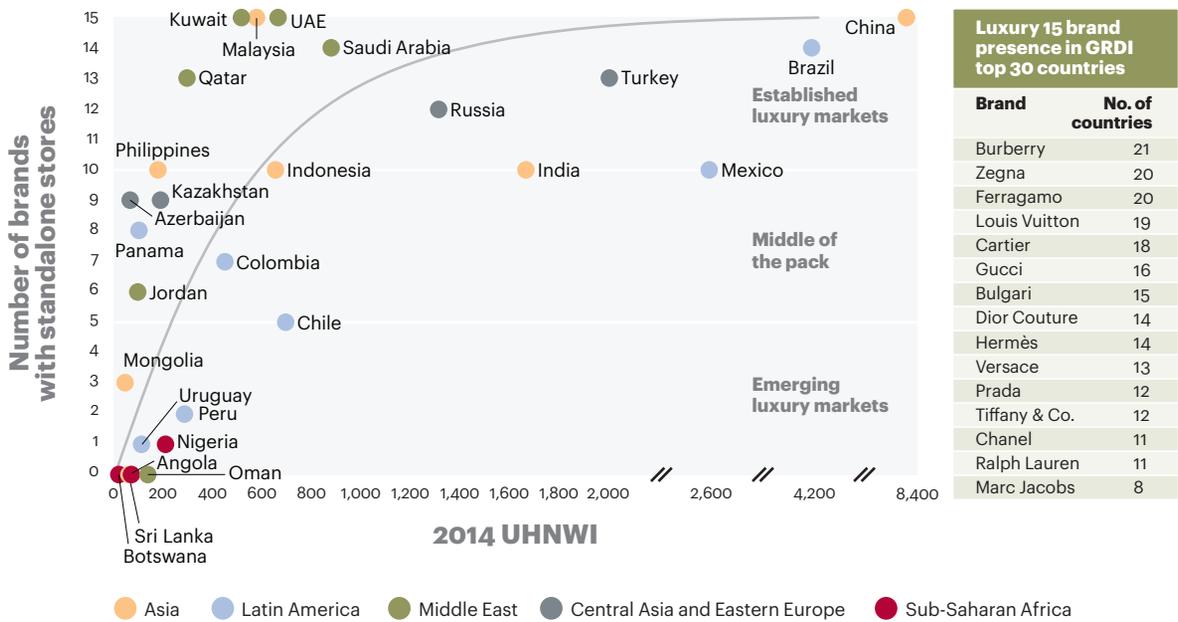
Emerging markets fall into three tiers of development, with different implications for brands looking to enter or expand in the markets (the number in parentheses is the number of Luxury 15 brands with standalone store presence in a given country):⁷

- **Established luxury markets (11 to 15 brands):** Brazil, China, Kuwait, Malaysia, Qatar, Russia, Saudi Arabia, Turkey, and the UAE

⁶ We explicitly do not include duty-free or department store locations in our discussion of luxury, but rather focus on in-market, on-the-ground, standalone retailing as an indicator of brands' commitment to a market.

⁷ The list omits three countries that lack data on ultra-high-net-worth individuals (UHNWIs): Armenia, Costa Rica, and Georgia.

Figure 4
Luxury brand presence vs. wealth levels



Notes: UHNWI is ultra-high-net-worth individual (people with assets worth more than \$30 million). Brand presence based on analysis of store networks for a sample of 15 luxury brands (standalone stores only). Armenia, Costa Rica, and Georgia are omitted from this list due to a lack of data on UHNWIs. Sources: Knight Frank, brand websites; A.T. Kearney analysis

- **Middle of the pack (six to 10 brands):** Azerbaijan, Colombia, Jordan, Kazakhstan, Mexico, India, Indonesia, Panama, and the Philippines
- **Emerging luxury markets (up to five brands):** Angola, Botswana, Chile, Mongolia, Nigeria, Oman, Peru, Sri Lanka, and Uruguay

Opportunities for luxury abound in developing markets no matter where you look, but luxury brands’ strategies have to be tailored to the local market to succeed. To minimize risk, established luxury markets such as China and the UAE are safe yet competitive environments. In mid-tier markets such as India, players need to actively build their brands and be ready to pounce once luxury real estate becomes available. For those that are more intrepid, breaking ground in new frontiers could pay off big in the long run if they can get past the initial challenges.

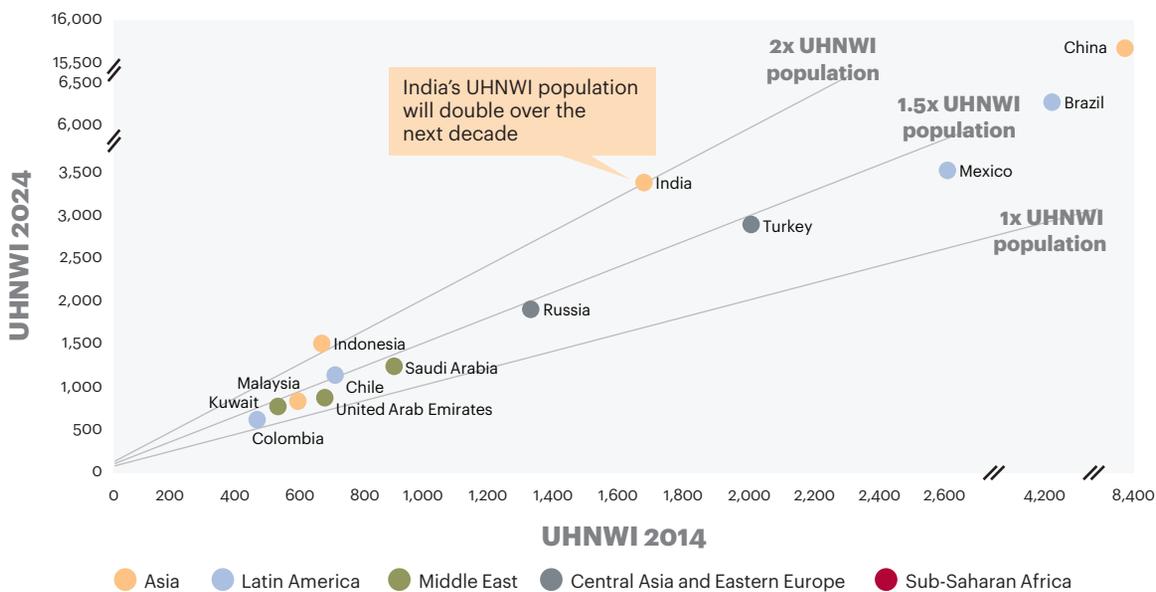
Following is a closer look at these three tiers of markets.

Established luxury markets. Most of the luxury brands in our sample have long been present in these markets. Ermenegildo Zegna, for example, has been present in China and Saudi Arabia since the early 1990s. Since these markets are already relatively saturated in terms of brand presence, future opportunities are highly dependent on wealth growth and retail development beyond tier 1 cities.

Among established markets, China has both size and growth on its side. Its population of ultra-high-net-worth individuals (UHNWIs) with assets greater than \$30 million is more than three times that of the six Middle Eastern countries ranked in the GRDI combined (8,366 vs. 2,574), and it will nearly double over the next 10 years (see figure 5 on page 25). Increasingly

Figure 5

Forecast growth in ultra-high-net-worth individuals, 2014-2024



Note: UHNWI is ultra-high-net-worth individual (people with assets worth more than \$30 million). The figure includes only countries that had more than 400 UHNWIs in 2014.

Sources: Knight Frank; A.T. Kearney analysis

sophisticated Chinese consumers, already familiar with brands such as Louis Vuitton and Gucci, are looking for newness and less ostentatious luxury.

For heavily penetrated brands, this means that the days of rapid expansion are over. Louis Vuitton has cut back on expansion into China’s tier 2 cities and has adjusted its assortment to promote less logo-heavy bags. Other brands are also pruning store networks and shutting down under-performing stores; Hugo Boss closed seven stores in 2014, Zegna closed six, and Burberry closed four. Hermès, which expanded at a much slower rate and has a more classic style, reinforced its presence with the opening of its fifth Maison Hermès in Shanghai last September.

For many recent entrants, China’s tier 2 and 3 cities remain a major opportunity: At least one Luxury 15 brand is present in about 40 cities in China. Burberry is present in the most cities (31), followed by Ferragamo, Gucci, and Zegna (30 apiece). Niche brands such as Céline and 3.1 Phillip Lim, in particular, are gaining popularity among younger consumers looking to break with convention. Meanwhile multi-brand stores are gearing up for growth in the market: Lane Crawford opened its third store in China in Chengdu, 10 Corso Como opened a second location in Beijing, and Galeries Lafayette appointed its first China CEO to oversee future expansion.

In contrast, the Middle East, which has one of the highest concentrations of wealth in the world, will experience much slower growth. The UHNWI population will grow by about one-third between 2014 and 2024. Although luxury spending is high—a recent Chalhoub Group survey found that the average GCC luxury consumer spends an average of \$2,400 per month on beauty, fashion, and gifts—the marketplace is becoming increasingly crowded and competitive, especially in the UAE. Successful luxury brands need to focus on service excellence and innovation in customer experience to attract the attention of customers for whom shopping is

a pastime. Examples of brands building deeper relationships with local clientele include Chanel, which presented its Cruise 2015 collection in Dubai, and Burberry, whose @BurberryME Twitter handle is one of the few region-specific social media sites among luxury brands.

Middle of the pack. The countries in this category range from retail giants such as India and Indonesia to small gems such as Azerbaijan and Panama. Brands entering or expanding in the larger countries have significant long-term opportunities, while in smaller countries the opportunity is limited to capitals and resort cities. Further development among both types of luxury markets is closely tied to the availability of real estate.

With India's UHNWI population set to double over the next 10 years and recent regulations allowing 100 percent FDI in single-brand retail, **luxury players are eager to gain a strong foothold in the market.**

In India, several luxury brands have gone through false starts due to the dearth of quality retail space, which is often only available in low-traffic luxury hotels. Zegna first entered India in 1999 only to withdraw when it was unable to find suitable malls or shopping complexes. It then took two more years for the company to find a local partner, obtain regulatory approval, and find a store location. Today in India, Zegna has only five stores, compared to its more than 70 in China. Similarly, Bulgari first entered India in 2004 but left in 2011 due to poor financial results at its hotel-based store. It reentered India last year with a flagship store in Delhi's Emporio Mall. Ten years since its initial entry, the real estate market has progressed little, and future expansion may be slow as the company waits for the right spaces to open up.

With India's UHNWI population set to double over the next 10 years and 2012 regulations allowing 100 percent FDI in single-brand retail, luxury players are eager to gain a strong foothold in the market. While waiting for luxury mall supply to catch up to demand, brands can solidify their market positions in several ways. First and foremost, continual brand building, via targeted marketing, social media, and placement in local luxury magazines, can help luxury brands connect with consumers. In addition, brands can experiment with smaller store formats to improve store profitability in a country where store margins are low because of high duties, rents, and discounting. Finally, luxury brands can also explore ways to differentiate product and service offerings. For example, Hermès experimented with limited-edition saris, while Canali, Etro, and Zegna have all had success with their versions of Nehru jackets. Many brands also offer personal shoppers and home shopping to personalize the shopping experience.

In this segment, the luxury retail opportunity in smaller countries is more about breadth than depth. While the UHNWI population will continue to grow, these markets will remain relatively small. Luxury brand presence is already on par with much larger countries due to the high concentration of wealth in capital cities, but most brands have one to two stores at most.

Future opportunities for new entrants are tied to the availability of new luxury space. For example, in Baku, Azerbaijan, before 2014 most brands were located in standalone stores along Neftchilar Avenue. With the opening of Port Baku Mall, a number of brands entered the market, including Balenciaga, Givenchy, and Ralph Lauren. Given the lack of scale, many players also choose to operate through franchisees such as Sintek Group rather than directly operating their stores.

Emerging luxury markets. These markets currently have very low luxury brand presence but significant future potential. In particular, after Asia, Sub-Saharan African countries have the highest projected growth rate in UHNWI population among the GRDI's top 30 (at a 6 percent CAGR between 2014 and 2024), although they are starting from a much lower base. Some interesting trends demonstrate the region's luxury potential: For example, Nigeria has the second fastest sales growth rate of champagne after France, while Angola rates as one of the most expensive countries in the world for expats. To tap into the long-term potential, brands can either jump in headfirst to gain first-mover advantage, or enter opportunistically as luxury real estate comes onto the market.

Early entrants can reap significant rewards by establishing a strong brand connection with consumers, getting ahead of the operational learning curve, and establishing relationships with officials and policy makers. However, they also face significant barriers, including scarcity of real estate, high rental costs and duties, poor infrastructure, corruption, and bureaucracy. In Nigeria, where 90 percent of shopping takes place in informal formats, there are only about 20 malls, compared to 500 in South Africa. Electricity supply is erratic, so stores need to be equipped with their own power generators. And on average it takes 40 days for goods to clear customs compared to seven days at other global ports.

Early entrants in emerging luxury markets can reap significant rewards but they also face significant barriers.

For Zegna, the first luxury brand to enter Nigeria in 2013, the risk has been well worth the reward. Zegna's African consumers spend 50 percent more than the average global consumer, and Nigeria's wealthy population will double over the next ten years, portending a solid opportunity. Enticed by the future potential in the market, Zegna partnered with a local franchisee to open a standalone store on Akin Adesola Street in Lagos, an area that the company hopes will become the city's first high-end shopping area. As Zegna founder Ermenegildo Zegna said, "For us, today, Africa is more important than the U.S. In five to 10 years, Africa can become the new frontier for luxury."

Angola is another interesting example of luxury development in Africa. Although there are no luxury brands present in the country today, the upcoming opening of Sky Gallery shopping mall in Luanda will bring luxury brands including Zegna, Prada, Gucci, and Armani. Brands are jumping into the fray the moment quality real estate is available.

Two countries in this segment, Oman and Chile, have much lower luxury presence than other countries with comparable levels of wealth. Oman has no luxury brands among those we

analyzed, as Omanis are more conservative about fashion, with a still-low appetite for luxury. Luxury buyers spend less than \$250 per month and often prefer to shop in nearby Dubai. While there is definitely room for growth, the pace of change will be slow.

Similarly, Chileans traditionally have not embraced the luxury lifestyle, buying luxury goods only a few times a year despite having South America's highest GDP per capita. Only recently have luxury brands begun targeting Chile, particularly with the opening of the Luxury District at Parque Arauco Kennedy in Santiago in late 2013. Burberry entered the market in 2013, and Gucci, Ralph Lauren, and Tiffany plan to enter in 2015.

Investing in the Future

The 2015 GRDI reflects a retail environment in developing markets filled with exciting challenges. The role of these markets as sources of growth continues to entice global retailers, which are still investing in building a long-term advantage. Even as they become more selective in their expansion strategies in new frontiers, they are clearly committing to the long haul.

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

Appendix: About the 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: lower than 110 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.)

GRDI scores are based on the following four variables:

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.

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 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. 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 25 percent of the retail food market; 100 indicates a fragmented market.

Time pressure (25 percent)

The time factor is measured by the CAGR of modern retail sales (2010-2014) weighted by the general economic development of the country (CAGR of GDP from 2012–2014 and forward-looking from 2015–2017) and the CAGR (2010 to 2014) of the retail sales area weighted by newly created modern retail sales areas. A score of 100 indicates a rapidly growing retail sector, thus representing greater time pressure to enter or expand in the market in order to capture the growth.

Data and analysis are based on the Population Reference Bureau, International Monetary Fund and Economist Intelligence Unit national statistics, Euromoney and World Bank reports, and Euromonitor and Planet Retail databases. Populations listed throughout the report are from the Population Reference Bureau; figures related to retail sales are from Planet Retail.

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