African markets emerge on global retail development index

The 2015 Global Retail Development Index (GRDI), published by AT Kearney, places three sub-Saharan countries in the top 30 - Botswana #18, Nigeria #23 and Angola #30. Zambia, Namibia and Ghana are on the verge of breaking into the top 30 in the near future.

According to the 2015 (GRDI), the region presents exciting opportunities that are just starting to open up, supported by rising household incomes, fast urbanisation, and a growing middle class. Published since 2001, the GRDI ranks the top 30 developing countries for retail investment worldwide (see chart below). The Index analyses 25 macroeconomic and retail-specific variables to help retailers devise successful global strategies to identify emerging market investment opportunities.

Partner at AT Kearney Johannesburg, Bart Van Dijk said multinational retailers continue to push into developing markets. "Regional players, such as South Africa's Shoprite, Pick n Pay and Woolworths, are using their proximity as a competitive advantage to gain market share in neighbouring markets, as well as spearheading the shift to modern retail in sub-Saharan Africa."

Luxury brands prospects

The 2015 GRDI included a special feature on the prospects for luxury goods in developing markets. AT Kearney Partner and GRDI co-author Hana Ben-Shabat commented, "Luxury remains a relatively bright spot in emerging markets, as the wealthy have proven less vulnerable to economic woes than the general population."

The feature included an analysis of the 15 leading luxury brands and their presence in the survey's top 30 countries. The analysis showed that emerging markets fall into three tiers of luxury development, with different implications for brands looking to enter or expand in these markets.

For the first time since 2010, China was ranked as the top country. China's retail market is expected to grow to $8 trillion - double the size of the US market - by 2022. Overall, Asia is a regional winner in 2015, outpacing other regions despite a slowdown in growth.

AT Kearney Partner and co-author of the GRDI, Mike Moriarty stated, "As a result of turbulence in the Middle East, Latin America, and Russia, the past year has seen a more cautious approach to international expansion into some developing markets. However, retailers are taking a longer-term view of emerging markets, with fewer exits, and more targeted investments in areas of growth."

GRDI Regional Results

The full GRDI report includes detailed commentary for all 30 countries ranked in the Index. Here are some regional results.

- **Asia**

Asia is once again an attractive region for international retailers, 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 cities.

China regains the top spot in the GRDI for the first time in five years, while small gems Mongolia (re-emerging at 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 remain.

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

China's GDP growth of 7.4% 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%. China's retail market is expected to surpass the United States as the world's largest retail market by 2018.

- **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% 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 secondary cities, particularly in Brazil, Colombia, and Peru.

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

- **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 under way in Qatar, the UAE and Oman. Only Kuwait has felt the impact disproportionately, due to its high reliance on oil and relative lack of diversification.

Qatar makes an impressive GRDI debut, in 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.

- **Central Asia and Eastern Europe**

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, which has the world's sixth-largest GDP, plunges in the rankings behind worsening economic conditions and political tension, yet it remains too big to ignore.

2015 Global Retail Development Index Ranking

Country	2015 Rank	2014 Rank	Change
China	1	2	1
Uruguay	2	3	1
Chile	3	1	-2
Qatar	4	2015 new entry	N/A
Mongolia	5	2015 new entry	N/A
Georgia	6	7	1
United Arab Emirates	7	4	-3
Brazil	8	5	-3
Malaysia	9	9	0
Armenia	10	6	-4
Turkey	11	11	0
Indonesia	12	15	3
Kazakhstan	13	10	-3
Sri Lanka	14	18	4
India	15	20	5
Peru	16	13	-3
Saudi Arabia	17	16	-1
Botswana	18	26	8
Panama	19	14	-5
Colombia	20	21	1
Russia	21	12	-9
Azerbaijan	22	30	8
Nigeria	23	19	-4
Philippines	24	23	-1
Jordan	25	22	-3
Oman	26	17	-9
Kuwait	27	8	-19
Costa Rica	28	24	-4
Mexico	29	25	-4
Angola	30	2015 new entry	N/A

To read the full 2015 GRDI report, go to www.grdi.atkearney.com.