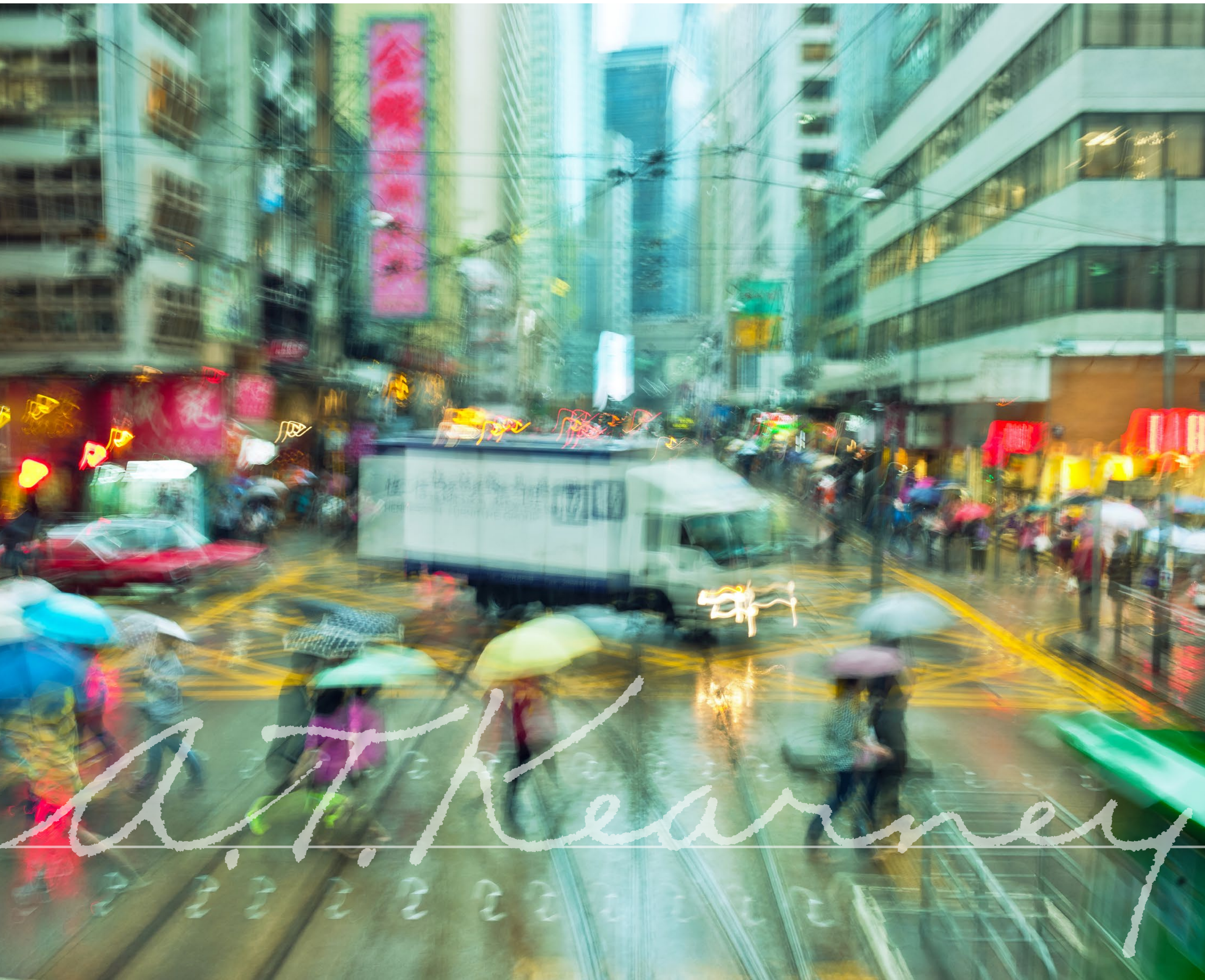
ATKearney

The 2016 Global Retail Development Index™

Global Retail Expansion at a Crossroads

Amid ongoing economic turbulence, developing markets continue to offer retailers some prime opportunities for growth.



A lot has changed since we published the first A.T. Kearney Global Retail Development Index™ (GRDI) 15 years ago, but one thing has been fairly constant: Retail in developing countries has seen excellent growth. While the developing world population has grown 21 percent to 6.2 billion, retail sales in those markets have increased more than 350 percent and now represent more than half of total global retail sales.

Wealth drives consumption in predictable ways, and modern organized retail and global and regional branded products are an important part of this global change.[1] As a result, international retailers (and consumer product manufacturers) have relied on developing markets to fuel growth. But doing it right is never easy. Some bets have paid off—China, despite being elusive, remains one of the most dynamic retail markets in the world. Other markets have faltered; from turbulence in Russia and the Middle East to the long-anticipated economic stagnation in markets like Brazil, growth in developing markets remains a risky proposition. To limit the downsides, retailers have become more strategic—and often more cautious—in how they expand. Understanding that each market has its own challenges and opportunities, the leaders in global retail expansion have, in particular, learned the importance of having a portfolio of countries to balance short- and long-term goals.

The Global Retail Development Index ranks the top 30 developing countries for retail investment, based on all relevant macroeconomic and retail-specific variables. The study is unique in that it not only identifies the markets that are most attractive today, but also those that offer future potential (see appendix: About the Global Retail Development Index on page 28). To mark the GRDI's 15 years, we refreshed the methodology to better reflect the changing reality of retail in developing markets (see sidebar: 2016 GRDI Methodology Update). One key change was increasing the minimum population to be considered by the Index, which means that some of the "smaller gems" that had been ranked high in previous years—including Uruguay (2nd in 2015), Qatar (4th), and Mongolia (5th)—are no longer ranked.

In addition, this year we have augmented our annual research with a special feature, *Developing Market Retail in 2030: Preparing for an Uncertain Future*. In the report, which we will release

2016 GRDI Methodology Update

To mark the GRDI's 15 years, we reexamined our methodology to ensure that it best reflects the reality of developing market retail today and in the future. A few of the methodology changes deserve a close look, as they had a substantial impact on the rankings. (The study's full methodology is available in the appendix on page 28.)

- **Population cutoff. The minimum population to be considered in the GRDI is now 5 million, up from 3 million. This change reflects retailers' need for markets large enough to operate at scale. As a result of this change, some countries that had been previously highly ranked, including Uruguay (2nd in 2015), Qatar (4th), and Mongolia (5th), are no longer part of the Index. Retail opportunities in these markets still exist, but are sometimes limited to certain sectors and perhaps confined to a few shopping malls.**
- **Urban population. We have introduced a new variable within the market attractiveness metric to take into consideration the number of cities with more than 1 million people. This reflects the additional scale opportunities afforded by second-, third-, and fourth-tier cities.**
- **Time pressure timeframe. The time pressure metric is now measured over a two-year timeframe, rather than four years, to reflect an increasingly dynamic economic and retail environment. Longer-term growth prospects are already reflected in the macroeconomic variables included in other metrics.**

[1] For more, see A.T. Kearney's Consumer Wealth and Spending Study.

Figure 1
2016 Global Retail Development Index™

2016 rank	Country	Market size (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Population (million)	GDP per capita, PPP	National retail sales ($ billion)
1	China	100.0	61.2	36.2	92.5	72.5	1,372	14,190	3,046
2	India	53.7	54.3	75.8	100.0	71.0	1,314	6,209	1,009
3	Malaysia	81.2	83.4	23.5	50.4	59.6	31	26,141	93
4	Kazakhstan	56.4	37.3	61.9	70.2	56.5	18	24,346	48
5	Indonesia	64.3	38.9	50.2	68.9	55.6	256	11,112	324
6	Turkey	85.9	46.4	31.9	53.1	54.3	78	20,277	241
7	United Arab Emirates	95.2	100.0	1.3	18.0	53.6	10	66,997	69
8	Saudi Arabia	91.2	64.9	21.3	31.5	52.2	32	53,565	109
9	Peru	47.3	52.8	50.4	57.2	51.9	31	12,077	70
10	Azerbaijan	33.9	30.8	80.9	59.3	51.2	10	18,512	17
11	Vietnam	22.7	24.5	68.7	87.4	50.8	92	6,020	87
12	Sri Lanka	25.4	38.7	76.7	62.0	50.7	21	11,120	31
13	Jordan	52.3	47.5	60.2	39.7	49.9	21	12,162	14
14	Morocco	29.8	51.2	62.9	54.3	49.5	34	8,194	39
15	Colombia	49.0	63.6	46.5	36.9	49.0	48	13,794	91
16	Philippines	36.6	42.6	41.0	70.7	47.7	103	7,318	134
17	Dominican Republic	54.4	14.8	60.7	53.3	45.8	11	14,771	30
18	Algeria	17.6	6.0	92.0	65.2	45.2	40	14,163	42
19	Nigeria	21.3	9.1	89.5	55.4	43.8	182	6,185	125
20	Brazil	85.9	65.7	20.4	0.0	43.0	205	15,690	445
21	Côte d'Ivoire	0.9	8.2	97.6	65.3	43.0	23	3,304	13
22	Russia	93.6	26.6	6.1	40.9	41.8	144	23,744	448
23	Zambia	0.0	20.1	84.4	62.0	41.6	15	4,165	11
24	Romania	45.3	54.6	0.0	61.0	40.2	20	20,698	45
25	Paraguay	16.0	17.0	87.1	38.2	39.6	7	8,671	11
26	Tunisia	28.1	34.9	73.2	18.5	38.7	11	11,450	15
27	South Africa	54.9	67.7	9.1	15.2	36.7	55	13,197	102
28	Ghana	4.6	28.5	100.0	10.9	36.0	28	4,216	15
29	Kenya	4.5	3.1	75.5	59.2	35.6	44	3,246	26
30	Egypt	24.1	3.0	67.0	44.7	34.7	89	11,262	133
		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				

Note: PPP is purchasing power parity.

Sources: Euromoney, Population Data Bureau, International Monetary Fund, World Bank, World Economic Forum, Economist Intelligence Unit, Planet Retail; A.T. Kearney analysis shortly after the GRDI launch, we take a look 15 years ahead to envisage the future of retail in developing markets in 2030. In this dynamic and uncertain future, two key factors are at play: trade openness and the evolution of retail and consumer technology. The direction these two forces take and the interaction between them allow us to examine four potential scenarios, each with different implications about where and how international retailers operate. And there's no understating the importance: There is an $8 trillion swing in global retail sales, depending on which scenario emerges.

The Global Retail Development Index Findings

The 2016 GRDI continues to reflect the struggles many markets face with shifting economic and political realities, and it also highlights the regions that offer long-term opportunities.

For this edition, four out of the top five countries are in Asia (see figure 1 on page 2). China takes the top spot despite its continued economic challenges and transformation. India's huge market potential, fast growth, and improved ease of doing business move it into second place. On the other end of the spectrum are regions where a year of struggles have hurt retail. Latin America is grappling with political unrest and economic deceleration. Russia is still burdened by international sanctions and a deepening financial crisis. The Middle East is adjusting to cheap oil and ongoing regional conflicts.

Africa stands out as one of the GRDI's most promising regions. Three North African countries are in the top 30, with Egypt's 30th-place ranking standing out as its country risk slowly decreases and a fast-growing middle class becomes more accessible to international retailers. Meanwhile in Sub-Saharan Africa, six countries make the rankings, reflecting the huge yet still untapped potential of the region.

GRDI readers know that the Index annually identifies "windows of opportunity" to invest in organized retail in developing markets. The concept is based on the notion that markets pass through four stages of retail development (opening, peaking, declining, and closing) as they mature, a process that typically takes 10 to 15 years. Figure 2 on page 4 shows how markets move toward their peak attractiveness while others approach retail maturity. This year also marks the graduation of Chile and Mexico, where the retail environment is now highly competitive and modern retail space has surpassed the global average of 180 square meters per thousand people (see sidebar: 2016 GRDI Graduates on page 6).

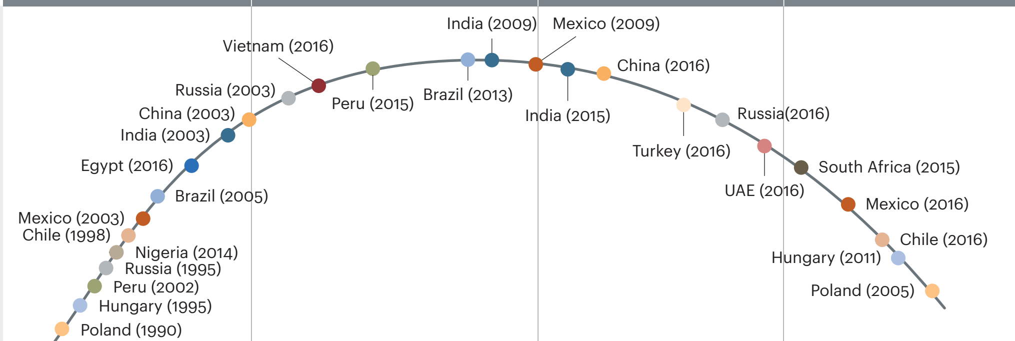
Asia Pacific

Asia Pacific has four of the GRDI's top five countries, thanks to a combination of large populations and high growth.

Southeast Asia began the year with an important milestone—the official launch of the ASEAN Economic Community (AEC), which created a $2.6 trillion market with a population of more than 622 million. While full implementation will be a long process and will depend on voluntary commitments from the 10 member states, the benefits of the AEC could be dramatic—as much as a 5 percent regional GDP boost by 2030, according to HSBC research. Also on the horizon is the Trans-Pacific Partnership (TPP), which if ratified (it faces politically motivated opposition in the United States) could boost GDP for Vietnam and Malaysia by 10 percent and 8 percent, respectively, according to the World Bank.

Figure 2

The GRDI window of opportunity



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

Source: A.T. Kearney analysis

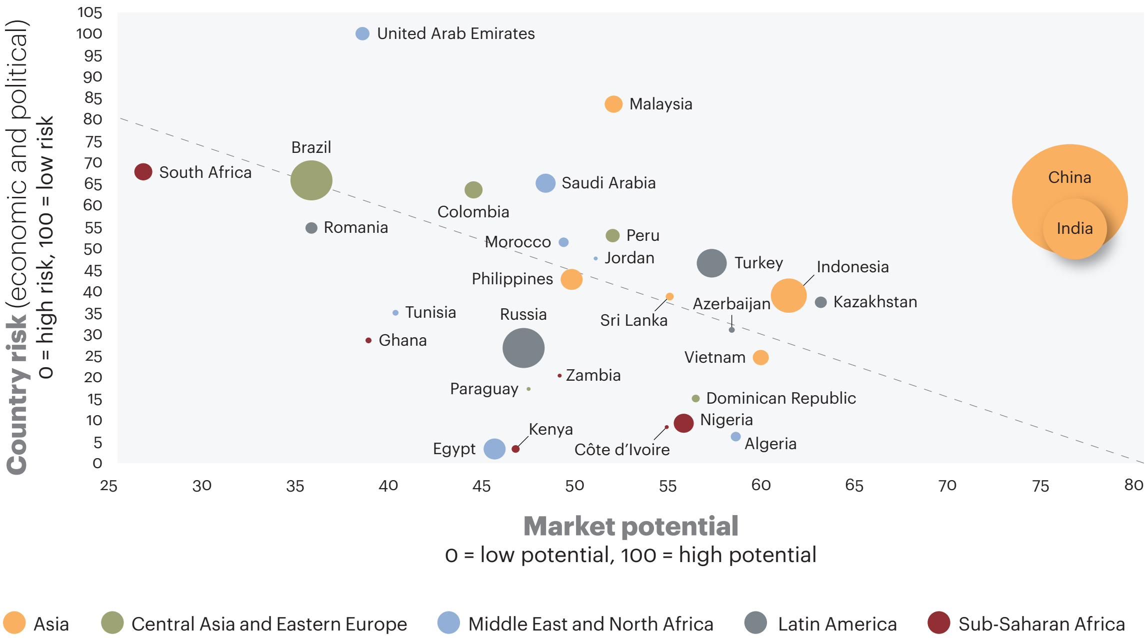
E-commerce continues to grow, rising 35.7 percent in 2015 to reach $878 billion. Asia now holds a majority share of global online sales (52.5 percent). While penetration is still low in most markets outside of China, consumer adoption is rising quickly and competition is intense as local and international players alike vie to become the next Amazon or Alibaba.

China: Still the leader even as growth slows

Population: 1.37 billion
Total retail sales: $3.05 trillion
Retail sales CAGR (2013-2015): 9.7%

China's economic growth has slowed, yet the GRDI's top-ranked country remains one of the most attractive global retail markets; as figure 3 on page 5 shows, when comparing country risk with market potential, only India's smaller retail market rivals China. Retail sales growth (8.1 percent) outpaced GDP growth (6.9 percent) in 2015, as consumers continued spending despite economic uncertainty. Many factors are in China's favor. The economy is gradually shifting from an infrastructure investment-driven model to one driven by consumer consumption (this is a big policy change). The growing middle class, coupled with strong demand from inland and lower-tier cities and the loosening of the one-child policy, will drive growth over the next 10 years. Government policies like reducing import taxes on certain

Figure 3
2016 GRDI country attractiveness



Size of bubble indicates net retail sales, 2015

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

consumer goods, removing provincial barriers to foreign and domestic trade, increasing support for cross-border e-commerce, and establishing duty-free shopping zones will boost domestic spending as well. A.T. Kearney's 2016 FDI Confidence Index ranks China second, a signal of its continued attractiveness to foreign investors.

Chinese consumers are trading up and willing to pay for better-quality, health- and convenience-driven products, as well as enhanced product features and designs. An increased focus on fitness and product safety will benefit retailers across sectors, including sports and lifestyle, nutrition, baby, personal care, and food. Indeed, shoemaker Adidas saw an 18 percent revenue increase in China last year and plans to add 3,000 more stores; it will soon have 12,000 stores in more than 2,000 Chinese cities.

Other multinationals have demonstrated confidence in the market's long-term prospects. Starbucks plans to open 500 new stores every year over the next five years, which will leave the coffee giant with more locations in China than in America. McDonald's is planning to open more than 250 restaurants in 2016. Victoria's Secret plans to launch its underwear business in China in 2016. Fast-fashion brand H&M will open 70 stores in 2016, and its rival Uniqlo plans to open 100 stores a year, with a long-term goal of 3,000 stores.

These moves in physical retail come as China becomes the world's undisputed leader in e-commerce, with 2015 online sales of $672 billion after 42 percent year-over-year growth. E-commerce now represents 15.9 percent of sales (compared to 7.3 percent in the United States) and could reach 30 percent by 2018. Alibaba (which owns Taobao and Tmall) now handles more transactions than Amazon and eBay combined. China's November "Singles Day" drew more sales than Black Friday, Thanksgiving, and Cyber Monday combined in the United States. Mobile commerce grew 140 percent to $334 billion, or roughly half of all online sales (compared to 22 percent in the United States). The rapid rise of e-commerce has turned China into a leading innovator in mobile payments. Alibaba's pioneering Alipay has more than 400 million registered users, Tencent's WeChat Pay has seamlessly integrated e-commerce and messaging with payments, and Apple Pay entered early in 2016.

Many store-based retailers are struggling to adjust to the new online reality. Several have closed underperforming stores in tier 1 and 2 cities. In luxury, where the slowing economy and ongoing anti-corruption campaigns have hit hard, upscale retailers are trying to figure out what to do. Louis Vuitton, Gucci, and Hugo Boss are among those who closed stores in 2015. In grocery, hypermarkets are struggling due to oversupply and competition from e-commerce, while convenience retailers like Japan-based FamilyMart are doing comparatively better. Carrefour is slowly expanding its "Easy Carrefour" convenience concept as a result.

Many are seeking opportunities into still-unsaturated lower-tier cities, including hypermarket leader RT-Mart, supermarket Vanguard, and Uniqlo, but they struggle to remain price-competitive among consumers with less spending power. Brick-and-mortar retailers and shopping centers are also trying to stand out against online competitors by enhancing their in-store offerings and integrating online-to-offline capabilities. For example, the Yongsheng Shopping Center increased foot traffic by 40 percent in 2015 with expanded restaurant offerings. Louis Vuitton has embraced the lifestyle business model in its upgraded Beijing store, which includes a bookstore, an art exhibition, and a Chinese tea zone. And local players like Suning and GOME and international retailers like Carrefour, Walmart, Burberry and Cartier have aggressive plans to strengthen online-to-offline operations.

India: Opening its doors wider to FDI (finally)

Population: 1.31 billion
Total retail sales: $1.01 trillion
Retail sales CAGR (2013-2015): 8.8%

GDP growth, improved ease of doing business, and better clarity regarding foreign direct investment (FDI) regulations puts India in 2nd place. India is now the world's fastest-growing

2016 GRDI Graduates

Chile and Mexico exit the ranking this year, as both countries have developed modern retail markets with densities similar to those of developed economies.

Chile lifted FDI restrictions in 2001, and has been a target market for international retailers ever since, ranking in the GRDI's top 10 for the past 15 years. Retailers took advantage of the country's stability and high level of disposable income, leading to what is now a competitive, saturated, and sophisticated modern retail environment. Retail space in Chile grew more than 40 percent in the past five years, with modern retail density now registering at 248 square meters of retail space per thousand inhabitants, well beyond the GRDI selection criteria.

Mexico has been a Latin American entry point for many US-based retailers such as Walmart for several years. In 2016, the country graduates from the GRDI as its retail density surpasses 210 square meters per thousand inhabitants. Consolidation and e-commerce are the key retail themes in Mexico today. Last year saw key local deals such as Soriana's purchase of Comercial Mexicana and Coppel's acquisition of Vienna stores. Amazon, meanwhile, has seen fast sales growth online, and players such as Sam's Club, Petco, and Nike are turning to e-commerce for growth.

major economy, overtaking China. Retail demand is increasingly driven by urbanization, an expanding middle class, and more women entering the workforce.

India remains a challenging and complex market for foreign retailers, where understanding dynamics at the state level is important (India's 29 states have historically had the power to opt in or out of FDI reforms), and where infrastructure bottlenecks (including archaic labor laws, complex regulations, high labor attrition rates, and limited high-quality retail space) remain important areas of concerns for retailers. But India's strong ranking reflects foreign retailers' increased optimism in the $1 trillion retail market and its vast potential.

Retail demand is increasing in India, driven by urbanization, an expanding middle class, and more women entering the workforce.

Under Narendra Modi's leadership, India has relaxed several key FDI regulations in single-brand retail. For example, companies that deal with "cutting-edge technology" are no longer forced to source at least 30 percent locally, a move that will likely encourage companies like Apple and Xiaomi to open branded stores in the near future. Meanwhile, the ruling Bharatiya Janata Party has retained a rule that allows 51 percent FDI in multi-brand retail, and has opened up FDI in multi-brand processed food retail, as long as the food is sourced and produced in India. This could benefit retailers like Walmart (currently limited to cash-and-carry) and Tesco (currently operating multi-brand retail through a joint venture with Tata). In addition, in e-commerce, the government now permits 100 percent FDI for online marketplaces, with some caveats to "create a level playing field." Overall the rule is expected to boost market entry in the online space, though it could pose problems for incumbents Flipkart and Amazon.

In the past year, several foreign retailers have entered India. In fashion, Aéropostale, The Gap, and The Children's Place entered in partnership with Arvind Lifestyle Brands. Topshop and Topman entered via e-commerce through Jabong.com, while H&M became the first international fashion retailer to enter alone after the government approved 100 percent FDI in single-brand retail. Other sectors also saw multiple entrants including sports (Sonae, under the Sport Zone banner), restaurants (Wendy's, Jamie's Italian, Jamie's Pizzeria, Barcelos, and Carl's Jr.), and convenience stores (UAE-based Fmart). And among existing international retailers, Marks & Spencer, Burger King, Dunkin' Donuts, Starbucks, and Nando's undertook significant expansion programs.

In terms of formats, the cash-and-carry model is thriving and profitable, with existing players like Walmart and Metro seeking to expand their store bases, targeting 70 and 50 stores, respectively, by 2020.

Meanwhile e-commerce is accelerating as Internet and smartphone penetration increases—toward the end of 2015 India surpassed the United States to become the world's second-largest Internet market, trailing only China. Consumers are growing more comfortable shopping online, and venture capital and private equity firms are making investments. Attracted by the growth prospects, Alibaba plans to enter in 2016 either organically or through acquisitions. Profitability remains a challenge, however, with players still heavily dependent on investor funding and discounting to drive business.

Malaysia: A business-friendly environment

Population: 31 million
Total retail sales: $93 billion
Retail sales CAGR (2013-2015): –3.4%

Now for something completely different: a country that's not huge, not growing especially fast, but is business-friendly. Third-place Malaysia is the most business-friendly environment among Southeast Asian countries ranked in the GRDI (18th in the World Bank's Ease of Doing Business Index), and retailers remain bullish about its potential despite slowing GDP growth, a depreciating currency, and recent corruption scandals.

The market for both small-format grocers and hypermarkets is hot. In convenience, 7-Eleven Malaysia announced it would open 200 stores and upgrade 200 more, while Bison Consolidated announced an upcoming IPO along with plans for 150 new convenience store openings by 2017, in a bid to compete with incumbent 7-Eleven. GCH Retail, Dairy Farm's subsidiary in Malaysia, announced plans to open six new Giant hypermarkets and refurbish 28 additional stores.

Regional and international players are also pushing retail sector growth. South Korea's CJ O Shopping is looking to launch a new TV shopping network in Malaysia in a joint venture with Malaysia's Media Prima, while Chinese outdoor apparel brand Telent is moving into Malaysia as a first step in a broader Southeast Asian push. UAE-based LuLu announced plans to invest $308 million over the next two years to enter the market.

Kuala Lumpur is saturated with modern retail space, prompting modern development in other spots. In Kuching, for example, ongoing development plans include the six-story Emporium at Jalan Tun Jugah, a four-story mall in Matang, and the Moyan Square Shopping Mall.

E-commerce players are expanding aggressively, with promotional campaigns commonplace. Online fashion retailer Zalora has offered to absorb the 6 percent goods and services tax, and local online marketplace 11street plans to launch a new mobile shopping app.

Indonesia: Ready for their big bang

Population: 256 million
Total retail sales: $324 billion
Retail sales CAGR (2013-2015): –2.3%

Despite its relatively low $1,270 in retail sales per capita and currency volatility, Indonesia's huge population and cities make it quite attractive to foreign retailers, which see untapped potential in the country and are investing heavily in new development. The country is 5th in this year's GRDI.

Early this year, Indonesia President Jokowi unveiled plans for a "big bang" opening of the market to foreign investment across nearly 50 sectors, including e-commerce and retail. The government also plans to complete 30 infrastructure projects over the next four years, including much-needed public transport and power plants, to boost economic growth. The government took e-commerce off the negative investment list earlier this year, creating a five-year e-commerce road map, including revised regulations and plans to identify and support 200 tech entrepreneurs per year.

With these prospects in mind, local and international retailers are speeding up expansion plans. Local retailer Indomaret opened 1,560 stores in 2015 and aims to open 1,600 more in 2016. UAE-based LuLu announced it would invest $500 million over the next five years to enter and expand in Indonesia. Other players with similar aspirations include Lotte, Lawson, H&M, Courts, IKEA and Lenovo.

Retailers are also experimenting with new formats to capture niche segments of the market. Matahari launched a premium format featuring an upmarket store design and many imported products, and created a new wholesale format to target business customers. Transmart Carrefour launched a format featuring restaurants, retail chains, and entertainment, which is an interesting shift from its original focus on grocery.

As Indonesia's middle class expands and smartphone use increases, the e-commerce market is gaining traction with both online and traditional retailers. HappyFresh, an online grocery website headquartered in Jakarta, has raised money as it plans to expand in Southeast Asia. Thailand's Ardent Capital plans to expand its e-commerce WhatsNew Group to Indonesia under a women-focused brand MOXY. Traditional retailers like Lotte Group (41 stores and one department store in Indonesia) and Salim Group (11,000 convenience stores) are exploring e-commerce as an extension of their physical stores, with plans to set up e-commerce platforms and logistics service.

Economic growth has spurred impressive retail sales growth in Vietnam, coupled with an increase in retail sales area.

Vietnam: A metropolitan, convenience-focused market—but with more to come

Population: 92 million
Total retail sales: $87 billion
Retail sales CAGR (2013-2015): 7.1%

Vietnam takes 11th in the GRDI, due to low market saturation and strong GDP growth. Its GDP has grown 5.2 percent annually since 2013, highest among its Southeast Asian peers ranked in the GRDI. Economic growth has been spurred by export growth and a 17 percent increase in foreign direct investment, underpinned by Vietnam's geographic advantage and low labor costs. This foundation led to impressive 2015 growth in retail sales area (22 percent) and retail sales (9.5 percent).

Convenience stores are a phenomenon in Vietnam, with estimated growth in store numbers of more than 260 percent since 2012 as consumers prove willing to pay a premium for the convenience of stores open earlier and later in more locations, as in most cities as much as 80 percent of people eat away from home. Companies seeking to tap into these trends include domestic operator Vingroup, which opened 93 stores in 2015 and plans to open twice as many in 2016; Japan's FamilyMart, which will open more than 100 stores in 2016; and 7-Eleven, which is entering the market through a franchise agreement with Seven System Vietnam.

Some global heavyweights have also entered the scene. Apple opened a Vietnam subsidiary that allows it to import and distribute cellphones directly to a market that now has more than 150 million mobile phone subscribers (in a market with 92 million people) who increasingly desire smartphones. South Korean hypermarket operator E-mart launched its first Vietnamese store in the Go Vap District of Ho Chi Minh City, before announcing further plans to expand its network to 52 stores by 2020. AEON also introduced Topvalu to Vietnam in late 2015, tapping into the popularity of Japanese culture to offer authentic Japanese ingredients and home cooking kits.

Such prospects have spurred significant acquisition activities particularly by local and regional players. Vietnam's Vingroup purchased Maximark, a local retailer, rebranding it under the VinMart+ banner. Thai companies TCC and Central Group acquired Metro's cash-and-carry business and Casino's Big C grocery chain, respectively, earlier this year.

E-commerce in Vietnam is expected to grow as mobile phones spread and online shopping grows more common. E-commerce campaigns are ramping up, including Online Friday, held by onlinefriday.vn, which attracted 1.1 million visitors and close to 2,000 participating retailers.

Sri Lanka: Strengthening economy with retail growth

Population: 21 million
Total retail sales: $31 billion
Retail sales CAGR (2013-2015): 6.6%

This island nation is 12th in the GRDI as it remains a favorable market for retail, thanks to a strong economy and few restrictions on foreign investment. Retail sales per capita is expected to grow by 6 percent annually over the next two years, driven by economic growth and rising incomes, investment, and tourism. Modern retail grew by 4.5 percent in 2015.

Sri Lanka's new government is making a concerted effort to shift from public investment in infrastructure toward private sector-led growth. This includes reducing barriers to foreign direct investment, improving the ease of doing business, and pursuing business from India, the United States, and the United Kingdom to reduce the country's dependence on China. China currently funds roughly 70 percent of Sri Lanka's infrastructure projects.

Sri Lanka's retail landscape is dominated by domestic players. Retail space is limited, especially in Colombo where rents increased by about 30 percent in the second half of 2015, as the supply of quality retail space could not meet demand. Outside of Colombo, while retail development is growing more rapidly, there remains plenty of room for growth.

Still, only a handful of international retailers entered in 2015. US-based ice cream shop Cold Stone Creamery is planning five new stores by 2020, in partnership with Abu Dhabi's Tablez Food Company. Other retailers to announce entries include Indonesian lifestyle retailer Mitra Adiperkasa (the franchisee of brands like Zara, Starbucks, and Galeries Lafayette) and India-based jewelers Kalyan and Joyalukkas.

Philippines: Modern retail spreads

Population: 103 million
Total retail sales: $134 billion
Retail sales CAGR (2013-2015): 3.5%

The Philippines is 16th in the GRDI, with strong GDP growth and a healthy increase in retail sales area. As the outsourcing industry helps boost the Philippines' economic growth, long-term prospects for retail remain positive. Retail is expected to account for one-fifth of the country's GDP by 2025.

Traditionally, Filipinos shop in *sari-sari* stores, variety shops that sell everything from food to clothes to household goods. The country's retail experience is modernizing, however, as retail giants invest billions in malls to ramp up their nationwide presence. Examples include the Philippines' biggest developers such as Ayala Corporation, JG Summit Holdings, SM Investments, and Robinsons, the last of which plans to invest almost $100 million in 10 new community malls by 2020. Modern retail sales area grew 13 percent in 2015.

Competition is heating up, with expansion plans coming from both domestic and regional players. Philippines-based hypermarket, supermarket, and department store operator Metro Retail Stores Group plans to more than double the number of stores within five years. Hypermarket chain Prince Philippines has announced its plan to open four new stores within the next year. Swedish retailer H&M opened its largest store in the Philippines in Cebu late last year, and is looking for more store locations in and outside of Manila.

The southern city of Davao is poised to be the next retail hotspot outside of Manila, with its high income and large population, and is being targeted by major retail players. Philippine Seven Corporation (PSC), local operator of 7-Eleven in the market, is among the retailers moving into this up-and-coming city.

Some big e-commerce players are also moving into the market. Ascend Group, Thailand's leading e-commerce retailer, launched iTrueMart.ph, and Singapore-based Lazada hopes to make the Philippines its largest market.

Competition is heating up as the Philippines' market grows rapidly, with expansion plans coming from both domestic and regional players.

Eastern Europe and Central Asia

Economic growth has flattened and currencies have devalued in this region, which has hampered retail. Turkey rises to the top 10 thanks to solid growth and a young and urban population, but rising unemployment, limited disposable income, and recent security challenges are threatening its broader retail development. Despite the plunge in oil prices, Azerbaijan has remained a luxury hot spot behind its fast-growing tourism sector. In Russia, the turmoil continues, but a weak ruble has boosted some sectors, particularly luxury.

Kazakhstan: International retailers moving in

Population: 18 million
Total retail sales: $48 billion
Retail sales CAGR (2013-2015): –9.5%

Kazakhstan takes 4th place as investors remain positive about the mid-term outlook. Economists see retail as a potential source of growth as oil prices stay low. The challenge is assuring investors that the country has enough scale to provide long-term business opportunities.

The government has created an office aimed at attracting investors and international brands and is negotiating with Auchan and IKEA about entering the country. Meanwhile, Carrefour opened its first store in early 2016, Leroy Merlin opened three stores, and OBI pursued plans to open six stores over the next decade. Food service retail is dynamic, with both KFC and McDonald's seeing growth, Starbucks opening in the capital Almaty, and South Korea's Angel-in-us coffee franchise planning to open 15 outlets by 2018.

H&M is in negotiations to open a store in the planned Mega Silk Way mall, with Inditex expected to be a future tenant. However, currency woes have had their impact on the economy. The number of customers in the fashion segment remains the same, but the average purchase size is decreasing. Nonetheless, while the mass market has suffered, the luxury segment is still expanding: Chopard, Damiani and Bulgari, Liu Jo, Sandro, Maje, and Zadig & Voltaire have opened new outlets in Esentai Mall.

E-commerce is still small but expected to grow rapidly. Russian e-retailer Lamoda is planning to launch an online platform that will allow any brand to sell its goods while China's AliExpress is investigating opportunities for developing the local e-commerce infrastructure.

Turkey: Present challenges but future potential

Population: 78 million
Total retail sales: $241 billion
Retail sales CAGR (2013-2015): –9.5%

Economic growth of 3.9 percent in 2015 was fueled by infrastructure investment and government initiatives, but rising unemployment and limited disposable income growth pose some challenges. However, 6th-place Turkey's retail market remains attractive, with solid growth and untapped potential for concepts that could upend a market still dominated by traditional retailers.

Retail sales are up, spurred by a young population, soaring urbanization, and rising consumer spending. Still, challenges are on the horizon. Debt from loans and mortgages and rising unemployment could cut into disposable income. Ongoing security concerns in major cities have led to a significant $12 billion drop in tourism and a generally more unfavorable short-term outlook for the market. Import surcharges and currency depreciation are creating margin pressures for retailers, which has led players such as Promod, Habitat, Industrie Denim, La Senza, and Real to pull out rather than try to compete against local players.

Traditional sellers account for about two-thirds of retail revenues, but increased retail space and an influx of chains are expected to boost modern retail. Twenty malls opened in 2015, bringing the total in Turkey to 360. About 150 of those malls are in Istanbul; the eastern part of the country, closest to the Middle East's political unrest and with lower incomes, is showing much less appeal to retailers.

Organized retail chains, especially in grocery, are acquiring many traditional independent retailers. CarrefourSA acquired İsmar Marketler Zinciri and Antalya Market İşletmeciliği for $23 million, and it acquired a majority stake in Kiler Alışveriş Hizmetleri. Economic struggles have made discount stores more appealing to consumers. BİM Birleşik Mağazalar has expanded aggressively in recent years, becoming the country leader with 34 percent market share. CarrefourSA is adding convenience stores and targeting high-end consumers through gourmet stores, while Migros Türk is focusing on convenience to reach more households. Migros is expanding to forecourts through collaboration with Petrol Ofisi. Meanwhile, independent retailers are struggling as consumers grow more sensitive to price while demanding better quality, and major retailers such as A101, BİM Birleşik Mağazalar, and Migros Türk are introducing private labels to stand out while boosting margins.

Several new brands entered in 2015. Legoland opened a 3,000-square-meter store in Forum Istanbul, and the Belgian hamburger chain Quick opened four stores in Istanbul. Many international retailers are partnering with local firms, such as Kiko Milano and Under Armour, which are entering with Doğuş Holding. The third Apple store will open in Turkey's Emaar Square Mall in 2016, and Crate & Barrel opened its fourth store in Ankara.

Azerbaijan: Booming hospitality sector

Population: 10 million
Total retail sales: $17 billion
Retail sales CAGR (2013-2015): –6.5%

The fast-growing hospitality and tourism sectors are driving the economy of the GRDI's 10th-ranked economy. The government has put significant effort into attracting more tourists, advertising the capital Baku as a luxury destination and taking advantage of currency depreciation. Some big events are coming in 2016, including Formula One, the Sailing World Championship, and the UEFA European Under-17 Championship.

Russia's luxury segment has stayed strong, as ruble devaluation draws spending by both Russians and tourists.

Apparel retail growth slowed down compared to previous years, with mass-market players taking the biggest hit. Koton, Promod, and Next closed some outlets, and Harvey Nichols' first store closed only four months after its opening. While those struggles will continue, luxury brands may stay strong, as their customers are less sensitive to adverse economic conditions and more tied to tourism. New entrants in luxury and middle-market sectors include Armani, Porsche Design, BCBGMaxazria, and Banana Republic.

Mid-sized modern retailers and traditional sellers dominate grocery. The big milestone in 2015 was the entrance of SPAR, the first large international grocery player to enter, with roughly 30 stores opening over the next three years. The restaurant segment is also evolving. Ladurée, a French bakery, opened its doors in 2015 and Hard Rock Café has a much-anticipated opening in 2016.

Russia: Still weathering the storm

Population: 144 million
Total retail sales: $448 billion
Retail sales CAGR (2013-2015): –21.4%

Russia, 22nd in the GRDI, remains in turmoil, with no clear sign of near-term recovery. Real disposable income fell 4 percent in 2015 and a similar decline could happen in 2016, while GDP forecasts range from 0.7 percent to 2.5 percent. This year will be favorable for foreign retail chains developing new units and acquiring property with a weak but more stable ruble, but the sales outlook will likely be middling at best in the near future.

Mass segments, particularly apparel, are struggling, while more premium segments still stand. International fashion retailers are suffering as the ruble continues to fluctuate (the ruble reached a historic low versus the US dollar in January 2016) and Russian incomes sink.

According to Colliers, available retail space at the end of 2015 doubled year-over-year to 14 percent as both small and large players sought to downsize. Many Russian consumers are being priced out of mass-market retail as currency depreciation reduces consumer spending power and puts pressure on retailers' margins. Nevertheless, roughly 40 international retailers and brands entered Russia in the past year, including ASUS Republic of Gamers, Mafrat, Malo, Orient, Seiko, Tchibo, Wrangler, and Barbour; at least 10 new retailers have plans to enter in the upcoming year, including John Varvatos, KidZania, Superdry, Tallinder, and Victoria's Secret Pink.

For the luxury sector, two developments have offset the impact. Luxury sales to tourists, particularly from China, have risen due to ruble devaluation. And more Russian customers are buying luxury goods domestically as a reaction to the debilitated currency. International players are responding to these trends by opening up new stores. Hermès opened its second largest store in Europe in Moscow, Valentino opened a new flagship store in the Metropol in Moscow, Fendi plans to open two stores, and Bulgari, Omega, Chopard, and Audemars Piguet have expanded in Moscow as well. Prada announced significant sales growth in Russia, and the country is Rolls Royce's strongest market in mainland Europe.

The local Russian apparel and fashion scene saw upheaval. Some Russian retailers had to close stores in 2015, including Oodji, Incity, Vis-a-Vis, and Savage, due to competition from international players. Others have persevered, including Befree, O'Stin, Baon, Love Republic, Modis, Sportmaster, and Sela. Economic turmoil and currency devaluation helped propel some small- and medium-sized local businesses to succeed in fashion in key large cities and all segments.

Local grocers are still expanding, and scale, pricing, and assortment are key to success. Sharp pricing has allowed larger retail chains to build market share. The largest food retailer, Magnit, plans to continue on its growth pace of more than 1,000 openings per year, with new stores aimed at shoppers at various income levels. X5 Retail is focused on acquiring small- and medium-sized chains and opening new formats like liquor stores. Lenta plans further expansion, including 40 new hypermarkets in Russia. United Confectioners, the largest Russian confectionary producer, opened its first store in 2015 and plans to open another five in 2016.

Romania: More stability brings steady development

Population: 20 million
Total retail sales: $45 billion
Retail sales CAGR (2013-2015): –5.4%

Romania enters the GRDI at 24th, driven by steady GDP growth and decreased corruption. Although the country's population is 45 percent rural, modern trade is developing fast. Major retailers are expanding aggressively with smaller formats. One of the market leaders, Carrefour, acquired the Billa chain of supermarkets, and Mega Image, the leading supermarket in Bucharest, has focused on opening flagship stores to strengthen its brand equity among middle- to upper-class shoppers.

Shopping center expansion continues, encouraged by economic recovery and rising consumer spending. In 2015, more than 150,000 square meters of shopping center space opened in Romania, and five more shopping centers will open in 2016. Market entrants that have opened in these new malls or are expected to include Forever 21, Lanidor, Tezenis, Michael Kors, Kiehl's, and Chanel.

Smartphones and laptop sales are boosting electronics retail. Players such as Flanco (30 new stores) and Altex (shifting sales focus toward e-commerce) are expanding aggressively. Do-it-yourself, on the other hand, is consolidating as it is currently crowded by about 10 existing players.

Scale challenges remain. McDonald's, which has 67 stores and 10 percent market share, sold its Romanian operations to a franchisee. The market size was considered too small for maintaining a direct presence.

Slowing tourism has hit the UAE and low oil prices have hurt Saudi Arabia's economy, **leaving investors more cautious about Gulf region growth.**

Middle East and North Africa

MENA retail has had a rough year, due in large part to shocks in its two largest economies—the United Arab Emirates, where tourism has slowed, and Saudi Arabia, reeling from rock-bottom oil prices. Although absolute sales still grew, investors have become much more cautious about Gulf region growth and are starting to look to other North African markets such as Egypt, which are expected to stabilize in the medium term and offer access to large and still relatively fragmented retail markets. Many strong local champions have moderate expansion plans in the region, but foreign players are becoming a little more reticent about adding stores.

UAE: A maturing market

Population: 10 million
Total retail sales: $69 billion
Retail sales CAGR (2013-2015): 7.0%

The UAE (7th) is not quite the dynamo retail market it has been in recent years, but it remains an attractive and relatively low-risk market option for retailers.

The country's $7,159 sales per capita is highest in the region, but the market is heavily saturated and annual retail sales growth slowed from 8 percent in 2014 to 6 percent in 2015. Disruptive global economic factors, particularly low oil prices and a decline in the value of the euro, have slowed economic growth in Asia and Russia, reducing tourism to Dubai and changing the tourist mix. The number of Russian travelers—known for their demand for luxury goods—declined by 20 percent, putting a damper on overall retail sales. Meanwhile, Chinese tourists are spending less per traveler, but the number of travelers increased, leaving that country's impact on sales relatively stable.

The redesign of the planned Mall of the World in Dubai reflects the new economic reality in the UAE. The mall will no longer be the world's largest, but will instead be split into three separate malls that will be built at different times as demand and funding dictates. That being said, mall activity remains strong. Mall of the Emirates opened a 36,000-square-meter extension last

September. Retail owner and operator Majid Al Futtaim officially opened its latest shopping mall, City Centre Me'aisem, in Dubai's International Media Production Zone, featuring 56 retail outlets and serving more than 11 residential communities. Plans for the remainder of 2016 remain equally ambitious with numerous additions to the retail landscape expected (such as phase two of City Walk, My City Centre Al Barsha, and The Pointe Mall at Palm Jumeirah).

With the market nearing saturation, only a few new brands have entered or expressed plans to enter the market. The first Apple store in the Middle East, which opened at Mall of the Emirates last October, is Apple's largest in the world, at an estimated 10,000 square feet. Old Navy entered with a store at Dubai Festival City Mall, and Abercrombie & Fitch, in a joint venture with Majid Al Futtaim, opened its first store in Mall of Emirates. Al Futtaim and the Chalhoub Group formed a joint venture to bring Robinson, Singapore's leading fashion department store, to the Middle East in 2017 at Festival City Mall.

Other emirates still lag but are showing signs of potential growth. At Abu Dhabi's Yas Mall, the Chalhoub Group opened its latest retail outlet, Tryano, a 20,000-square-foot department store offering more than 250 local and international brands. Apple is planning to open its second UAE store at Yas Mall. And Qatar's Saudia Group, a supermarkets and hypermarkets conglomerate, entered the emirate of Ajman with the opening of Kenz Hypermarket.

Saudi Arabia: Demographics drive market attractiveness

Population: 32 million
Total retail sales: $109 billion
Retail sales CAGR (2013-2015): 5.4%

Despite a 15 percent GDP contraction in Saudi Arabia in 2015 due to low oil prices, retail sales in the country grew by 5 percent over 2014, thanks largely to favorable demographic conditions. Roughly 70 percent of the population is younger than 30 and is driving demand for housing, which in turn is powering spending in furniture, white goods, and children's products. Saudi Arabia is 8th in this year's GRDI.

Foreign retailers are increasingly cautious about investment due to concerns about how low oil prices will damage Saudi Arabia's economy, and this is one reason the country has engaged in aggressive policies to promote foreign investment and economic diversification. A recent regulatory change has allowed single-brand retailers 100 percent foreign ownership in retail and wholesale, with the hope that Saudi Arabia becomes an international hub for distributing, selling, and re-exporting products. While the speed of implementation remains in question, when put in place it should be popular with multinationals that are seeking the opportunity to manufacture locally.

Saudi Arabia's large population size and its cities with room for retail expansion give it some structural advantages over their GCC neighbors, and the country has already become a popular destination for multinationals and tourists from the region. H&M has more stores in Saudi Arabia than in the UAE. Majid Al Futtaim will quadruple its store count in Saudi Arabia to 300 in the next five years, with a focus on its portfolio of international clothing and sports-wear brands, and it announced the opening of two landmark malls in Riyadh—the Mall of Saudi and City Centre Ishbiliyah. Arabian Centers, the nation's largest owner and operator of malls opened the Yasmin Mall in Jeddah and plans to develop 12 additional malls including Mall of Arabia in Riyadh. Meanwhile, Abu Dhabi-based LuLu plans to open four new hypermarkets in 2016, with six more in the pipeline for 2017, and California-based Bebe announced plans to open seven new stores.

E-commerce grew by 36 percent in 2015, but absolute market size remains low. Future growth online will depend on increasing adoption of credit card payments, improved service, and improved distribution infrastructure.

Jordan: Room to grow, but going slow

Population: 8 million
Total retail sales: $14 billion
Retail sales CAGR (2013-2015): 4.0%

Jordan is 13th in the GRDI this year, thanks in large part to a market that is fairly unsaturated relative to other developing countries. However, retailers remain cautious as the conflict in neighboring Syria and the terrorism threat posed by ISIS increase the short-term country risk.

Jordan's market is the least saturated Middle Eastern country ranked in the GRDI, and its fast population growth also offers an attractive medium-term value proposition for potential entrants. Retail space grew by 7 percent to 158,000 square meters, and sales increased 2.5 percent.

As Egypt stabilizes, it offers **an attractive medium-to-long-term proposition for retailers.**

The market witnessed a limited number of retail entries in the past year. Chopard opened a second boutique in an exclusive location in Amman with partner Al Mahmoudia for Watches & Jewelry. Eden Park, the French clothing brand, opened a new shop in Amman; van Laack, a German shirt maker, celebrated its grand opening at The Boulevard in Amman; and Italian menswear brand Canali opened its first luxury single-brand boutique. In grocery, French giant Carrefour, which opened its first Jordanian branch in 2007, acquired two Amman branches from the Jordanian hypermarket Sameh Group.

Jordan made some important regulatory changes last year following weak consumer spending during Eid. The government reduced the sales tax by 8 percentage points (to 16 percent) on clothes, bags, watches, shoes, perfumes, jewelry, toys, and cosmetics, and lowered customs duties on these items by 5 to 30 percent in the hopes of boosting consumption.

Morocco: Back on the flight path again

Population: 34 million
Total retail sales: $39 billion
Retail sales CAGR (2013-2015): –3.6%

A large and increasingly wealthy population, along with a relatively stable economic and political situation, takes Morocco to 14th place. Morocco offers relative security compared to the rest of the region and a flourishing tourism sector, and while regional terror threats remain, investment flows in infrastructure continue to grow. The government has shown commitment to become a top-20 tourism destination by 2020, and there is an increasing number of low-cost air routes between Europe and Morocco. The expected increased flow of European and Asian tourists along with current low retail density result in exciting investment potential for international retailers.

Currently, more than three-quarters of retail takes place in traditional stores, smaller corner shops, and open markets, but modern supermarkets and retail outlets are gaining share, and retail growth has been about 5 percent annually since 2005. Grocery retail has evolved rapidly as international players enter and national retailers seek to keep pace. Five retailers dominate for now: Label'Vie (Carrefour), Marjane Holding, Ynna Holding, BIM, and Aswak Assalam. International retailers operate mainly through partnerships in the country, and they have been expanding rapidly; Carrefour opened eight new stores in 2015, French chain Monoprix will open 15 in the near future, and Abu Dhabi-based LuLu is also reportedly targeting Morocco.

Shopping malls are also boosting growth. Casablanca's Morocco Mall is one of Africa's largest, covering approximately 250,000 square meters and hosting about 300 stores. The Bouskoura Golf City shopping center and Zenata Centre mall opened in Casablanca in 2015, with Zenata adding the country's first IKEA as an anchor.

E-commerce is growing at double-digit rates, as the country has 16 million Internet users. Online marketplace Jumia is a testament to this development; the start-up was launched in 2012 and is now Morocco's largest online mall. Among the newcomers is Made in Morocco, an e-commerce platform launched in January 2015 by Morocco's National Federation of E-Commerce and offering 80,000 Moroccan-made products from about 200 producers.

Algeria: A mixed picture

Population: 40 million
Total retail sales: $42 billion
Retail sales CAGR (2013-2015): –5.3%

Algeria's strengths are pretty clear: a large population, one of Africa's highest GDP per capita, and low retail saturation. But that saturation is also a sign of country risk: the economy's dependence on oil, fragile political stability, and a market with just four modern shopping centers. Algeria places 18th in the GRDI.

Algeria's strengths are pretty clear: a large population, one of Africa's highest GDP per capita rates, and low retail saturation. But there are some risks.

There has been some positive movement recently, starting with two new shopping centers that opened in early 2016, El Mohammadia Mall in Algiers and Park Mall in Sétif. In addition, Intersport entered the country in 2015 by means of signing franchise agreements with local retailer Great Way SARL, adding to already-present international retailers Yves Rocher (13 outlets) and Inditex (two outlets).

In grocery, Carrefour re-entered in 2015 with an exclusive partner, UTIC. Carrefour had left the market in 2009 after entering in 2006 as part of a partnership with Arcofina, which has since opened its own hypermarket, Ardis, and is now Carrefour's main competition.

Tunisia: Still recovering, but new opportunities emerge

Population: 11 million
Total retail sales: $15 billion
Retail sales CAGR (2013-2015): –3.4%

Tunisia's economy is struggling to recover from the revolution that roiled it more than five years ago and the subsequent inflation, political uncertainty, and terrorist threat. Its proximity to Libya and that country's troubles have also given some foreign investors pause. Tunisia ranks 26th in this year's GRDI.

However, the country's low market saturation and underserved population of 11 million represent a nice opportunity, particularly in grocery. In the past five years, three new international names in grocery have entered (Carrefour, Champion, and Géant), bringing about substantial changes in consumer behavior, particularly because of the emergence of hypermarkets, a new concept in Tunisia. However, retail chains still hold a relatively small share of the market compared to independent and corner shops.

New shopping centers and the increasing importance of e-commerce are helping move this market forward. The opening of Tunisia Mall (37,000 square meters, 80 shops) on 12 December 2015 ushered in many international brands to the country (Massimo Dutti, Stradivarius, and Inglot Cosmetics). It also marked the reentrance of Pizza Hut, 20 years after its first entry, with two restaurants. In e-commerce, the country's first online marketplace Kaymu shows how Tunisians are embracing online shopping.

Egypt: Back in business

Population: 89 million
Total retail sales: $133 billion
Retail sales CAGR (2013-2015): 6.3%

Egypt (30th) reenters the GRDI rankings for the first time since the Arab Spring protests began in 2011. Political difficulties had kept many foreign retailers away over the past few years, but as the country stabilizes (the opening of the new Suez Canal in August was seen by some as a positive signal), it offers an attractive medium-to-long-term value proposition for retail investments. Egypt's population, the largest in MENA, is expected to cross 100 million by 2020, and its middle class is growing rapidly. The modern trade market is much less saturated than its neighbors, and total retail sales are expected to double by 2021.

While the benefits could be lucrative, macroeconomic and market conditions pose several hurdles to retail investors. Inflation persists—it has exceeded 10 percent the past few years—and the future outlook is similar with several subsidies expected to be removed and a value-added tax implemented. When they do enter, foreign retailers (particularly groceries and department stores) need to prepare for a highly fragmented market and a complex bureaucracy. Recent depreciation of the Egyptian pound versus the dollar, in addition to terror attacks, could put further pressure on tourism, consumer spending, and inflation.

Despite the challenges, many regional retailers have expressed plans to enter or expand, demonstrating increasing investor confidence. Abu Dhabi-based LuLu Group is moving forward with a plan to open 10 new hypermarkets in 2016 and 2017, and Saudi Arabia's Abdullah Al-Othaim is investing $38 million to open food retail and wholesale stores. Saudi-based franchisee Alhokair opened two Mango stores last year and plans to open 12 to 14 more over the next two years.

The mall sector is also getting strong investment, with Majid Al Futtaim announcing plans to invest $500 million in building the third City Centre mall, with more than 103,500 square meters of retail space. Its Mall of Egypt will open later this year as the country's largest mall at 160,000 square meters, and it will feature an indoor ski resort and a long list of international brands.

Latin America

With traditional "small gems" Uruguay, Costa Rica, and Panama exiting the GRDI due to our updated methodology (see appendix on page 28) and Mexico and Chile graduating due to market saturation, Latin America has less presence at the top, but remains a vibrant and exciting option for future retail investment opportunity. Peru cracks the top 10 behind free trade stimulus and steady growth, as retailers expand to emerging neighborhoods and secondary cities. Brazil's position keeps dropping as the not-so-long-ago booming market suffers the impact of increasingly eroding political and economic conditions.

Retailers are adapting, adjusting store formats in large cities, investing in promotions and other ways to boost sales, and seeking out relatively untapped markets with steady GDP growth, such as Paraguay, the Dominican Republic, and Peru's emerging neighborhoods and secondary cities.

> With some "small gems" leaving the GRDI and turmoil in some major markets, **Latin America has a smaller presence** at the top of the rankings in 2016.

Peru: Rising retail market

Population: 32 million
Total retail sales: $70 billion
Retail sales CAGR (2013-2015): –3.3

Peru (9th) is Latin America's top-ranked country, and understandably so. In 2015, the country performed above regional averages and had 3.6 percent GDP growth, well ahead of the overall region. The government's continued efforts to stimulate integration and pursue free-trade agreements have helped open up the economy and attract foreign investment to the country. The economic conditions have helped boost private consumption (up 4.1 percent in 2015), and consumer confidence is the highest in Latin America.

Retail continues to gain force, particularly in some of Lima's emerging neighborhoods and in secondary cities like Arequipa, Trujillo, Chiclayo, Cusco, and Ica, but the growth remains predominantly in urban areas. The retail environment is modernizing as the government invests in increasing sector capacity and commercial associations promote omnichannel solutions.

A key theme for 2016 is the development of malls inspired by the sophisticated urban spaces of neighboring Chile. There are 75 operating malls in Peru today, and six new developments are expected to open in 2016. With this, space for new players is opening up and fast-fashion is booming, particularly in Lima. Fashion retailers see the country's textile manufacturing capacity as a source of value, and the apparel sector grew 8 percent in 2015. Forever 21 and H&M are expanding and plan on opening new stores in 2016, and large retailers such as Uniqlo, Charlotte Russe, and Topshop have declared an interest in entering the country. Concepts like lifestyle malls and gourmet boulevards are also gaining popularity. For example, Chilean developer Parque Arauco group is expected to open a third level in Plaza Conquistadores and has started the construction of the Molina Lifestyle mall, Villa el Salvador, and another mall in the interior.

Colombia: Where convenience is king

Population: 48 million
Total retail sales: $91 billion
Retail sales CAGR (2013-2015): –11.9%

Colombia is 15th in the GRDI as its window of opportunity starts to widen. Its population of 48 million is increasing 1.5 percent annually, and poverty levels are expected to fall gradually as the middle class's purchasing power increases. Its scores for country risk and market saturation are strong.

Colombia's steady GDP growth (roughly 6 percent per year) is expected to continue, thanks to an attractive macroeconomic framework supported by falling debts and low inflation. However, total retail sales declined about 20 percent in 2015 and the 19 percent depreciation of the peso was a likely cause. In the long term, Colombia's ability to fix and sustain the impact of corruption and terrorism will be key to set the right conditions for a substantial increase in economic growth, and represent further increases in retail sales.

The country remains attractive for new retailers. Last year saw new entrants in fashion (including Sfera, Havaianas, and Decathlon), luxury (Carat, Le Creuset, and Jimmy Choo), and cosmetics (Yves Rocher and Mary Kay). Entries are expected to continue throughout 2016, and 23 new shopping malls are set to open across the country.

Colombian consumers have embraced multichannel. Many retailers have developed an online presence, and new firms have emerged that offer rapid delivery service. Websites such as www.mercadoni.com, www.lulo.com.co, and www.temerco.com offer rapid delivery service for packaged and fresh food, beverages, and beauty and personal care. These online sites offer products from different retailers, which provide an interesting mix and give customers the opportunity to buy from different brands with just one click. App-based delivery services are also appearing; one called Rappi works under a crowdsourcing model and offers both grocery orders and restaurant take-out.

Dominican Republic: Expanding middle class

Population: 11 million
Total retail sales: $31 billion
Retail sales CAGR (2013-2015): 3.2%

The Dominican Republic takes 17th due largely to its large population with an expanding middle class and a vibrant economy. Poverty has decreased from more than half of the population to less than 40 percent in the past five years, and tourism is growing, boosting retail, particularly in apparel and grocery.

The country is relatively unsaturated with modern retail space; 60 percent of grocery sales go through traditional channels. However, two national retailers, Centro Cuesta Nacional and Grupo Ramos, pose challenges for foreign players looking to enter.

The country's main challenge is country risk; key weaknesses remain in insolvency resolution, corruption control, regulatory quality, and relatively weak rule of law. President Medina, who has been praised for improving business environment and strengthening fiscal accounts, will seek reelection during 2016.

Brazil: Turmoil—but light on the horizon?

Population: 205 million
Total retail sales: $445 billion
Retail sales CAGR (2013-2015): –17.2%

Brazil is the fourth most populous country ranked in the GRDI top 30, but its 20th-place ranking highlights the political and economic instability that has rocked the country over the past year, including international investment downgrades and the impeachment of President Dilma Rousseff. The country's many challenges are reflected in the 3.71 percent GDP decrease, with a similar contraction expected in 2016. Inflation rates are at a high of 10.7 percent and unemployment increased to 7.6 percent, eroding consumer confidence. Retail has followed, with sales down 4.3 percent and segments such as groceries and apparel hit the hardest.

Brazil's 20th-place ranking highlights the **political and economic stability that has rocked the country in the past year.**

To attract consumers, grocery retailers in large cities are embracing new formats, particularly convenience stores along busy streets. Mini Mercado Extra has opened 180 stores in less than two years, and many other players have entered, including Minuto Pão de Açúcar Minuto, Dia Market, and Mambo Express.

Luxury, contrary to the overall market, has grown. Currency devaluation and rising international transaction taxes have reduced international travel for high-income Brazilians, resulting in increased domestic purchases of imported luxury items. Cidade Jardim mall, a main luxury shopping center in São Paulo, saw sales growth of 25 percent year-over-year.

Retailers are looking for ways to boost sales. E-retailers are investing in promotions and events, often tied to celebrations such as Mother's Day, Christmas, and even the US's Black Friday, despite the fact that Brazil does not celebrate Thanksgiving.

Paraguay: A nascent market, slowly coming into the light

Population: 7.02 million
Total retail sales: $31.21 billion
Retail sales CAGR (2013-2015): –2.4%

Landlocked Paraguay enters the rankings in 25th place as its fundamentals stabilize—GDP growth reached 3.2 percent in 2015, and inflation fell within target ranges. The country seems to be opening up to foreign investments as president Horacio Cartes has publicly declared his goal of modernizing the country by reestablishing a relationship with Mercosur, a regional bloc that includes Argentina, Brazil, Uruguay, and Venezuela, and by ratifying the World Trade

Organization's Trade Facilitation Agreement, which sets out measures for effective cooperation between customs.

The informal economy remains a great challenge to Paraguay's economy as a whole, representing 38 percent of GDP, but its share has decreased by three percentage points in the past two years. Efforts to eliminate smuggling and counterfeiting have helped stanch unofficial sales, as Paraguay has joined Brazil and Argentina in setting up a control center to target counterfeit trade and contraband.

Paraguay will inaugurate Paseo la Galería, the country's largest private investment ($130 million) and its largest commercial center, hosting 150 stores. International stores in the mall will include Zara and Rapsodia.

Sub-Saharan Africa

The region's massive potential is unmistakable, reflected in the six Sub-Saharan African countries ranked in the GRDI. Exciting opportunities keep opening up as household incomes rise, countries become urbanized, and the rising middle class embraces organized retail and demands more and better services. However, informal trade still dominates and expanding into the region remains far from easy.

Sub-Saharan Africa is quite heterogeneous; retailers experience different levels of success in different markets. Nigeria has a population of 180 million people, but with a challenging business environment and a deeply rooted informal trade market it remains a high-risk-high-reward bet. South Africa is big and highly urbanized, but it also has strong local players and a saturated market.

Some underserved markets with rising economic stability and growing hunger for modern retail enter the index this year, including Côte d'Ivoire, Zambia, and Ghana. Meanwhile, e-commerce remains in nascent stages across the region, but with mobile phones becoming widespread, more shoppers are embracing it.

Nigeria: Big potential with the right approach

Population: 182 million
Total retail sales: $125 billion
Retail sales CAGR (2013-2015): 1%

Sub-Saharan Africa's most populous country ranks 19th and offers global retailers many opportunities. Nigeria's middle class has grown 600 percent and now includes 4.1 million households, or 11 percent of the population. Its population is expected to edge close to 400 million by 2050 to become one of the world's most populous countries, and urbanization is near 50 percent.

The economic growth has been tempered by low oil prices and constrained government expenditure, and consumer spending took a hit in 2015, plummeting 9 percent as inflation has consumers being more careful with their shopping.

Modern trade is still underdeveloped, and aside from incumbents Shoprite and SPAR, few international grocers have entered and none have a real national presence. Nigeria poses some tough challenges to navigate, including import regulations, high rental costs, and power shortages—and there still isn't an authoritative map of Lagos, let alone other major metropolitan areas. South Africa-based fashion retailer Truworths closed its two remaining Nigerian stores due to this environment.

Still, other retailers are placing their bets. Spanish discounter DIA plans to open more than 100 stores by 2020, and South Africa's Pepkor plans to double its presence by 2018. Mall developments in Lagos and Abuja are also spurring growth. South Africa's Resilient Group has four mall developments planned for completion between 2016 and 2017.

Côte d'Ivoire: Rapid growth and continuing stability

Population: 23 million
Total retail sales: $13 billion
Retail sales CAGR (2013-2015): –1.2%

Côte d'Ivoire is 21st, after enjoying rapid economic growth over the past four years and relative political stability after a decade-long war. Citizens who fled the country are now returning and the ease of doing business is improving. The IMF estimates economic growth of 8.6 percent, twice the regional average, and this has helped push per capita incomes up 20 percent in the past five years. Despite the recent recovery, Côte D'Ivoire still has a poor population, with 46.3 percent living below the poverty line.

Retail sales grew 8.9 percent in 2015, and similar growth is expected through 2020 as disposable income levels grow. Though consumer spending on grocery—an indicator of a country's level of development—has decreased slightly over the years, it remains just below half of all spending. That said, as purchasing power grows, the grocery market is drawing interest from international retail groups like Auchan and Système U.

International brands like Mango, CitySport, and Casino have a presence in the country, but more are expected to enter in the coming years. Carrefour opened its first hypermarket in Abidjan in the new PlaYce Marcory Mall in December 2015, and Fnac announced the opening of two stores in Côte D'Ivoire, with its first store opened in 2015 in partnership with Prosuma. In 2015, French distribution group CFAO opened a 20,000-square-foot mall in the capital Abidjan, the first in West Africa, with American fast food giant Burger King among the first tenants.

Zambia: Growing, underserved market

Population: 15 million
Total retail sales: $11 billion
Retail sales CAGR (2013-2015): 12.1%

Zambia's economic growth has been driven by the mining sector, but lower copper prices have hit the country hard, and political instability adds some uncertainty to a Zambian retail market that ranks 23rd in the GRDI.

Modern retail is limited even as more consumers demand it. The players that dominate the formal retail market are mostly South African, including SPAR, Shoprite, Walmart (under Massmart), Pick n Pay, Woolworths, and Fruit and Veg City. These retailers' success demonstrates the potential for further opportunities.

Walmart's South African DIY chain Builders Warehouse entered Zambia in November 2015 at East Park, and Botswana giant Choppies plans to open five more stores this year.

The $45 million Mukuba Mall and the $15 million Embassy Shopping Mall opened in 2015 in Lusaka, offering new commercial space for international retailers. While Lusaka has about 80 percent of the country's modern retail space, market expansion is gaining momentum in other towns like Kitwe, Kafue, Chirundu, Kabwe, Kalumbila, Solwezi, and Chingola.

South Africa: Pockets of opportunity

Population: 55 million
Total retail sales: $102 billion
Retail sales CAGR (2013-2015): –6%

South Africa (27th) is Sub-Saharan Africa's most developed country and has its most saturated retail market, with more than 10 million square meters of retail space, representing 88 percent of the available space in the whole region. However, its economy is struggling, and consumer spending has taken a hit, especially in the low-to-middle-income brackets that make up most of the population. As such, retailers are reviewing their strategies to remain competitive; some have looked to opportunities in the rest of Africa, with mixed outcomes.

Retailers are diversifying their offerings to expand their customer base, including multichannel approaches, wider product ranges, new value-added services, and more aggressive pricing strategies to go along with expansion in more rural and low-income areas.

South Africa has Sub-Saharan Africa's most developed retail market, with 88 percent of the region's total available space.

International fashion retailers have taken a keen interest in South Africa despite the economic conditions. Prada opened its first store in South Africa at Sandton City mall in Johannesburg, and H&M entered South Africa with stores in Cape Town and Johannesburg, part of a plan to expand across Africa (the company has already launched in Namibia).

American food restaurants are also swooping in. Starbucks is set to open its first two stores in Johannesburg in 2016 and Dunkin' Donuts is planning to open 250 restaurants through a franchise agreement with South Africa-based Grand Parade Investments, which also runs the country's Burger King franchises. Another doughnut maker, Krispy Kreme, entered South Africa with its first store in late 2015, and plans 31 more stores in the next five years.

Ghana: Gateway to West Africa

Population: 28 million
Total retail sales: $15 billion
Retail sales CAGR (2013-2015): –12.2%

Ghana's urbanization rate is triple its population growth; more than 60 percent of the population now lives in cities. And it is an easier and less risky place to do business than its larger neighbor Nigeria. Ghana is ranked 28th in the GRDI.

Ghana's rapid economic growth of the past five years has been tempered by the energy crisis, macroeconomic imbalances, and a depressed commodity market. But the period of growth has improved poverty levels, boosted Ghana's middle class growth, and has given Ghanaians more disposable income.

Like most Sub-Saharan African countries, informal trade dominates, but rising disposable incomes are increasing the popularity of modern-style malls that offer one-stop-shop convenience, variety, and less crowding. While the capital Accra currently has most of the modern space, retail is expected to grow in other regions, with 170,000 square meters of modern space to be completed in secondary cities like Kumasi, Takoradi, and Tema by 2018.

South Africa retailers such as Pick n Pay and Shoprite have entered to build their growth beyond their domestic market, and other international retailers are seeing the country as a gateway to West Africa. An investor-friendly government approach, which includes bilateral treaties with the United States and EU, has helped boost retail. And the government has supported the shopping mall concept, helping create the necessary enabling environment to add retail space in the country.

Kenya has Africa's second-largest modern retail market, and its strength is reinforced by sound economic growth, and a growing and urbanizing middle class.

Kenya: The leader in East Africa

Population: 44 million
Total retail sales: $26 billion
Retail sales CAGR (2013-2015): 4.6%

Kenya (29th) has Africa's second largest formal retail market after South Africa, reinforced by sound economic growth, rising consumer confidence, and a growing and urbanizing middle class. Its established consumer goods sector, developed supply chains, and valued import and port entry point make it a prime market.

Nairobi and Mombasa, Kenya's two largest cities, remain the focus of retail development. For example, the Two Rivers mixed development in Nairobi opened in 2016 with 62,000 square meters of retail space, making it the largest shopping mall in Central and East Africa. Carrefour will occupy 10,000 square meters of space in the mall, one of two branches to be operated by Dubai-based Majid Al Futtaim. Westgate shopping mall reopened for business in June 2015, two years after a deadly terrorist attack, with 90 percent of the original tenants returning and new retailers such as local coffee retailer Dormans, Czech shoe seller Bata, and Pizza Hut setting up shop.

Even as international chains show interest, local operators lead the modern market. Grocery remains dominated by traditional stores and street markets, with modern outlets leading only in cities with more middle class consumers. Beyond Carrefour, international retailers include Game (operated by South Africa's Massmart), which opened in 2015 as an anchor at Garden City Mall, and Botswana's Choppies, which acquired Kenyan supermarket Ukwala for $10 million.

Fast food outlets have expanded rapidly, with local and international brands seeking a piece of the pie. KFC opened its eighth store in Nairobi, and other brands include Domino's Pizza and Subway.

Shifting Retail Markets

Retail in developing markets will continue to grow—following the path it has been on since our first GRDI 15 years ago. Avoiding the pitfalls of shifting retail markets, however, will require a strategic mindset about expansion. Each market has unique challenges and unique opportunities. A careful look will help uncover both—and help retailers on the path to success.

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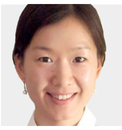

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About the A.T. Kearney Global Consumer Institute

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 nations based on three criteria:

- **Country risk:** greater than 35 in the Euromoney country-risk score
- **Population size:** five 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:

Country and business risk (25 percent)

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

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

Market attractiveness (25 percent)

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

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

Urban population (10 percent). A score of zero indicates a mostly rural country; 100 indicates a mostly urban country.

Number of large cities (10 percent). A score of zero indicates all cities in the country have fewer than 1 million inhabitants; 100 indicates significant number of large cities with more than 1 million inhabitants.

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

Market saturation (25 percent)

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

Number of international retailers (30 percent). Country presence was analyzed for about 300 retailers. 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; 100 indicates a fragmented market.

Time pressure (25 percent)

The time factor is based on 2013 to 2015 data, measured by the CAGR of modern retail sales weighted by the general economic development of the country (CAGR of GDP from 2013–2015 and forward-looking from 2016–2018) and CAGR (2013 to 2015) of the retail sales area weighted by newly created modern retail sales areas. A score of 100 indicates a rapidly advancing retail sector, thus representing high time pressure to enter the country and capture the growth opportunity.

Data and analysis are based on the United Nations Population Division database, International Monetary Fund and Economist Intelligence Unit national statistics, Euromoney and World Bank reports, and Euromonitor and Planet Retail databases.

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Asia Pacific	Bangkok Beijing Hong Kong Jakarta Kuala Lumpur	Melbourne Mumbai New Delhi Seoul Shanghai	Singapore Sydney Taipei Tokyo
Europe	Amsterdam Berlin Brussels Bucharest Budapest Copenhagen Düsseldorf Frankfurt Helsinki	Istanbul Kiev Lisbon Ljubljana London Madrid Milan Moscow Munich	Oslo Paris Prague Rome Stockholm Stuttgart Vienna Warsaw Zurich
Middle East and Africa	Abu Dhabi Doha	Dubai Johannesburg	Manama Riyadh

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The signature of our namesake and founder, Andrew Thomas Kearney, on the cover of this document represents our pledge to live the values he instilled in our firm and uphold his commitment to ensuring "essential rightness" in all that we do.