GRDI: A 10-Year Retrospective

The Global Retail Development Index™:
Lessons learned from a decade of retail expansion
### Figure 1
Comparison of growth areas in developing markets, 2001 versus 2010

<table>
<thead>
<tr>
<th>Category</th>
<th>2001</th>
<th>2010</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>population</td>
<td>5 billion</td>
<td>5.7 billion</td>
<td>+11%</td>
</tr>
<tr>
<td>retail space (square meters)</td>
<td>40 million</td>
<td>130 million</td>
<td>+225%</td>
</tr>
<tr>
<td>retail sales per capita</td>
<td>$2,009</td>
<td>$3,847</td>
<td>+91.5%</td>
</tr>
<tr>
<td>population with internet access</td>
<td>200 million</td>
<td>1.2 billion</td>
<td>+496%</td>
</tr>
<tr>
<td>percentage of global retail sales</td>
<td>34.9%</td>
<td>42%</td>
<td>+7.1%</td>
</tr>
</tbody>
</table>

*Published reports from 2002 through 2011 are based on prior year data. Sources: Population Reference Bureau, Planet Retail, Internet World Stats, A.T. Kearney analysis*
The 2011 A.T. Kearney Global Retail Development Index™ (GRDI) marks the 10th publication of the annual report that highlights the top emerging markets for global retail expansion. Since the first report in 2002, international retailers have made significant progress—and suffered some setbacks—as they moved into developing markets. To mark the anniversary, we look back at a decade of change for global retail development, reviewing lessons learned from the successes and the failures.

By almost any measure, the retail landscape in developing markets has experienced explosive growth over the past 10 years. As the population in these countries increased by 11 percent, retail space expanded by 225 percent, retail sales per capita increased almost 100 percent, and Internet access grew more than 400 percent. Developing countries now represent 42 percent of global retail sales, a 7 percent rise since 2001 (see figure 1). As mature economies stagnate, developing markets are a global retail growth engine.

However, getting it right in developing countries is difficult, and there have been plenty of costly stumbles along the way. This paper, which accompanies the main report of the 2011 GRDI (available at www.atkearney.com/grdi), looks at the ups and downs of the past decade, the countries and companies that have stood out in an era of globalization, and the most important lessons international retailers have learned as they tapped into developing markets.

Five Countries
In the past 10 years, different markets opened at different times, offering a variety of growth opportunities for retailers (see figure 2 on page 2). In the early 2000s, the focus was on Eastern Europe’s markets “coming online,” as countries started gaining membership to the European Union. China’s acceptance into the World Trade Organization (WTO) in 2001 marked the opening of that market to trade and investment. Next came Southeast Asia, then the rise of the BRIC nations (Brazil, Russia, India and China), and finally the emergence of the Middle East and South America. While Africa has not made its entrance onto the world retail scene yet, we believe its time will also come.

Throughout these years of change, five countries consistently ranked in the GRDI’s top 10: China, India, Russia, Vietnam and Chile. The growth trajectory of the retail market in these countries consistently surpassed other developing

1 Published reports from 2002 through 2011 are based on prior year data.
Markets, as demonstrated by the growth in retail spending per capita and retail space. Although each country is in a different stage of retail development, they all represent significant potential and will continue to draw the interest of leading retailers for years to come (see figure 3).

China. China’s size has attracted international retailers for years, but the key to success has been in estimating the market’s true value—particularly the growing middle class in the most populated regions. Understanding the Chinese consumer is important, which several high-profile retailers discovered, albeit too late, when they did not get their assortment, pricing or service models right. Retailers also have to navigate intense domestic and foreign competition as they seek...
first-mover advantages in China’s rapidly developing tier 2 and 3 cities. While China slips to 6th place in the 2011 GRDI, it remains attractive to retailers that cannot afford to ignore China as part of their international growth strategies.

India. India’s sheer market size and the purchasing power of its growing middle class have contributed to its prominence as a retail destination. The market remains quite fragmented, yet organized retail has made impressive gains in 10 years. Regulatory challenges prevented many retailers from entering, while others were forced into the unfamiliar stance of entering the country with a partner. Despite the hurdles, postponing entry into India is not an option, given the crunch for desirable real estate. Foreign retailers that can successfully forge local partnerships and establish a network poised for growth will find India a rewarding market.

Russia. Russia has experienced a decade of remarkable double-digit retail growth, and its large and wealthy population has long been an attractive proposition for international retailers. But Russia’s drop in the rankings in recent years highlights how a lack of transparency in government regulations can curtail foreign investment. A rise in consolidations among domestic players bodes well for the possibilities of entering Russia via acquisition, yet so far this has proven more difficult than expected because of local backlash. Competition is rising in tier 2 and 3 cities, putting more pressure on foreign retailers hoping to crack the Russian market.

Vietnam. All eyes were on Vietnam as it opened its borders to wholly owned foreign trade in 2009. While some retailers—particularly from Japan and Korea—made successful entries into large cities, the country has been slow in developing its infrastructure and distribution networks, hampering large-scale investment by foreign retailers. Still, with improved growth forecasts in both GDP and disposable income, Vietnam remains an attractive market for global retailers.

Chile. Chile lifted foreign direct investment restrictions in 2001 and has been a target market for international retailers ever since. A fast-growing retail market and Chileans’ high level of disposable income continues to attract foreign retailers. Chile also has one of the most politically stable, pro-business governments in Latin America. Although it is a small country with established, competitive local retailers, Chile remains one of the most important markets for foreign retailers considering a play in Latin America.

Five countries—China, India, Russia, Vietnam and Chile—consistently ranked in the GRDI’s top 10.

Four Retailers: Masters of Globalization

As part of this 10th anniversary report, we examined four international retailers that have made developing-market expansion a priority: Carrefour, Metro Group, Tesco and Wal-Mart.

Carrefour: Expansion pioneers. Carrefour pioneered the globalization of hypermarkets and now has more than 15,660 stores in 34 countries, including more than 7,500 outside its home market of France. International markets
now represent 57 percent of Carrefour’s sales (see figure 4). However, a recent effort to focus on a smaller portfolio of countries resulted in Carrefour’s exit from several markets. Between 2005 and 2009, it added eight new countries and exited nine.

**Metro Group: Early-entry advantages.** Metro Group operates a diversified group of banners and formats—including wholesale, food retail, non-food specialty and department stores—across 33 countries. The German-based company’s diverse portfolio of stores now generates 61 percent of its revenue from international markets (see figure 5). Metro’s early entry into developing markets continues to bolster the company’s overall performance.

**Tesco: Spreading globally.** The second most profitable retailer in the world has widespread international reach in 14 countries, particularly in Asia and Europe. U.K.-based Tesco’s international revenue has grown 27 percent annually in the past decade, and it has expanded to the United States and India in the past two years (see figure 6).

**Wal-Mart: Focusing on developing markets.** The world’s largest retailer has already conquered the largest retail market (its home market of the United States), but it continues to capitalize on the rapid growth of developing markets in Latin America and Asia (see figure 7 on page 6). As Wal-Mart generates more than a quarter of its sales from 14 international markets, the world watches its global expansion.

**Seven Lessons Learned**

For global retailers, creating consistent, profitable performance can be a challenge. We learned some not-so-obvious lessons as we’ve watched retailers expand over the past decade.

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**Figure 4**

Carrefour’s focus on a smaller portfolio of countries has led to several recent exits

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Notes: Carrefour withdrew from Slovakia in 2005; its remaining stores were converted to franchises in 2007. DOM-TOM is an acronym for France’s overseas departments and territories. CAGR is compound annual growth rate.

Sources: Carrefour website and annual and financial reports, 2000-2009

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**Carrefour total revenue (€ millions)**

- Argentina
- Brazil
- China
- Colombia
- Czech Republic

**Growth in international revenue (CAGR 2000-2009)**

- 51% of sales from international

**Countries entered**

- 2000: Belgium, Dom. Rep., Japan, Oman, Qatar
- 2001: France, Greece, Italy, Poland, Portugal, Singapore, Spain
- 2002: Switzerland, Tunisia
- 2003: U.K., Chile
- 2004: Norway, Saudi Arabia
- 2005: Japan, Mexico, South Korea
- 2006: Algeria, Czech Republic, Switzerland
- 2007: Jordan, Kuwait
- 2008: Bahrain
- 2009: Bulgaria, Morocco, Russia, Syria, Algeria, Russia

**Countries exited**

- 2000: Slovakia
- 2004: Norway, Saudi Arabia
- 2005: Japan, Mexico, South Korea
- 2006: Algeria, Czech Republic, Switzerland
- 2007: Jordan, Kuwait
- 2008: Bahrain
- 2009: Bulgaria, Morocco, Russia, Syria, Algeria, Russia

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**Key**

- Countries entered
- Countries exited
Figure 5
Foreign markets now account for 61 percent of Metro Group’s sales

Note: CAGR is compound annual growth rate. Sources: Metro Group website and annual and financial reports, 2000-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>Germany</th>
<th>Poland</th>
<th>Russia</th>
<th>Spain</th>
<th>Turkey</th>
<th>France</th>
<th>Hungary</th>
<th>Italy</th>
<th>Netherlands</th>
<th>Portugal</th>
<th>Morocco</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>Austria</td>
<td>Belgium</td>
<td>Bulgaria</td>
<td>Czech Republic</td>
<td>Denmark</td>
<td>France</td>
<td>Greece</td>
<td>Germany</td>
<td>Greece</td>
<td>Hungary</td>
<td>Japan</td>
<td>Vietnam</td>
</tr>
<tr>
<td>2001</td>
<td>54% of sales from international</td>
<td>43% of sales from international</td>
<td>2002</td>
<td>2003</td>
<td>2004</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
<td>2009</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>Pre-2000</td>
<td>€60,000</td>
<td>€65,000</td>
<td>€70,000</td>
<td>€55,000</td>
<td>€50,000</td>
<td>€45,000</td>
<td>€40,000</td>
<td>€35,000</td>
<td>€30,000</td>
<td>€25,000</td>
<td>€20,000</td>
<td>€15,000</td>
</tr>
</tbody>
</table>

Figure 6
Tesco’s international revenues have grown 27 percent annually in the past decade

Note: CAGR is compound annual growth rate. Sources: Tesco website and annual and financial reports, 2000-2009

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>India</th>
<th>Japan</th>
<th>Korea</th>
<th>Malaysia</th>
<th>Poland</th>
<th>Russia</th>
<th>Singapore</th>
<th>Turkey</th>
<th>U.K.</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-2000</td>
<td>£10,000</td>
<td>£20,000</td>
<td>£30,000</td>
<td>£40,000</td>
<td>£50,000</td>
<td>£60,000</td>
<td>£70,000</td>
<td>£80,000</td>
<td>£90,000</td>
<td>£100,000</td>
<td>£110,000</td>
</tr>
</tbody>
</table>
Lesson 1: Market selection is both art and science. Deciding “where to locate” is not only a matter of performing market analyses but also assessing how your brand fits into the market and the probability of success. The online channel is becoming a common way of testing markets, along with market testing alternate store models and service delivery options.

Lesson 2: Global expansion is a portfolio game. Leading global retailers take a portfolio approach to globalization—selecting countries with different risk and performance profiles and then allocating resources accordingly. Markets are in different stages of evolution, and maintaining a presence in both mature and developing markets ensures a balance.

Lesson 3: Consumers in developing markets are discerning. Do not underestimate developing-market consumers’ sophisticated tastes and expectations for high-quality products. Many retailers have learned, frequently the hard way, that these consumers have access to technology that often surpasses that of developed markets. Understanding consumer requirements is important (for example, offering store credit is a necessity in many places), but so is understanding how these requirements are evolving, unique cultural characteristics (for example, do families typically shop together?), and how these translate to operating models.

Lesson 4: Local competition is often stronger than it appears. Never underestimate the sophistication of domestic retailers—they are shrewd, not just in terms of their knowledge of local culture, consumers and authorities, but also in understanding how their global counterparts operate and copying their best practices. They have well-known local brands and a history with...
Understanding the Chinese consumer is important, which several high-profile retailers discovered, albeit too late, when they did not get their assortment, pricing or service models right.

consumers that are vital to their success. In addition, many domestic retailers have used the recession to restructure their operations—closing underperforming stores or introducing profitable private-label brands—and are now primed for their countries’ next phase of retail development.

Lesson 5: The rules are different for global and national organizations. If you plan to be a global player, determine at what level decision making occurs for all aspects—pricing, assortment, sourcing, format, layout and promotions. Retail is detail, but global expansion is about building scale—you must find the balance. Whether you set up a separate international organization or integrate one into an existing model, clear guidelines are needed to determine where key decisions are made—at the central, regional or local levels. Rules of engagement about how the brand is delivered and protected around the world is vital to any global operating model.

Lesson 6: Local talent is crucial. Hiring nationals must be a priority. The quicker you can get local talent running your business (and embracing your philosophy) the better. The country leadership model can be changed over time. Expatriates may be critical in the early stages to imbed the brand and guide the local market, but local talent is key to a country operation in the long run.

Lesson 7: Global expansion requires a long-term view. Global retail expansion is not for the impatient or intemperate. Breaking even can take three to four years, or as long as seven years. Take the long view—even as global recessions and political turmoil upend expectations (see figure 8).

Staying on Top
Looking ahead toward another decade of international expansion, the unique and significant challenges of operating internationally will persist—as will the ever-changing competitive environment that forces retailers to consider balancing their domestic businesses with investments in developing markets. The Global Retail Development Index will continue to help retailers stay on top of expansion opportunities and seize the growth potential in developing markets.

Figure 8
Seven lessons learned over the past decade

1. Market selection is both art and science
2. Global expansion is a portfolio game
3. Consumers in developing markets are discerning
4. Local competition is often stronger than it appears
5. The rules are different for global and national organizations
6. Local talent is crucial
7. Global expansion requires a long-term view

Source: A.T. Kearney Global Retail Development Index, 10-Year Retrospective, 2011
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This material was prepared in conjunction with the A.T. KEARNEY GLOBAL CONSUMER INSTITUTE, a worldwide network of professionals and executives that 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.

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