Windows of Hope for Global Retailers

The 2009 A.T. Kearney Global Retail Development Index™
The past year has brought economic hardship, with significant implications for retailers. Growth in developed markets has dried up as consumers face a collapse in real estate prices, job uncertainty, and a dramatic drop in income and asset values. The result has been less consumer spending across all retail segments. In the wake of this, it has become clear that retailers operating solely in developed markets are faring far worse than those with a foothold in developing markets.

Followers of the A.T. Kearney Global Retail Development Index™ (GRDI) know that it identifies “windows of opportunity” to invest in organized retail in developing markets. The underlying hypothesis is that as markets develop and per capita incomes rise, consumer demand for global brands will mirror that growth, to the benefit of organized retail. The GRDI window of opportunity opens when real estate is still inexpensive, logistics networks are beginning to improve, consumers are beginning to spend disposable income on branded products, and there is little competition. The window closes when competition is fierce, consumers desire more specialized retail formats, and real estate prices are high and still going up. While there may still be potential in these markets, especially for incumbents, the truly unique window of opportunity, which usually lasts between seven and 10 years, is likely gone.

The global economic recession has not closed all windows of opportunity for organized retail in developing markets. While global retail has been hit hard, emerging economies are still attractive. From a macroeconomic standpoint, gross domestic product (GDP) for the United States and the Eurozone is expected to decline by almost a full percentage point in 2009, while the developing BRIC economies (Brazil, Russia, India and China) expect an average of 5.2 percent growth over the same period, according to the Organisation for Economic Co-operation and Development.

Retailers in developed markets face declining consumer spending and more intense competition from new entrants fighting for a share of shoppers’ shrinking wallets. In the United States, European retailers such as Zara and H&M are outperforming U.S. retailers. Zara grew sales 10.8 percent in the Americas last year. Meanwhile, Gap Inc., which once dominated the U.S. market, had sales decline more than 8 percent over the same period. While it will take years to determine the full effects of the economic crisis on shoppers in
### Figure 1
The 2009 Global Retail Development Index™

<table>
<thead>
<tr>
<th>2009 rank</th>
<th>Country</th>
<th>Region</th>
<th>Country risk (25%)</th>
<th>Market attractiveness (25%)</th>
<th>Market saturation (25%)</th>
<th>Time pressure (25%)</th>
<th>GRDI score</th>
<th>Change in rank compared to 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>India</td>
<td>Asia</td>
<td>54</td>
<td>34</td>
<td>86</td>
<td>97</td>
<td>68</td>
<td>+1</td>
</tr>
<tr>
<td>2</td>
<td>Russia</td>
<td>Eastern Europe</td>
<td>31</td>
<td>58</td>
<td>51</td>
<td>100</td>
<td>60</td>
<td>+1</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>Asia</td>
<td>62</td>
<td>42</td>
<td>47</td>
<td>74</td>
<td>56</td>
<td>+1</td>
</tr>
<tr>
<td>4</td>
<td>United Arab Emirates</td>
<td>MENA</td>
<td>89</td>
<td>66</td>
<td>50</td>
<td>21</td>
<td>56</td>
<td>+16</td>
</tr>
<tr>
<td>5</td>
<td>Saudi Arabia</td>
<td>MENA</td>
<td>70</td>
<td>46</td>
<td>68</td>
<td>39</td>
<td>56</td>
<td>+2</td>
</tr>
<tr>
<td>6</td>
<td>Vietnam</td>
<td>Asia</td>
<td>34</td>
<td>16</td>
<td>74</td>
<td>97</td>
<td>55</td>
<td>–5</td>
</tr>
<tr>
<td>7</td>
<td>Chile</td>
<td>Latin America</td>
<td>77</td>
<td>58</td>
<td>51</td>
<td>33</td>
<td>55</td>
<td>+1</td>
</tr>
<tr>
<td>8</td>
<td>Brazil</td>
<td>Latin America</td>
<td>52</td>
<td>60</td>
<td>68</td>
<td>31</td>
<td>53</td>
<td>+1</td>
</tr>
<tr>
<td>9</td>
<td>Slovenia</td>
<td>Eastern Europe</td>
<td>100</td>
<td>64</td>
<td>12</td>
<td>33</td>
<td>52</td>
<td>+14</td>
</tr>
<tr>
<td>10</td>
<td>Malaysia</td>
<td>Asia</td>
<td>65</td>
<td>47</td>
<td>48</td>
<td>45</td>
<td>51</td>
<td>+3</td>
</tr>
<tr>
<td>11</td>
<td>Algeria</td>
<td>MENA</td>
<td>17</td>
<td>24</td>
<td>93</td>
<td>70</td>
<td>51</td>
<td>+1</td>
</tr>
<tr>
<td>12</td>
<td>Mexico</td>
<td>Latin America</td>
<td>61</td>
<td>56</td>
<td>49</td>
<td>38</td>
<td>51</td>
<td>–1</td>
</tr>
<tr>
<td>13</td>
<td>Latvia</td>
<td>Eastern Europe</td>
<td>58</td>
<td>67</td>
<td>42</td>
<td>33</td>
<td>50</td>
<td>+8</td>
</tr>
<tr>
<td>14</td>
<td>Tunisia</td>
<td>MENA</td>
<td>55</td>
<td>37</td>
<td>82</td>
<td>24</td>
<td>49</td>
<td>+4</td>
</tr>
<tr>
<td>15</td>
<td>Egypt</td>
<td>MENA</td>
<td>43</td>
<td>25</td>
<td>91</td>
<td>38</td>
<td>49</td>
<td>–10</td>
</tr>
<tr>
<td>16</td>
<td>Lithuania</td>
<td>Eastern Europe</td>
<td>68</td>
<td>64</td>
<td>29</td>
<td>37</td>
<td>49</td>
<td>+14</td>
</tr>
<tr>
<td>17</td>
<td>Ukraine</td>
<td>Eastern Europe</td>
<td>30</td>
<td>33</td>
<td>46</td>
<td>87</td>
<td>49</td>
<td>0</td>
</tr>
<tr>
<td>18</td>
<td>Peru</td>
<td>Latin America</td>
<td>40</td>
<td>33</td>
<td>81</td>
<td>40</td>
<td>48</td>
<td>–4</td>
</tr>
<tr>
<td>19</td>
<td>Morocco</td>
<td>MENA</td>
<td>47</td>
<td>27</td>
<td>77</td>
<td>41</td>
<td>48</td>
<td>–13</td>
</tr>
<tr>
<td>20</td>
<td>Turkey</td>
<td>MENA</td>
<td>33</td>
<td>58</td>
<td>67</td>
<td>34</td>
<td>48</td>
<td>–10</td>
</tr>
<tr>
<td>21</td>
<td>Bulgaria</td>
<td>Eastern Europe</td>
<td>44</td>
<td>41</td>
<td>48</td>
<td>54</td>
<td>47</td>
<td>–5</td>
</tr>
<tr>
<td>22</td>
<td>Indonesia</td>
<td>Asia</td>
<td>35</td>
<td>39</td>
<td>75</td>
<td>37</td>
<td>46</td>
<td>–7</td>
</tr>
<tr>
<td>23</td>
<td>Romania</td>
<td>Eastern Europe</td>
<td>49</td>
<td>41</td>
<td>33</td>
<td>58</td>
<td>46</td>
<td>–1</td>
</tr>
<tr>
<td>24</td>
<td>Croatia</td>
<td>Eastern Europe</td>
<td>54</td>
<td>58</td>
<td>13</td>
<td>46</td>
<td>43</td>
<td>N/A</td>
</tr>
<tr>
<td>25</td>
<td>Philippines</td>
<td>Asia</td>
<td>28</td>
<td>31</td>
<td>76</td>
<td>29</td>
<td>41</td>
<td>+1</td>
</tr>
<tr>
<td>26</td>
<td>Thailand</td>
<td>Asia</td>
<td>50</td>
<td>32</td>
<td>42</td>
<td>34</td>
<td>40</td>
<td>–2</td>
</tr>
<tr>
<td>27</td>
<td>Hungary</td>
<td>Eastern Europe</td>
<td>70</td>
<td>63</td>
<td>0</td>
<td>22</td>
<td>39</td>
<td>N/A</td>
</tr>
<tr>
<td>28</td>
<td>Colombia</td>
<td>Latin America</td>
<td>28</td>
<td>35</td>
<td>61</td>
<td>27</td>
<td>38</td>
<td>–9</td>
</tr>
<tr>
<td>29</td>
<td>El Salvador</td>
<td>Latin America</td>
<td>29</td>
<td>31</td>
<td>71</td>
<td>15</td>
<td>36</td>
<td>N/A</td>
</tr>
<tr>
<td>30</td>
<td>Argentina</td>
<td>Latin America</td>
<td>15</td>
<td>42</td>
<td>56</td>
<td>29</td>
<td>35</td>
<td>–2</td>
</tr>
</tbody>
</table>

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

**Notes:** MENA = Middle East and North Africa. Scores are rounded.
developed markets, it is already clear that income disruption, a decrease in assets and total wealth, and tighter credit have weaned many of them from profligate spending behavior. Billions of dollars of sales moved from specialty and department stores to discount big-box retailers, and it is uncertain if these shoppers will return anytime soon.

To manage these risks and imbalances, leading global retailers will seek to balance their portfolios with both developed and developing markets—and the GRDI can help them do it. Now in its eighth year, the GRDI ranks the top 30 emerging countries in terms of retail development potential. We analyze 25 macroeconomic and retail-specific variables to help retailers conceive successful global strategies (see sidebar: About the Global Retail Development Index on page 4). Figure 1 highlights the 2009 findings. Figure 2 is this year’s window-of-opportunity analysis, which compares this year’s growth opportunities with those from the recent past. In addition to the country rankings, we give you our second annual Retail Apparel Index, which analyzes emerging market opportunities in the apparel segment.

**Figure 2**
The GRDI window-of-opportunity analysis

<table>
<thead>
<tr>
<th>Opening</th>
<th>Peaking</th>
<th>Maturing</th>
<th>Closing</th>
</tr>
</thead>
<tbody>
<tr>
<td>High priority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland (1995)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia (2007)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vietnam (2009)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China (2009)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria (2003)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saudi Arabia (2006)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>India (1995)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia (2003)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Low priority</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poland (1990)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Definition**

- Consumers explore unorganized formats; government relaxes restrictions
- Retailers invest heavily in new developments and shopping districts; consumers are ready for organized formats
- Retailers have difficulty securing desirable real estate; consumer spending has expanded significantly
- Market is saturated, forcing increased investment in brand

**Action for retailers**

- Monitor markets and conduct consumer research
- Identify local partners and real estate; establish pilot stores and supply-chain options
- Increase market entries to capture share or identify potential acquisition targets
- Determine leadership status (profitability) in the segment

**Method of entry**

- Consider minority investment in local retailer
- Consider supermarkets, hypermarkets, and cash-and-carry and convenience stores
- Consider discount, warehouse or apparel
- Move to wave-two formats, including EEO, DIY and specialized apparel*

**Labor strategy**

- Identify skilled labor pool for market
- Hire and train local talent; balance the expatriate mix
- Change balance from expatriate to local staff
- Mostly local staff

*EEO refers to entertainment, electronics and office retailing; DIY is do-it-yourself

Source: A.T. Kearney
The annual A.T. Kearney Global Retail Development Index (GRDI) ranks 30 emerging countries on a 100-point scale. The higher the ranking, the more urgency there is to enter a country. Countries were selected from a list of 185 based on three criteria:

- Country risk: more than 35 in the Euromoney country-risk score
- Population size: more than 2 million
- Wealth: GDP per capita more than $3,000 (threshold for countries with populations of more than 35 million is more flexible due to 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 and violence, and corruption. The higher the rating, the lower the risk of doing business.

**Market attractiveness (25 percent).**

- **Retail sales per capita (40 percent):** A score of zero indicates that the retail sector (total annual sales of retail enterprises excluding taxes) is still underdeveloped. A score of 100 indicates that the retail market is already mature, indicating an opportunity.
- **Population (20 percent):** A zero indicates the country is relatively small, representing limited opportunities for growth.
- **Urban population (20 percent):** Zero means the country is mostly rural; 100 indicates the country is mostly urban.
- **Business efficiency (20 percent):** Parameters include government effectiveness, burden of law and regulations, ease of doing business, and infrastructure quality. Zero means the country has poor business efficiency, while a score of 100 indicates high efficiency.
- **Market saturation (25 percent).**
  - **Share of modern retailing (30 percent):** A zero indicates a large share of retail sales made through a modern distribution format within the average Western European level (200 square meters per 1,000 inhabitants).
  - **Number of international retailers (30 percent):** The total score is weighted by the size of retailers in the country: three points for tier 1 retailers (among the top 10 retailers worldwide), two points for tier 2 retailers (within the top 20 retailers worldwide) and one point for tier 3 retailers (all others). Countries with the maximum number of retailers have the lowest score.

**Modern retail sales area per urban inhabitant (20 percent):** A zero means the country ranks high in total retail area per urban inhabitant, close to the average Western European level. Modern formats are stores predominantly selling food (hypermarkets, supermarkets, and discount and convenience stores).

**Market share of leading retailers (20 percent):** A zero indicates that the market is highly concentrated with the top five competitors (local and international) holding more than 55 percent of the retail food market. A 100 indicates the market is still extremely fragmented.

**Time pressure (25 percent).**

The time factor is measured by the CAGR (2002 to 2007) of modern retail sales weighted by the development of the economy in general (CAGR of the GDP and consumer spending from 2002 to 2007) and the CAGR from 2002 to 2007 of the retail sales area weighted by newly created modern retailing sales area.*

Results are from zero to 100, with 100 indicating that the retail sector is advancing quickly, thus representing a short-term opportunity. Data and analysis are based on the United Nations Population Division Database, the World Economic Forum’s Global Competitiveness Report 2006-2007, national statistics, Euromoney and World Bank reports, and Euromonitor and Planet Retail databases.

* CAGR = compound annual growth rate
What Makes Global Retail Expansion Attractive Now?
The retail real estate market in developing economies is perhaps the biggest factor making 2009 to 2010 a great time for action. Although this real estate market has not seen the same boom and bust cycles as in developed countries, vacancy rates in emerging economies are gradually rising while prices remain static or decline. Eastern European markets are starting to show lower occupancy rates as retail expansion freezes amid a turbulent economy. Some Middle Eastern cities such as Dubai, which until recently had high occupancy rates that drove prices up, now expect oversupply by the end of 2009. This will help to ease rental prices.

Another opportunity, particularly for retailers that have already expanded abroad, lies in increasingly attractive tier 2 cities in certain emerging markets where tier 1 cities are saturated and logistics networks are slowly moving toward national coverage. For instance, Wal-Mart expects to fuel its growth during 2009 by expanding into Mexico’s tier 2 cities.

Lastly, retailers in many developing markets are facing low valuations and deep financing problems because of the economic downturn, which make them good targets for acquisition. Many of these retailers have valuable advantages, such as relations with key distributors, consumer insights and premium real estate footprints. These could prove essential for a global retailer trying to succeed in a new market.

But, There Are Still Challenges
Despite the opportunities that exist for global expansion, there are unique challenges in this economic upheaval.

Sector differences. Not all retail is equally affected by this recession. The consumer credit crunch is affecting some goods disproportionately, such as items usually bought with credit (consumer electronics), discretionary purchases (specialty apparel), and those that depend on the housing market (do-it-yourself). Goods that are considered essential, such as food and beverage, health care, and beauty, are faring better.

Commercial financing. Credit is tight for retailers, and because retail is a cash-flow business, the need to generate cash through efficient operations is important.

Protectionism. When the going gets tough, protectionist measures can proliferate. Tariffs and nontariff barriers, import restrictions, tax incentives, and local content requirements are in place or are being considered in many developed and developing markets. Global organized retail could be a powerful tool to fight protectionism, but most of these retailers have other objectives for their investments.

The economic crisis may have slowed per capita income growth rates, but they are still growing. Higher financial risk provides that much more opportunity for the strong and determined. Times may be tough, but windows of opportunity still abound.

The 2009 GRDI Findings
The following highlights the GRDI findings, including the top opportunities for global retailers to invest in developing markets.

Asia: Not Quite Decoupled, but Still Charging Ahead
Countries in Asia are well positioned for an early recovery from the economic crisis. Domestic demand is holding up well in most major markets, GDP growth is continuing at a moderate rate, and trillions of dollars of sovereign reserves are providing governments and state banks with tools for action.
Asian countries are also continuing their dramatic economic transformation. Domestic consumption is still a primary focus, a trend that should favor continued increase in retail over the long term. As reported by the International Monetary Fund (IMF), Asian economies will see a modest recovery by 2010, boosted by stronger export demand and stimulus spending.

Both India and China have announced domestic stimulus packages. China shows signs of recovery, with March 2009 factory output and auto sales improving, helped by Beijing’s $586 billion stimulus. India, Indonesia, China and Japan have tried to shore up financial stability by extending corporate credit, expanding bank deposit guarantees and implementing other measures.

**India (1st): back on top.** As the economic storm subsides, India reclaims the top spot in the GRDI, which it last held in 2007. Despite the global slowdown, India remains one of the fastest-growing countries in the Asian region, reflected by 67 percent GDP growth between 2003 and 2007. The government has announced three fiscal stimulus packages since December to keep the economy on track, and it projects GDP growth of 7.1 percent in 2009. With its lowest inflation in more than a decade, India is well positioned to continue its growth.

Sales growth in organized retail, after approaching 40 percent in 2008, slowed to low double digits in 2009, leading Indian retailers Reliance Retail and Future Group to delay their expansion plans. However, macroeconomic factors that favor the growth of modern grocery retailing look promising. India’s educated, aspirational middle class, which is growing ever larger, is demanding a better retail environment and more global brands and styles. Global retailers (and several excellent, adaptive domestic retailers) can draw these shoppers away from traditional channels, such as wet markets, into organized global retail.

Additionally, real estate values have experienced a major correction. As malls struggle to find occupants, retailers are receiving rent reductions or revenue-sharing offers. Rentals in tier 1 cities are down 15 to 20 percent, and 25 to 40 percent in tier 2 and 3 cities.

Most retailers are restructuring by revamping organizational structures, closing unprofitable stores and exiting certain formats. As domestic retailers struggle to find the model that works with Indian consumers, the window of opportunity for global retailers is wide open. On a cautionary note, foreign investment restrictions will make it difficult for a single brand retailer (and almost impossible for a multibrand retailer) to have complete control over its operations. Overall, though, the country risk is low and the market potential is still the highest in this year’s GRDI (see figure 3).

Global retailers continue to enter India in 2009. Foreign direct investment (FDI) of up to 100 percent is currently allowed in cash-and-carry wholesale trading, and three international retailers—Wal-Mart, Carrefour and Tesco—have announced plans to set up wholesale stores.
Specialty apparel is also following this strategy, with Destination Maternity, the world’s leading maternity apparel retailer, announcing an international agreement with Mahindra Retail to sell its merchandise as a private-label brand in India’s Mom & Me stores.

Domestic Indian retailers also continue with their expansion plans. Bharti Retail opened a Wal-Mart Bharti cash-and-carry store in Amritsar in May, the first of three such stores scheduled to open in 2009. Domestic firm Godrej Industries will expand its Nature’s Basket stores over the next five years from the three current outlets to 100. At the same time, domestic retailers are using the slowdown to restructure operations. RPG Retail has shut down as many as 50 poorly performing Spencer’s stores, and relocated others to better locations.

India remains a strong market for established brands as retailers try to meet shoppers’ interest in global labels. For example, Madura Garments, part of Aditya Birla Group, has partnered with French chain Jean-Claude Biguine to set up salons within its The Collective stores. Westside, a unit of Trent Ltd., the retail arm of the Tata Group, is planning a joint venture with Inditex Group to develop and promote Zara and U.K. fast-fashion sensation Topshop in India. Also, DLF Brands, the promoter of several leading international lifestyle retail brands, has entered into an agreement with Donna Karan Studio and is scheduled to open three DKNY stores.

Figure 3
2009 GRDI country attractiveness

* Based on weighted score of market attractiveness, market saturation and time pressure  
Source: A.T. Kearney
Rural India, which makes up 40 percent of India’s $280 billion retail market, offers alluring opportunities for retailers. While the rural market is still dispersed and logistics networks are still inadequate, its economy is holding strong during the recession, with per capita incomes rising faster than estimates for India overall. Rural areas have surpassed urban centers in terms of the number of households earning $2,000 per year, accepted as the point at which consumers start buying select branded products. Retailers are eager to tap into this growth. The Indian unit of LG Electronics, which sells low-voltage appliances for power-deprived areas, expects rural areas to account for 45 percent of its Indian sales this year, up from 35 percent last year. Godrej plans to invest heavily over the next five years to expand Aadhar, a chain of supermarkets in rural India that will sell a variety of products, including fertilizers, pesticides, animal feed and fast-moving consumer goods. The company plans to open 1,000 such outlets across the country over seven years.

**Although Vietnam, which topped our list in 2008, has some short-term challenges, our long-term outlook for the country remains positive.**

China (3rd): how to spend $2 trillion. Although China’s phenomenal growth has eased lately, it remains one of the few countries still forecasting positive GDP growth for 2009. Even though China’s economy expanded at its slowest pace in nine years due to sluggish manufacturing activity, the GDP still grew 6.1 percent year-over-year in the first quarter. The main drivers of Chinese growth in the past decade have been exports and real estate, and the preliminary signs of recovery are evident: March 2009 exports fell by less year-over-year than they did in February.

Government help will soften the downturn. China announced a $586 billion stimulus package along with measures to boost domestic consumption and cut reliance on exports. In addition, China has relatively high bank savings, which are being used to increase lending and help offset the risks of negative sales growth. Domestic consumption could propel China’s economic recovery, as it currently makes up less than 50 percent of the country’s economic growth, which is well below the global average of 62 percent. Perhaps heralding the first signs that China had reached an economic bottom, retail sales grew 15.2 percent in the first two months of 2009 to almost $300 billion.

The country’s tier 2 and 3 cities in the central and western regions are attracting foreign retailers’ attention. They are less affected by the financial crisis and more suitable for new expansion. Wal-Mart, which entered China in 1996, opened 23 additional stores by the end of the first quarter of 2009, bringing its total store count to 140. Carrefour has reiterated that it will maintain the same pace of new store openings in 2009. Since entering China in 1995, the company has opened 135 outlets, including 23 last year.

Sales of nonfood items have not kept pace with the growth in food sales. 7-Eleven, the
world’s largest convenience store franchise, will open four stores in Shanghai in 2009 and 100 outlets by 2012. Retail giant Aeon is opening several Ministop convenience stores this summer in Qingdao, Shandong Province, and 200 more stores in China within five years.

Vietnam (6th): fall from the top. Vietnam, which topped the Index in 2008, has been hit hard by the economic crisis, as GDP growth slowed to 3.1 percent for the first quarter of 2009 from 7.4 during the same period in 2008. Vietnam’s real estate boom and bust have discouraged foreign investment, and the fight against inflation has turned into a fight against deflation. Although Vietnam has some short-term challenges, our long-term outlook for the country remains positive.

Vietnam continues to open its doors to international investors, allowing full ownership of local retail enterprises. For the first time, foreign retailers can now hold a majority stake in a local joint venture. Although full ownership is confined to the nonfood sector, food retailing (excluding certain basic commodities) will follow in January 2010.

The past year saw a number of global retailers rush to Vietnam. The country now has about 400 supermarkets and 2,000 convenience stores, operated by both domestic and global companies. Many global players are well established in Vietnam, including South Korea’s Lotte, Japan and Taiwan’s Unimart Supermarket, Malaysia’s Parksons, France’s Big C, Hong Kong’s Dairy Farm, Thailand’s CP All and Germany’s Metro. France’s Auchan plans to enter the market with 30 new stores.

Domestic retailers are expanding rapidly in the face of foreign competition. Saigon Co.op is expanding its supermarket and convenience food chains nationwide. It opened its first convenience store and two supermarkets in Ho Chi Minh City last year and revealed plans to open 15 more supermarkets. Its revenues rose almost 50 percent in 2008.

Vietnam is still an attractive market. Its population is young and the desirable age segment between 15 and 39 grew more than in any other market in the Index. The country also continues to urbanize, making it easier for suppliers to fulfill demand.

Vietnam’s garment retail market is growing due to increasing brand awareness and demand for better-quality clothing. The domestic textile industry, growing at a 15 percent rate, accounts for one-fourth of the country’s total production. Brands such as Bossini, Giordano and Mango are popular due to affordable prices. However, genuine brand-label products are still unaffordable for most people.

Eastern and Central Europe

While the region has been hit hard by the global recession, the scene for global retailers is as attractive as ever in many Eastern and Central European countries. Slovenia, Latvia, Lithuania and Croatia move up eight or more spots in this year’s Index, thanks to attractive markets with limited country risk. Russia moves back into second place, thanks to a fragmented market that leaves lots of room for global retailers to grow.

Russia (2nd): not as hard-hit as feared. Due to falling oil prices and slowing demand for exports, the Russian economy is projected to shrink in 2009. How much depends on whom you ask: The Russian government says 2.2 percent, the World Bank calls for a 4.5 percent decline and the IMF estimates 6 percent. In any case, the Russian government is responding aggressively, urging banks to charge interest rates of no more than 16 percent to encourage lending and help troubled businesses. It also has injected $120.5 billion into the economy.
Retail sales are expected to grow at a compound annual growth rate (CAGR) of 15 percent over the next five years. Food retail will grow at positive rates starting in 2010, and nonfood retail will return to positive territory after dropping 2 percent this year. Current conditions are significantly less positive than they were in the early 2000s, yet Russia holds promise over the long term.

Russia’s fragmented market, with the top five retailers controlling only 7 percent of sales, provides opportunities for the leaders to grow. For foreign companies, mergers and acquisitions (M&A) are quite attractive due to low valuations for domestic firms. We estimate that the largest domestic chains with sufficient capital will continue to expand, but there will also be a shift from organic growth to M&A. Russian retailer X5 has announced intentions to make some acquisitions, and international retailers with cash, such as Carrefour and Tesco, are likely to do so as well. However, with a low supply of attractive targets and high demand from retailers looking to grow quickly, entrants need to act promptly.

Entering Russia requires understanding and adapting to local operating conditions, including logistical challenges. Delays due to lines at borders and ports, poor product quality, infrastructure issues, and scarcity of containers are all possibilities. For example, the port at St. Petersburg is heavily congested, as it fulfills almost 70 percent of international container transportation in the country.

Additionally, there can be long lead times and a steep learning curve when building and opening stores in Russia. IKEA, for example, spent years jumping bureaucratic hurdles before opening its first Russian store. Corruption has lessened but is still prevalent. Companies entering Russia should come armed with risk-mitigation strategies, including establishing government relations, operating by strict standards and building goodwill by investing in National Priority Projects.

Slovenia (9th): going strong. Slovenia is the region’s second-wealthiest country and the wealthiest among former communist states. Retail sales account for 40 percent of consumer spending, with about half spent on nonfood items, the highest level of any Eastern or Central European nation.

The retail sector is dominated by Mercator, which enjoys a 36 percent share, with a product mix that is 82 percent food, 11 percent electronics, 4 percent textile and 3 percent sporting goods. It runs various formats, including 17 hypermarkets and more than 1,000 village stores, and is still expanding by acquiring small local partners. However, competition is intensifying, especially from foreign players, such as Germany’s Schwarz-Gruppe and ALDI. These companies are getting a boost from the economic crisis and could threaten Mercator’s long-term position. Banners, such as Spar, Tis and E.Leclerc, and discounters such as Lidl and Eurospin, have also been threatening Mercator.

One major challenge for retailers in Slovenia is gaining nationwide scale. The country’s mountainous landscape causes a stark geographic split between large, modern retailers in big cities and neighborhood stores in smaller cities. Retailers must be flexible enough to operate in different geographies with different formats.

Latvia (13th): still hopeful. Previously one of the fastest-growing economies in Europe, Latvia is now expecting GDP to decline by 13 percent. Help is on the way from the IMF, which in December granted a bailout of approximately $10 billion, and from the European Bank for Reconstruction and Development, which agreed to put capital into the Latvian bank Parex.

One positive side effect of the crisis for Latvia has been a decrease in inflation and current-
account deficits, which had been at high levels. The crisis could actually leave Latvia with a stronger economy poised for more growth.

RIMI, which includes ICA and Kesko, and Maxima dominate the market. Hypermarkets and supermarkets are increasingly prevalent in Latvia, which has traditionally been dominated by small and mid-sized stores. The average selling area per store increased 49 percent from 2002 to 2007, while the total number of grocery stores fell 30 percent. Discounters may begin to take a larger share during the crisis.

Lithuania (16th): slowing down, but preparing for change. Lithuania has strengthened over the past five years with a GDP CAGR of 8.2 percent. However, the economic crisis has hit hard, shrinking its economy by 13.6 percent in the first quarter of 2009. The government is likely to respond by offering cheap credit to businesses, promoting exports and reducing red tape. To provide additional economic stimulus, the government is considering an energy-efficiency program and greater use of European Union structural aid.

Retail space is increasing across all Lithuanian cities, driven by the popularity of malls. By the end of 2008, there were 26 shopping centers with roughly 570,000 square meters of leasable space. Most development is in Vilnius, where two malls opened in 2008 and another is planned for 2009. However, going forward the fastest growth will be in smaller cities, such as Klaipeda and Siauliai, where more shopping centers are planned for this year.

Global brands will continue entering the country, especially in the apparel and footwear sectors. Lithuania has already seen several new entrants since 2006, including New Yorker, Marks & Spencer and Lindex. Peek & Cloppenburg is expected to open a store in 2009 and H&M in 2010. The economic crisis is an opportunity, not a hindrance, for these foreign brands, yet they are being conservative in the amount of space they lease.

**What about Hungary, Poland and the Czech Republic?** As figure 2 shows, the window of opportunity in Hungary, Poland and the Czech Republic was widest a decade ago. Today it might be best to consider them developed rather than developing countries. However, these markets continue to demonstrate strong growth. Hungary is rated 27th in this year’s Index, and Poland has experienced 5 percent annual growth in consumer spending since 2007. While the global downturn may slow growth, these markets will remain strong. As the markets mature, local and global players are experimenting with new formats and store concepts. However, this year there are no major rollouts planned, and those exploring expansion are searching for alternatives due to a lack of financing.

**Middle East and North Africa**
The Middle East and North Africa region has several rising stars with expanding retail opportunities. The United Arab Emirates (UAE) makes the biggest jump in the Index this year, going from 20th last year to 4th this year, thanks to an economy that has remained relatively sturdy during the global recession. Saudi Arabia, where the government continues to liberalize and is planning to build economic cities, moves up to 5th place this year.

Conversely, three Middle Eastern nations in the top 10 last year—Egypt, Morocco and Turkey—slipped 10 spots or more this year. In these countries, the poor economic conditions took their toll on the important tourism and real estate industries.

UAE (4th): Abu Dhabi is the rising star of the Emirates. The UAE presents a unique opportunity
given its emergence as an international hub. The UAE’s population of almost 5 million is small compared to the top three countries in this year’s Index, however more than 80 percent of the population is urban, and it has the highest consumer spending per capita of any country in the Index. Furthermore, as Dubai has grown as a tourist and business destination, so too has its population’s interest in global brands.

Abu Dhabi is a diamond in the rough. Relatively insulated from the economic crisis due to its oil reserves and sovereign wealth fund, it will continue to grow. The real estate market, backed by the government, is well positioned to weather the downturn. Because development lags in the hospitality industry, and demand remains high, real estate prices in Abu Dhabi are rising. Other signs of growth include Abu Dhabi’s first Formula One race and the opening of several national museums, including a Louvre and a Guggenheim. Immigration to Abu Dhabi is expected to increase as it receives Dubai’s overcapacity.

Real estate growth and a stable economy will contribute to more retail opportunities across all sectors. City developments, scheduled to be completed in 2009, will come online within three years. Yet, while Abu Dhabi is an exciting opportunity, entry for foreign retailers presents some challenges. For example, foreign firms cannot enter without local partners, so they begin with a weak negotiating position. These partners will want to have a strong say in developing the value chain, including building logistics and distribution strategies. There are few capable partners, and those that are capable are concerned about offending competing brands.

In Dubai, retailers are refocusing on local customers rather than tourists, thus creating an entry opportunity for hypermarkets and discounters. Carrefour, Casino and Emke Group have already made plans to expand. Also, as new malls are developed, creating overcapacity and driving down prices, more large retailers are being drawn in.

With every type of retail space imaginable—Dubai will have the highest amount of shopping space per capita in the world by 2010—and with most of the world’s major brands, what’s next for Dubai retailers? They will become more consumer-focused, improving products, prices and service. Already, more retailers are customizing products to appeal to locals rather than tourists, improving customer service, and carrying the latest fashions. There is also more price competition. A recent survey found that consumers will pay up to a 50 percent premium for certain high-end British brands.

Saudi Arabia (5th): a stable economy boosts retail potential. Saudi Arabia has been spared from much of the crisis because of its natural oil reserves (more than 100 years worth) and government investments, to the tune of $400 billion for the next five years. This figure may decrease if oil prices fall, but still, the government will continue to channel money into infrastructure and industrial diversification.

The completion of King Abdullah Economic City, the first stage of which is expected to be complete by 2010, will create retail space and attract businesses. Four more economic cities will be developed in the next couple of decades, using tax incentives to attract businesses. Several domestic and global companies are already taking advantage of the opportunities in Saudi Arabia. Al Othaim, Al Hokair, Panda and Carrefour have announced 2009 to 2010 expansion plans. There are still more opportunities in Saudi Arabia, but the pace is slow, as the country remains conservative and retail is in the early stages of growth.

That said, the Saudi population is young, with 60 percent of its citizens, or 17 million
people, under 25 years old. Strong brand awareness and demand for global goods are prevalent. National dress, which is normally made by small local retailers, is a flat market, but men and women are increasingly purchasing Western-style clothing to wear underneath traditional garb. Saudi consumers already spend significant amounts abroad, in areas such as Dubai and the United Kingdom, on brands and luxury goods. This indicates opportunities for local retailers.

In food retail, bottled water and juices are joining carbonated beverages as popular drinks. Demand for global clothing brands, the biggest category, has risen 6.2 percent from 2003 to 2007. Perfume is another small but key category, as Saudi Arabia accounts for 85 percent of the perfume market in the Middle East.

Saudi Arabia presents several logistical challenges, however. First, as in the UAE, Saudi Arabia requires entrants to partner with local retailers. Carrefour partnered with Olayan Group and the Majid Al Futtaim Group. Halal laws may present another challenge to food retailers, and tariff and nontariff barriers can hamper imports.

Yet overall, as Saudi Arabia continues its slow but remarkable social reforms, it is becoming more accessible, presenting an exciting opportunity for retailers.

**Egypt (15th): a few steps back.** Egypt relies heavily on tourism, remittances, investment from Gulf Cooperation Council (GCC) countries and Suez Canal revenues, so it is feeling the impact of the economic crisis. As these sources of income decline, it will hamper the government’s ability to spend. GDP growth in the first six months of 2009 is expected to slow to 3.5 percent, down from 7.2 percent over the same period last year.

In the longer term, organized retail will continue to grow, with low-end retailers winning a larger share. For the past 10 years retail has grown at annual rates varying from 5 to 15 percent, driven primarily by the shift from traditional to organized retail channels. Demand for foreign goods, convenience and cleanliness has driven consumers to modern outlets, making Egypt an attractive market for long-term investment.

The global economic recession has not closed all windows of opportunity for organized retail in developing markets.

There are approximately 550 independent supermarkets in Egypt, including 220 in Cairo. However, as the economy slows, consumers have become price-conscious, and discounters such as El-Hawary and Kheir Zaman are gaining appeal.

Global retailers are entering, but cautiously. In 1998, Sainsbury’s entered the market with the strategy of outpricing local competitors, but intense protests from the local community and other internal challenges forced its exit. Retailers have taken the lesson to heart and since then have worked closely with the local community. Carrefour, for example, sells primarily local products. Foreign entry is likely to continue, evident in Metro Group’s plans to open a cash-and-carry store in Cairo.
By introducing the concept of buying everything under one roof at supermarkets and hypermarkets, Carrefour changed consumer behavior in Egypt and forced local retailers to adapt. However, as these large formats become more popular, quality real estate is a concern, as major cities such as Cairo and Alexandria are already densely populated.

In Cairo, of 140,000 outlets, only 10,000 to 12,000 are equipped with freezers, and only 150 outlets can be categorized as supermarkets. In recent years, several shopping centers have opened, including Cairo’s Citystars and Maadi Grand Mall, but there are still space concerns for new entrants as these developments are at capacity.

Latin America

Latin America is experiencing the effects of the global economic downturn, due to falling commodity prices, tighter credit and weaker demand for exports. The IMF forecasts a 1.5 percent GDP contraction for 2009.

Yet, not all countries have been affected equally. In Brazil and Chile, the two highest-ranked Latin American countries this year, GDP will fall by only about 1 percent in 2009, according to the Economist Intelligence Unit. These countries present attractive opportunities for retailers as consumer spending is expected to remain stable.

While Mexico’s economic link to the United States will pose a challenge due to reduced remittances, having the second-largest population in the region will help the country remain attractive for retailers. Argentina has been hit hard by the crisis and will experience a painful recovery, but financially struggling companies might be attractive acquisition targets. The Andean region will experience a relatively mild recession, with Colombia and Peru showing strong resilience. Both countries seem ripe for new entries by organized retail, especially compared to the more mature markets in the region.

Food and other primary goods, such as beauty and hygiene products, are proving resilient to the economic downturn in Latin America, but durable goods are taking a hit. The electronic appliances category, which in Latin America is dependent on consumer credit, has been affected by the still-frozen credit markets. So far, the governments of Brazil, Argentina and Mexico have offered incentives to boost the sale of appliances, including sales-tax breaks. Consumer electronics retailers, however, will have to wait until the food and beverage retailers are in the clear before they begin feeling comfortable again.

Chile (7th): big opportunities and big challenges. Chile remains the most stable economy in Latin America. Although its economy is expected to contract in 2009, it will shrink less than most countries in the region. Strict fiscal and monetary policies have strengthened the Chilean economy in recent years, and the government’s $4 billion fiscal stimulus plan is expected to work quickly to support growth and encourage employment. Additionally, lower inflation will trigger a rise in real personal income. As a result of these favorable conditions, Chile’s retail sector has been active, spurred by the entrance of international retailers and the expansion of leading domestic retailers to other Latin American countries.

The Chilean retail market is appealing because of its sturdy demand, but international retailers might want to rely on acquisition rather than organic growth to make a dent, as saturation and market knowledge are important factors. For instance, Wal-Mart recently entered by acquiring local retailer D&S, which holds around 30 percent of the total market.

Meanwhile, Chilean retailers are becoming regional leaders. Ripley, for instance, is pursuing
a joint venture with Grupo Palacio de Hierro in Mexico. Its strong presence in the Andean market, particularly Peru, was an important source of growth this past year. Other examples include Cencosud, which acquired Peru’s Wong Supermarkets, and Falabella, which purchased Colombia’s Casa Estrella. As Chilean retailers raise their profile in Latin America they will become fierce competitors for those nonregional companies wishing to enter.

**Brazil (8th): leading the recovery.** Brazil remains an enticing option for international retailers. With the largest population and the strongest economy in Latin America, it is expected to recover from the recession more quickly. While declining commodity prices will reduce money flowing into the country, the weakening of its currency, the real, will offset this trend by boosting exports. Lower inflation will increase disposable income, as will the government’s economic stimulus package, which includes lower interest rates and taxes, and new credit lines for the agriculture and industrial sectors. As a result, Brazil will remain strong over the next couple of years, with reduced unemployment and increased consumption.

Despite a complex economic environment, leading hypermarket retailers will continue expanding throughout Brazil during 2009. Wal-Mart is slated to open 90 stores, while Carrefour and Grupo Pão de Açúcar are planning 70 and 100 additional stores, respectively. Yet, international retailers will find this retail market tough to enter, as consolidation has increased. Wal-Mart, Pão de Açúcar and Carrefour currently hold 39 percent of the market, up 12 percent since 2003. Pão de Açúcar, part of the global company Casino, created an M&A department aimed at acquiring smaller chains, which led to its purchase of Supermercado Gimenes.

However, there are still solid opportunities in Brazil. The electronic appliances segment is wide open for international retailers. Some are already taking advantage, including the Mexican chain Elektra, which recently launched operations in Brazil and is steadily expanding throughout the country.

**Mexico (12th): a complex environment.** Mexico faces a complex economic environment this year, as its dependency on the United States will hinder its economic performance, despite holding up so far. Remittances, which account for 3 percent of GDP, declined 3 percent in February 2009. As U.S. internal demand declines, Mexican exports will also fall, given that nearly 80 percent go to the United States.

However, household spending is expected to rise due to a series of government stimulus measures, including the expansion of the Temporary Employment Program, improved retirement benefits, the freezing of gas prices and the launch of the household appliance renovation program. As Mexico migrates toward organized retail, opportunities lie in Mexico’s tier 2 cities and low-income population, which still rely on traditional retail formats. Leading retailers are developing alternative formats, such as small discount stores, to target low-income consumers in markets with fewer than 50,000 residents.

Dynamics in the supermarket arena have changed significantly over the past year. Wal-Mart continues to lead, but local retailer Soriana has successfully integrated the Gigante supermarkets it acquired a year ago, emerging as a strong competitor in the market. In contrast, another local leader, Comercial Mexicana, faces severe financial problems as a result of peso devaluation.

New entrants must also be aware of the security problems with drug cartels, which could damage consumer confidence and scare away foreign investors.
Three to watch in South America. Peru (18th) had the highest GDP growth in the region in 2008—10 percent, greater than China’s—and in 2009, Peru is expected to be the only Latin American country to post growth in real GDP (3 percent). Still, investors should be cautious about Peru’s exposure to falling commodity prices, as commodities represent 80 percent of exports. Chilean retailers Falabella, Cencosud and Ripley invested in Peru during 2008, obtaining up to 30 percent of their income from Peruvian operations.

Meanwhile, Colombia (28th), with its formerly turbulent conditions improving, has moved onto the radar screen of global players. Colombia accounted for 30 percent of Inditex’s new stores in Latin America in 2008, and Carrefour plans to open 11 new stores there in 2009.

Argentina (30th) seems a bit lackluster due to a weakened economy and high country risk, the result of the government nationalizing several sectors of the economy, including the pension system. Yet, with several Argentinean retailers reeling during the crisis, international retailers may find attractive targets for acquisition, which could ease entry into the market.

Brazil: still sizzling on top. Brazil tops the Apparel Index for the second year, driven by its large total clothing sales, which are second only to China, and its annual clothing sales per capita, which top the Index at $490. Not only do Brazilians buy a lot of apparel, the five-year growth rate of consumption, at more than 20 percent, is staggering. While this is less than last year’s five-year CAGR of more than 30 percent, the market is still ripe with opportunity.

Brazilians love to shop and are extremely fashion-conscious. Brazil’s vibrant young population is also a major factor, with more than 60 percent of the population under the age of 39. Trends are often shaped by local celebrities, and multinational retailers still struggle to capitalize on these local fashions. Developing stronger local market knowledge of trends and fashion is therefore imperative to capturing the young, apparel-driven market in Brazil.

Retail Apparel Index

Last year, A.T. Kearney introduced the Retail Apparel Index within the GRDI. This year, we use an improved methodology that highlights the most attractive subset of GRDI markets from an apparel perspective. We evaluate more than 30 apparel markets to identify the top 10 countries in terms of market size, growth prospects, consumer affluence and readiness. The biggest change this year is that we have placed a greater emphasis on growth to reflect the immediacy of the opportunity (see sidebar: About the Retail Apparel Index).

Let’s look at the top three countries in the Apparel Index (see figure 4).
Credit is the main form of payment for non-food items in Brazil. Brazilians use credit far more than other developing countries in the Apparel Index, and offering private-label credit to consumers is an entry requirement for every foreign retailer. Credit has helped fuel the growth of the apparel market by affording local players the opportunity to keep growing. Local apparel retailers, now integrating with the global apparel supply chains, procure garments from Asia. This makes them attractive targets for acquisition. However, high import tariffs dictate new strategies in Brazil, perhaps developing local production.

The sector provides opportunities for foreign retailers. The current leaders, mostly small local chains that are still modernizing, have experienced strong growth over the past few years due to the rise in available income and consumer credit. Many luxury players have entered in the past few years, such as Marc Jacobs and Furla, with several others planning to enter, including Hermes, Gucci and La Perla. We anticipate other mass-market, global players to enter in coming years.

Romania and its love of shopping. Romania makes the largest leap in our Apparel Index, climbing four spots to 2nd place, fueled by growth in total clothing sales and clothing sales per capita over the past five years.

Entry to the European Union in 2007 thrust Romania, with the second-largest Eastern European population after Poland, onto the global stage. Romania’s population between 15 and 39 years old, the most attractive age group for the apparel sector, is growing at a CAGR of 0.2 percent, faster than Brazil or China. Equally appealing for global retailers is that more than half of the population is urban.

While grocery stores and hypermarkets have been expanding at a furious pace over the past three to five years, apparel is still poised for growth. A doubling in available leasable area in shopping malls over the past few years provides the perfect springboard for apparel. For example, when the Baneasa Shopping City opened in 2008 to much fanfare, 200 multinational brands fought for space in Bucharest’s largest fashion center. Almost half of the brands that leased space in Baneasa are new entrants to Romania, including fast-fashion stars Zara, Promod and Mosaic Fashion, and luxury brands such as Hugo Boss, Burberry and Max Mara. Other important projects include the expansion of the Promenada Mall.

About the Retail Apparel Index

The Retail Apparel Index is calculated by analyzing market, growth and consumer indicators, which are weighted 35 percent, 50 percent and 15 percent, respectively. Market indicators include total clothing sales and imports, total population, youth population, and the presence of international apparel retailers.

Growth indicators consist of the CAGR of total clothing sales, clothing imports, clothing sales per capita, GDP per capita and population growth. Consumer affluence is measured by clothing sales per capita.

Within each metric, a country’s value is indexed from 0 to 100 to allow for relative comparisons to be made across metrics. For example, Romania had the highest clothing sales CAGR of 35 percent from 2004 to 2008, giving it a score of 100 points for that metric. Brazil’s clothing sales CAGR over the same period was 23 percent, resulting in a score of 65.
into Shopping City Sibiu, and the construction of the first Mega Designer Outlet.

Young Romanians are eager to experience global fashion brands and willing to spend money. While Romania has been affected by the financial crisis, and the apparel market will likely grow less quickly for some time, heavy fragmentation, limited competition and pent-up demand indicate a bright outlook for apparel.

China remains attractive. China drops one spot to 3rd in our ranking, but still presents a compelling case, with the highest growth in GDP purchasing power parity per capita over the past five years (6.5 percent) and the largest total apparel sales of any country in our Index.

In the past, retailers viewed China solely through the lens of the luxury market and high-net-worth customers. However, the mass market is becoming more alluring as tastes change and fashion brands become more widespread. Today, more than 70 percent of apparel sales occur in modern formats, predominantly in department stores. But there has been a gradual shift toward specialty apparel stores, as average Chinese consumers become more discriminating about their wardrobes.

In 2008, several global apparel and accessories retailers entered China. Handbag maker Coach acquired a retail business from its distributor and announced plans to open more than 50 stores over the next five years. Children’s clothes maker Carter opened its first China store in Shanghai, while luxury brand Longchamp opened its Asian flagship store in Beijing. Discount retailer H&M plans to open five stores in Beijing in 2009. The broad spectrum of entrants, from discount to luxury apparel, indicates that China is still a place to go regardless of market niche.

While China has numerous attractive qualities, there are also potential hazards. Chinese consumer tastes are unique and regionally differentiated, and basic differences in sizes and shopping habits can cause problems. Additionally, local competition has continued to strengthen. Therefore, it is wise to study the market before entering or partnering with a local distributor.

Brazil tops the Apparel Index for the second year, propelled by its large total and per capita clothing sales.

Luxury goods: not recession-proof. The luxury goods market has enjoyed prosperity—double-digit growth for more than a decade. The Asian financial crisis in 1998, the dotcom bust and the post-9/11 downturn came and went, but luxury goods held strong. However, in this deeper, more global recession, the luxury market has finally hit the wall.

To determine why, we need to examine why the luxury industry grew at such a remarkable rate. The world’s overall economic growth was a major reason, as it led to a rise in the number of high-net-worth individuals. In 2008, 10 million people held more than $1 million in assets, up from 8 million in 2005. Yet, the most important cause for growth was the onset of aspirational consumers, buyers
who traded up to purchase luxury products, aided by the availability of credit. The emergence of a middle class in developing markets and aging populations in developed nations also spurred luxury purchases. On the supply side, eager brand owners developed “pyramids of offer,” creating new products that gave more people access to premium brands and brand promises, from key holders and sunglasses to It Bags and couture clothing.

The recession hit luxury customers across the board. The richest consumers are no longer as rich, as asset values have fallen and jobs are in danger. Middle-class consumers are tightening their belts, and aspirational consumers have gone from trading up to trading down, as consumer credit remains tight. While most luxury players are still growing, it’s no longer by double digits. Hermes grew 9 percent from 2007 to 2008, LVMH grew 4 percent and Gucci rose 1 percent.

Despite these challenges, emerging markets still provide the best platform for growth in the industry, with China and Brazil leading the way. Luxury brands can take advantage of current low real estate prices to establish or reinforce their positions in emerging markets.

In the developed world, it remains to be seen if aspirational consumers will bounce back. If not, brand portfolios and product offers will have to be restructured, while firms with available cash will go on a luxury shopping spree, buying smaller high-end brands in a wave of consolidation.

**A Turbulent Year**

It’s been a year unlike any other for retailers, as historically shaky economic conditions, a real estate bust and a credit crunch have changed the environment rapidly. Nevertheless, developing markets still offer a golden opportunity to expand and grow. It just requires the right knowledge and the right strategy.

Where the economy will go in the next year is anyone’s guess, but the windows of opportunity are still there for you to expand your reach and become a leader in growing markets.

**Authors**

*Mike Moriarty* is a partner and head of the consumer industries and retail practice in North America. Based in the Chicago office, he can be reached at mike.moriarty@atkearney.com.

*Deepa Bangaru* is a consultant in the consumer industries and retail practice. Based in the New York office, she can be reached at deepa.bangaru@atkearney.com.

The authors wish to acknowledge the contributions of A.T. Kearney retail practice members around the world for their local insights, and especially thank Rafael De Cicco, Amrendra Bisht, Mariya Khandros and Sofia Escamilla for their contributions in writing this paper.
A.T. Kearney is a global management consulting firm that uses strategic insight, tailored solutions and a collaborative working style to help clients achieve sustainable results. Since 1926, we have been trusted advisors on CEO-agenda issues to the world’s leading corporations across all major industries. A.T. Kearney’s offices are located in major business centers in 36 countries.