Retail in Africa: Still the Next Big Thing

Africa’s landscape is changing—slowly, perhaps, but inexorably. As economies rise and a shopping culture emerges, the retail opportunity is greater than ever before.
Economic and GDP growth, coupled with an emerging shopping culture and a boom in shopping center space, is energizing the retail sector in Africa.

Sub-Saharan Africa is still the Next Big Thing, and likely will continue to be for the next several decades. It is one of few markets with annual GDP growth of more than 5 percent. Its young and connected middle class is growing fast and still deciding on its favorite brands. In short, it is brimming with potential.

However, winning Africa requires more than just knowing that the market’s future is bright. Entering or expanding in Africa requires preparation, a thoughtful process, and the right approach—not to mention determination, commitment, and time. And selecting countries in Africa is more difficult than ever; there are no safe bets anymore—if that were ever the case at all. Although the long-term growth potential is truly breathtaking, the short-term returns are unlikely to be amazing; India in 1933 probably wasn’t an attractive short-term play for Unilever, either.

A.T. Kearney’s 2015 African Retail Development Index (ARDI) reconfirms the potential of many nations throughout Africa—not just oft-discussed markets like Nigeria and Ghana, but also small, dynamic markets such as Gabon, the ARDI’s top-ranked market and home to Sub-Saharan Africa’s highest GDP per capita, and mid-sized but fast-growing countries like third-ranked Angola (see figure 1). The following report begins with a look at entry strategies for Sub-Saharan Africa, followed by an in-depth analysis of the top 15 countries (see Appendix: About the Study on page 16).

Figure 1
The ARDI top 15

Source: A.T. Kearney analysis

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1 We evaluated 48 countries in Africa for the ARDI. We excluded North Africa (Mauritania, Western Sahara, Morocco, Algeria, Tunisia, Libya, and Egypt) from this study because of that region’s different dynamics compared with Sub-Saharan Africa.
Growing in Sub-Saharan Africa

The ARDI rankings also elaborate on how to choose the right entry point and what approach is best when the high-level opportunity seems right. It is not just about where the continent stands today, but also about where the continent is headed.

For many years, South Africa was seen as the gateway to Sub-Saharan Africa—because it was better developed, because there was good infrastructure, because there was a market, because of its stock exchange, because there were facilities, and, lastly, because it was what everyone did. No one will tell you you’re wrong when you enter through a region’s most stable, most developed market.

However, Africa today is a much more dynamic opportunity, and starting in South Africa is no longer the only way to go. “South Africa is still an important purchasing base if you want to trade on the continent,” says Gareth Ackerman, chairman of the South African grocery chain Pick n Pay, which has a presence in nine African countries. But it’s no longer the only entry point, he says, even as it remains “an important purchasing base if you want to trade on the continent.”

It might be most instructive to think of Africa as a set of opportunities that can be augmented and added onto one another, rather than just one singular opportunity. How you pick among the opportunities depends on your offering. Indeed, entering a different part of the region might make sense in the right situation.

A good starting point is understanding local markets as well as your competitive advantage in those places. The idea is to align your offerings by working off your strengths, and customize as necessary to be successful. Ackerman says that his firm always does in-depth research and spends time in a market to get a feel for it and to find local partners to work with. “It’s a long-term game,” Ackerman says, “and agility and flexibility are key to success.” This is particularly important in a region where doing business often proves more difficult than expected. Ackerman says that Africa has posed some significant upstream hurdles, particularly logistics, regulations, the “gray” market, and local competition.

As figure 2 on page 3 shows, African markets fall into three main stages: basic, developing, and mature. Each offers its own benefits to retailers.

**Stage I: Basic.** In these markets—which in the ARDI top 15 include Angola, Côte d’Ivoire, Ethiopia, Gambia, Rwanda, Senegal, Tanzania, and Zambia—there is little to no formal shopping culture, and the formal markets that do exist focus almost solely on dry goods. For buyers in these markets, price is the key factor.

For retailers entering markets in the early stages of development, a very basic format could thrive and offer an opportunity for scaling and expanding. In particular, the discount, “value for money” format may offer a strong proposition in countries where there are no organized supply chains and where people are accustomed to informal shopping. Entering these early-stage markets with offerings that are too advanced may take many years to pay off, if ever, as first movers are not always the winners in those situations. Understanding local customs, customer needs, and the peculiarities of local markets is crucial.
Stage II: Developing. For mainstream grocery retailers, countries in the second stage of development—which include ARDI-ranked countries Gabon, Ghana, Mozambique, and Nigeria—may prove the most logical entry points. By starting in the middle, a retailer could logically expand to other countries in different stages: to other developing markets by slightly adapting formats and assortments; up the curve by developing more targeted or larger assortments; or down the curve with a small dry goods assortment. In practical terms, this could mean entering Africa via the less-developed but fast-growing West (Nigeria or Ghana) or by opting for the somewhat more developed East (for example, Tanzania or Kenya). Both sets of markets offer untapped growth potential along with a steadily improving infrastructure.

Stage III: Mature. If scale is not your biggest worry, Africa’s mature markets—in the ARDI, they include South Africa and its neighbors Botswana and Namibia—remain solid points of entry, with established shopping cultures, relatively high wealth levels, and well-established infrastructure. From there, one can slowly move down the curve while countries move up, and test more basic versions of current format one level down. Specialty retailers and more advanced offerings such as luxury and global fashion are opting this route. The mature markets come with more competition as well as more demanding consumers, so differentiation is key. Any differentiated offering will need to be part of a well-organized and well-defined format, and a value-for-money proposition would probably work well.

Achieving scale will take time, particularly in stage I and II countries—it is indeed a long-term game, as Ackerman says, and Africa is probably not the place for big returns in a short time.
period. Scale will come to Sub-Saharan Africa only when a few things happen, particularly the
development of a shopping culture and the establishment of supply chains. The first priority in
most markets is for basics and dry goods, but over time fresh supply chains and modern shopping
space will be increasingly needed. Most African cities lack the existing shopping infrastructure
of other markets, so malls are likely the only way organized retailers can open new stores.

These changes have to happen in parallel, along with positive changes in regulations and
customs rules—only then can the retail sector grow and build the scale it needs. But it’s no easy
task. Time has shown that when one of the legs of the retail stool breaks, retailers have to start
over from scratch.

A Journey Through the Top 15

The ARDI’s top 15 countries underscore some interesting developments (see figure 3). Two
small countries—Gabon and Botswana—are ranked first and second, while Ethiopia, with
Africa’s second largest population, just cracks the top 15. South Africa, the most saturated
market, takes a strong position even among less developed markets with much less compe-
tition. What makes Tanzania more attractive than its neighbors Kenya and Uganda?

Figure 3
Breaking down the ARDI top 15

<table>
<thead>
<tr>
<th>2015 rank</th>
<th>2014 rank</th>
<th>Country</th>
<th>Market attractiveness</th>
<th>Country risk</th>
<th>Market saturation</th>
<th>Time pressure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5</td>
<td>Gabon</td>
<td>20.2</td>
<td>13.0</td>
<td>20.7</td>
<td>12.1</td>
</tr>
<tr>
<td>2</td>
<td>8</td>
<td>Botswana</td>
<td>22.3</td>
<td>25.0</td>
<td>0.2</td>
<td>15.9</td>
</tr>
<tr>
<td>3</td>
<td>12</td>
<td>Angola</td>
<td>16.6</td>
<td>3.5</td>
<td>22.0</td>
<td>15.8</td>
</tr>
<tr>
<td>4</td>
<td>2</td>
<td>Nigeria</td>
<td>13.0</td>
<td>4.1</td>
<td>18.4</td>
<td>22.4</td>
</tr>
<tr>
<td>5</td>
<td>4</td>
<td>Tanzania</td>
<td>4.9</td>
<td>7.9</td>
<td>19.8</td>
<td>25.0</td>
</tr>
<tr>
<td>6</td>
<td>7</td>
<td>South Africa</td>
<td>25.0</td>
<td>22.7</td>
<td>0.0</td>
<td>9.6</td>
</tr>
<tr>
<td>7</td>
<td>1</td>
<td>Rwanda</td>
<td>5.7</td>
<td>11.2</td>
<td>21.6</td>
<td>18.2</td>
</tr>
<tr>
<td>8</td>
<td>3</td>
<td>Namibia</td>
<td>18.2</td>
<td>21.9</td>
<td>0.0</td>
<td>14.0</td>
</tr>
<tr>
<td>9</td>
<td>6</td>
<td>Ghana</td>
<td>10.9</td>
<td>11.3</td>
<td>21.6</td>
<td>8.5</td>
</tr>
<tr>
<td>10</td>
<td>14</td>
<td>Senegal</td>
<td>8.9</td>
<td>7.6</td>
<td>21.1</td>
<td>14.6</td>
</tr>
<tr>
<td>11</td>
<td>NR</td>
<td>Gambia</td>
<td>7.8</td>
<td>4.4</td>
<td>23.7</td>
<td>13.3</td>
</tr>
<tr>
<td>12</td>
<td>13</td>
<td>Zambia</td>
<td>8.8</td>
<td>8.4</td>
<td>13.5</td>
<td>18.2</td>
</tr>
<tr>
<td>13</td>
<td>NR</td>
<td>Côte d’ivoire</td>
<td>8.7</td>
<td>3.0</td>
<td>22.5</td>
<td>13.3</td>
</tr>
<tr>
<td>14</td>
<td>10</td>
<td>Ethiopia</td>
<td>4.7</td>
<td>2.9</td>
<td>25.0</td>
<td>14.5</td>
</tr>
<tr>
<td>15</td>
<td>9</td>
<td>Mozambique</td>
<td>4.3</td>
<td>6.3</td>
<td>18.2</td>
<td>18.1</td>
</tr>
</tbody>
</table>

Note: Rankings for 2014 include only the top 15.
Source: A.T. Kearney analysis
Despite the optimism, Sub-Saharan Africa's economy is certainly facing new challenges. After suffering from the credit crises, mostly because of decreased exports, the region is now suffering from a slowing Chinese economy and lower oil prices. For the many countries still heavily dependent on oil and gas income (such as Nigeria, Angola, and Mozambique), middle class growth has slowed as a result. And perhaps more important for retailers, formal trade remains quite limited in nearly all markets; other than in Southern Africa and Kenya, informal trade is hard to beat, representing 85 to 90 percent of all sales.

Let’s take a closer look at the rankings.

**Gabon (1st).** In the first ARDI in 2014, Rwanda was the surprising “small gem” at the top of the ARDI rankings; this year it’s Gabon (population about 1.7 million), thanks to tremendous economic growth and great opportunities.

Gabon has one of the highest per-capita income levels in Sub-Saharan Africa (about $21,000), and 86 percent of its population is urbanized, primarily in the capital Libreville. The real investment opportunity in Gabon is its true middle class in a stable environment—exactly what is lacking in so many other Sub-Saharan African countries. Its scoring in the ARDI represents a balanced profile: an attractive market, with moderate to low country risk, a developing yet unsaturated market for modern trade, and little competitive pressure because the growth is happening now.

![Rendering of Le Grand Marché de Libreville, Gabon. ©2015 AGORA Engineering & Development Group.](image)

Although a few (mainly French) players have entered, trade is still dominated by the informal sector. New property developments are ongoing. Le Grand Marché de Libreville, with 80,000 square meters of space, is expected to be completed by the end of 2015.

Of course, Gabon’s size is the major downside here. A retailer seeking scale and large volumes may not pick Gabon as their key market, but it can be a good way to gain experience in a strong regional market. And for a specialty retailer or a global sourcing concept, Gabon is definitely a market not be missed.

**Botswana (2nd).** Botswana is often cited as a good example of what an economy can achieve in Africa. Although it is small (about 2 million people), the landlocked, diamond-rich country has a strong GDP per capita and a stable, well-developed economy, with growth driven not just by minerals but also agriculture and tourism.

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2 All monetary figures are in U.S. dollars unless otherwise noted.
Unlike Gabon, Botswana’s modern retail sector is well developed, led by a number of active local and South African players. Local chain Choppies has more than 70 stores in Botswana—along with big African expansion ambitions. The grocer has opened stores in neighboring countries and recently opened its first distribution center in South Africa. Most of the other big international players are South African retailers such as Shoprite, Woolworths, Pick n Pay, SPAR, and Massmart (whose majority owner is Walmart). Shopping mall development also remains strong, with four malls—Sebele, Rail Park, Airport Junction, and Mahalapye—opened in the past three years.

Although the market is saturated in terms of players and market share, the market as a whole is still growing. Considering Botswana’s proximity to neighboring attractive markets Namibia and South Africa, this Southern Africa gem could be an interesting entry point, if you have something new to offer.

**Angola (3rd).** At 7 percent annual GDP growth, Angola has one of Africa’s fastest-growing economies. That and a growing retail sector, with 14 new shopping malls being built, help propel Angola into the top 10 of the ARDI. Although at 22.3 million people it has about one-eighth the population of Nigeria, its profile is quite comparable: oil-rich, with high prices for rich consumers (both expats and locals), but with a huge proportion of its population still quite poor. Despite rapid urbanization and economic growth, the true middle class is still small—the affluent class actually outnumbers it—and consumer spending per capita remains on the low side (see figure 4).

Figure 4
As many as half of people in some countries earn more than $4 per day, highlighting the growing middle class

<table>
<thead>
<tr>
<th>Million people per income segment, %</th>
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<tbody>
<tr>
<td>&gt;$20/day</td>
</tr>
<tr>
<td>27 (15%)</td>
</tr>
<tr>
<td>8 (15%)</td>
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<tr>
<td>115 (62%)</td>
</tr>
</tbody>
</table>

Note: Results in this figure are the sum and interpretation of sources. While these are fair and well calculated estimates, they may differ from actual results. Sources: The World Bank’s PovcalNet database, African Development Bank, 2014; A.T. Kearney analysis.
However, the size and value of the economy make it an interesting place to do business, one where a retailer that keeps an eye on the risks and understands the market before entering can uncover a great opportunity. The Angolan market is relatively open, but the government does exert control over retailers through licensing, promoting Angolan partnerships with new retail chains, or full ownership of certain stores (such as the supermarket chain Kero). Currently, more than 90 percent of all food products are imported, which results in higher prices compared to other markets. With a specific proposition and a strong sense of the target market, a retailer can still find a strong opportunity here.

**Nigeria (4th).** Nigeria is huge—its population of about 178 million people is largest in Africa, almost double the size of second-place Ethiopia. And it is growing, it is urbanizing, and it has a rising middle and upper class. Its economy is growing fast, and the country is rich in minerals, particularly oil. It has massive room for growth in formal retail—modern supermarkets make up only 1 percent of all trade, which is still dominated by informal shops and convenience stores—and 25 new shopping centers are in development. There is even a burgeoning online retail scene, where some players have tapped into an area popular among the richest classes. One example is Nigeria’s Jumia, founded in 2012 and fast gaining market share as it offers a selection of electronics, fashion, home appliances, and children’s items. It allows for a variety of payment options, including cash on delivery—important in a region where many people lack bank accounts. It has some competition, however; Konga, an online retailer, sells products in similar categories, OLX has made gains in the consumer-to-consumer e-commerce space, and the brand-new site HouseholdMax offers an extensive e-commerce platform covering all categories in and around households.

Amid all these positive signs, why is Nigeria only fourth on this list? First of all, true spending remains comparatively low, as the “true middle class” is a lot smaller relative to the smaller countries ranked higher. Moreover, Nigeria is a difficult market to do business in—risks are still abundant, the barriers to entry remain high, and consumers often have specific requirements. Although Nigerians are both price- and brand-sensitive, they also care deeply about where a product originates.

With its tremendous potential and strong economic projections, Nigeria is surely a market to consider. But the retailers that succeed there will be those that do not underestimate the effort and investment to be successful.

**Tanzania (5th).** Tanzania has a lot going for it as an attractive retail market. It is the largest and most stable economy in the East African Community (EAC), a regional intergovernmental organization that includes a common market for goods (see sidebar: The East African Opportunity on page 8). Tanzania is also home to a relatively stable political climate, 50 million people, and more than 7 percent annual GDP growth.

However, Tanzania is starting from a low base: With only 30 percent urbanization, high poverty levels, and less than $2,000 GDP per capita, Tanzania is in the early stages of development. Therein lies the opportunity—the unsaturated market has one of Africa’s fastest growing retail sectors, boosted by new shopping malls. Compare this with Kenya, which has one of Africa’s most developed markets—but also one of its most saturated.

As this growth continues, the time may be now to establish a footprint and a brand. The country is large enough for a mass-market concept; in addition, most of the country’s affluent population is concentrated around the capital of Dar es Salaam, which could be an attractive target for the

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3 The EAC includes Burundi, Kenya, Rwanda, Tanzania, and Uganda.
The East African Opportunity

Unlike the western and southern regions of Africa, East Africa works much more in harmony. The states of the East African Community (EAC) are working together to stimulate foreign direct investment and economic growth through the consumer sector. As a free trade zone, tapping into one EAC country enables access to four other sizable and attractive consumer markets within the EAC. Four additional markets adjacent to the EAC also offer growth potential (see figure).

Looking at this region as part of the “long-term game” of retail in Africa, the supply chains, logistics, and infrastructures you find in one country may stand to help you benefit down the road in several others. Other factors also make it an attractive destination. It has a lot of people, accounting for 15 percent of Sub-Saharan Africa’s population, and some of the highest population growth rates on the continent (between 5 and 8 percent). It also includes two of Africa’s most important ports (Mombasa, Kenya, and Dar es Salaam, Tanzania), as well as access to Kenya’s well-developed physical infrastructures for consumer goods and formalized retail sector. And the ease of doing business in East Africa is much higher than many of the other large economies in Africa.

Figure
A look at East Africa

<table>
<thead>
<tr>
<th>ARDI-ranked countries in the East African Community</th>
<th>GDP</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>$55 billion</td>
<td>42 million</td>
</tr>
<tr>
<td>Tanzania</td>
<td>$33 billion</td>
<td>49 million</td>
</tr>
<tr>
<td>Uganda</td>
<td>$22 billion</td>
<td>38 million</td>
</tr>
<tr>
<td>Rwanda</td>
<td>$7 billion</td>
<td>12 million</td>
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<tr>
<td></td>
<td><strong>$117 billion</strong></td>
<td><strong>140 million</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key adjacent markets</th>
<th>GDP</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethiopia</td>
<td>$47 billion</td>
<td>94 million</td>
</tr>
<tr>
<td>DRC</td>
<td>$31 billion</td>
<td>68 million</td>
</tr>
<tr>
<td>Zambia</td>
<td>$22 billion</td>
<td>15 million</td>
</tr>
<tr>
<td>Malawi</td>
<td>$4 billion</td>
<td>16 million</td>
</tr>
<tr>
<td></td>
<td><strong>$104 billion</strong></td>
<td><strong>193 million</strong></td>
</tr>
</tbody>
</table>

Source: The World Bank, tradingeconomics.com, CIA; A.T. Kearney analysis
right retailer. That said, considering its current small middle class and high poverty levels, entering today would require a basic value proposition and a long-term view to be successful.

**South Africa (6th).** South Africa remains the most developed economy and retail sector in Sub-Saharan Africa. Although retail sales per capita have declined a bit, the country’s position and profile as the most developed and saturated market have not changed. It is also one of the best places to do business in Africa: risks are low, politics are relatively stable, and infrastructure is good. High urbanization rates, ample shopping malls, developed supply chains, and a very significant middle and affluent class also boost the country’s retail sector.

However, local players are seeking new ways to grow as the country’s economy struggles and new international players ramp up the competition. As attractive as it is, South Africa’s retail market is competitive, across sectors. South Africa’s grocery leaders are trying to tap into the informal market, which still owns 40 percent of the country’s sales, or are looking into Africa expansion strategies—two steps that do not necessarily lead to quick results, as revenues are typically lower. In specialty retail, a flow of international players has entered with varying success. Increased choice is impacting consumer behavior, making them more demanding and also better aware of potential offerings. Whether it is because of price, quality, or brand, South African consumers no longer just buy something “because this is what I used to buy” or “because I trust the brand,” and certainly no more “because this is the only option I have.”

**Rwanda (7th).** The surprise leader of the first ARDI a year ago, Rwanda slips six spots to seventh but remains an attractive yet small market. Growth slowed down a bit, and global risk indicators have increased a little compared to last year. Rwanda ranks highly again in terms of low levels of
corruption and crime, but the financial and political risks have increased slightly and the window of opportunity is starting to close.

Although the opportunity is strong, it requires a mid-to-long-term investment view. Rwanda’s sales area is growing significantly (roughly 20 percent a year), as is retail spending per capita, but the country is starting from a low base, with high poverty levels. As part of the EAC, it is worth considering as an alternative entry point, as the EAC gives the landlocked nation access to intraregional trade while Rwanda’s government continues to stimulate foreign investment. The formal market is dominated by Kenya’s Nakumatt (see sidebar: A Look at Kenya and Its Leading Retailer on page 11). However, overall most sales remain in small mom-and-pop shops. Basic and affordable offerings are most in demand; concepts considered “too fancy” will probably not take root in the near future.

**Namibia (8th).** Namibia has a small population (about 2.3 million people) covering a huge stretch of desert on Southern Africa’s west coast. About 40 percent of the population lives in urban areas, which consists of a few urban centers and surroundings where most trade is modernized. As in other regional markets, South African players such as SPAR and Shoprite dominate the market; local chain Woermann Brock also has a large presence.

Namibia’s high GDP per capita (just under $11,000) and relatively large affluent population make it a strong location for specialty retail and upmarket offerings. Many retailers have already entered. This is not to say there is no space for good and better offerings, branded concepts, high quality, or greater value concepts. The middle class is definitely growing, as is consumer spending. To enter here, a retailer will have to assess its offering against the competitive environment and see if it can be a valuable addition to the market place.

**Ghana (9th).** Ghana features a fairly balanced profile—about 27 million people (half in urban areas), with a relatively stable economy and a retail market that, while still small, is growing. Interestingly, Ghana is unique among Sub-Saharan African markets in that it has a relatively large middle class yet is highly unsaturated. This makes it an interesting market for international players to fill some major gaps in different products and sectors.

Compared to its neighbors, particularly giant Nigeria, Ghana has a greater ease of doing business and much lower risk. The economy has grown steadily for years now and a few shopping malls have arisen around the capital Accra, Ghana’s main urban hub. Many international retailers are
A Look at Kenya and Its Leading Retailer

For Kenya’s Nakumatt supermarket chain, Africa’s “long-term game” has yielded great success. More than 20 years after it opened, Nakumatt is now one of Africa’s leading retailers.

As a first mover in East Africa, Nakumatt knows the East African consumer inside-out and answers its customers’ needs: largely local assortments, “all under one roof” behind the shop-in-shop format, and open 24-7.

Kenya is certainly one of Africa’s most interesting markets, yet it once again fails to crack the ARDI rankings, despite 43 million people who are used to organized retail and who do their shopping in malls and supermarkets. It has an established local consumer goods sector, developed supply chains, and a valued port and import entry point. And its relatively stable economy, growing market, and easy access to the rest of the East African Community is attractive to many investors.

Still, Kenya is a market undoubtedly worth watching, and Nakumatt knows competition will come and is ready for it. Although Kenya is not ranked in the ARDI, it remains an interesting market where the right retailers can find success.

“Anyone is welcome,” Ramamurthy says. “The market is large enough.”

eyeing expansion into Ghana, including Sunglass Hut, Debenhams, Pick n Pay, and Spanish fashion retailer Mango. South Africa’s Woolworths already runs two fashion stores in Ghana—even as it pulled out of Nigeria a few years ago. Nigerian online retailer Jumia entered at the end of 2014, with great expectations despite Ghana’s Internet penetration of roughly 12 percent, and other sites such as Kasoa have sprung up as well.

Senegal (10th). Senegal is in many ways “the average” African market—limited in attractiveness for retailers (high poverty and low incomes), a little risky to do business, yet highly unsaturated with strong economic growth and a burgeoning retail sector. At almost 14 million people, Senegal is medium-sized for Africa, and while its stability stands out in West Africa, it is somewhat more risky than many Southern and East African nations.

Language and alignment to cultural habits and needs are vital in Senegal, so understanding the consumer through in-depth research is key. French remains the official language, and Senegal’s top retailers are France’s Auchan and Casino. In 2014, Casino launched an online platform, Cdiscount, which competes with regional e-commerce marketplace operator Kaymu. Economic growth has been steadily positive albeit mild, barely surpassing 2.5 percent.
The good news for new entrants is the great opportunity for long-term growth in a market with only two international competitors and little local competition in the modern segment. As in much of Africa, Senegal will be tough in the short term, but the timing may be perfect to consider entry soon.

**Gambia (11th).** Annual GDP growth in Gambia has moved from 1 percent between 2008 and 2012 to 4 percent between 2012 and 2014, proof that its economy is growing well, which should have a positive impact on consumer spending.

With density of more than 175 people per square kilometer—the global average is 32 people—and population growth of 3.5 percent over the past five years, Gambia (population 1.9 million) is one of Africa’s most densely populated countries. The country is also grappling with limited amounts of productive land and high youth unemployment; the average Gambian survives on less than $1 a day.

Most retail is still traditional and local, with craft markets, street markets, supermarkets, and local corner shops. The Mall of Gambia opened at the end of 2014 with 180 shops and hopes that it can spur economic activity in the country. Although international retail is not yet present, the Gambian government is trying to encourage local investment and attract FDI. Over the past five years, most major investments in Gambia have been in the power generation, financial, and IT sectors. But with high levels of urbanization and GDP growth, now might be the opportune time to invest in retail.

**Zambia (12th).** The retail scene in this landlocked country in south-central Africa has maintained relatively stable growth in the past year, but the past several years have brought a modern retail boom. Most retailers in Zambia are from South Africa: Shoprite, SPAR, Pick n Pay, and Fruit & Veg City, as well as Massmart.

GDP growth has continued steadily, and it is expected to increase above 6 percent through the next year, with inflation expected to fall below 7 percent by 2017. Zambia has a reputation for political stability and a relatively efficient, transparent government, whose support of agriculture has helped spur the growth. Still, a poverty rate of greater than 60 percent remains a significant hurdle.
Côte d’Ivoire (13th). Strong GDP growth helped the country surge into the ARDI rankings. According to IMF forecasts, Côte d’Ivoire will register GDP growth of almost 8 percent in 2015, a continuation of what has been about five years of strong growth; inflation, at 2.5 percent, remains low. Increased household incomes have supported higher growth in retail. Despite the positive macroeconomic outlook, the medium- and long-term outlook depends on greater private investment and adequate external financing to enable public investment.

Local retailer Prosuma is the country’s leader, with 130 stores (including franchises and subsidiaries) and revenue of about $250 million in 2013. Its recent partnership with Afrimarket, an Internet and payment platform, allows long-distance online payment for Ivorians who have emigrated from the country and want to purchase goods for their families. Prosuma is also a long-time partner of Mercure International (a franchisee of Casino); the groups have launched several subsidiaries in Côte d’Ivoire, including Hayat, Bon Prix, Cash Ivoire, Trade Center, Sococe, and Leader Price. In addition, Casino Géant was introduced in 2012, and the online site Cdiscount was launched last year.

Ethiopia (14th). The International Monetary Fund includes Ethiopia as one of the five fastest-growing economies of 2015, proof that its growth and transformation plan has been a big boost to the economy. Improvements in the country’s power, road, air, rail, and telecommunications facilities have fueled exponential growth in retail. So why does its retail sector still lag the ARDI rankings? Because of government policy that is taking a long-term perspective on growth.

The government’s goal is to modernize Ethiopia’s local retail sector through continued investment in state-owned cash-and-carry wholesaler Alle, before allowing competition from international retailers (see sidebar: Five Points to Consider in the Cash-and-Carry Model on page 14). While this demonstrates a good way to establish and nurture a retail market until it is strong enough to compete with the big players, it makes it tough for international retailers to make an impact. Although U.S. giant Walmart and Kenyan supermarket chain Nakumatt have expressed interest in entering Africa’s second most populous country, FDI restrictions will continue to leave them on the outside looking in until the retail market gets stronger and more organized.

Still, every challenge also offers an opportunity if you look from a different angle. FDI restrictions do not include FMCG manufacturing, and the middle class is rising and becoming more
Retail in Africa: Still the Next Big Thing

brand aware. For FMCG manufacturers, there is a great opportunity in Ethiopia to establish well-recognized brands and, when markets open up (as they almost certainly will), be in a strong position to gain from the growth of international retailers.

Mozambique (15th). FDI in Mozambique is driven primarily by coal production and other energy sectors, and most infrastructure developments are aimed at these sectors. The remoteness of mining activities from urban centers combined with Mozambique’s sheer size (its coastline stretches roughly 2,500 kilometers, more than the U.S. West Coast) mean that the impact is not felt in the cities but rather much further away. At the same time consumer spending per capita growth is slowing down, and urbanization is not increasing, creating a compound effect for the retail sector. The retail sector is still dominated by Southern African players, primarily Shoprite, as international investors remain cautious in a country with deteriorating political risk.

Looking Ahead

Africa currently has 15 percent of the world’s population but only 3 percent of the world’s GDP—but the gap is closing. Younger generations are being educated, industries are expanding, and the middle class is growing, allowing the consumption of goods that were previously either too expensive or, more importantly, just weren’t available.

A recent study by the Economist Intelligence Unit found that institutional investors now regard Africa’s emerging middle class and its growing consumerism the most attractive aspect of investing in Africa, more so than its commodity wealth.
So retail growth is here to stay in Africa. Yes, it’s growing from a small base, and, as the ARDI rankings show, there is a lot of volatility in the results. But it’s all part of a complex long-term game in which different markets are racing to secure the best positions, devising strategies to educate and uplift their middle classes and empowering their citizens to embrace the race to development. Victory for these countries is more foreign direct investment, more real estate, and more international retailers seeking to expand their African footprints.

Success in Africa requires analysis, understanding, and the flexibility to customize, but for those willing to take the risk, the rewards are plentiful.

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About the 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 African Retail Development Index

The African Retail Development Index ranks Sub-Saharan Africa countries on a 0-to-100-point scale: the higher the ranking, the more urgency to enter the country. Countries included in the index are selected based on three criteria:

- **Country risk**: lower than 137 in the Euromoney country-risk ranking
- **Population size**: greater than 1.5 million
- **Wealth**: GDP PPP per capita of more than $1,000

ARDI scores are based on the following four variables:

**Market attractiveness (25 percent)**

- **Retail sales per capita (40 percent)**: Based on total annual sales of retail enterprises (excluding taxes). A score of zero indicates an underdeveloped retail sector; a score of 100 indicates a mature retail market.
- **Population (20 percent)**: A score of zero indicates the country is relatively small with limited growth opportunities.
- **Urban population (20 percent)**: A score of zero indicates a mostly rural country; 100 indicates a mostly urban country.
- **Business efficiency (20 percent)**: Parameters include government effectiveness, burden of law and regulations, ease of doing business, and infrastructure quality. A score of zero indicates inefficiency; 100 indicates highly efficient.

**Country and business risk (25 percent)**

- **Country risk (80 percent)**: Political risk, economic performance, debt indicators, debt in default or rescheduled, credit ratings, and access to bank financing. The higher the rating, the lower the risk of failure.
- **Business risk (20 percent)**: Business cost of terrorism, crime, violence, and corruption. The higher the rating, the lower the risk of doing business.

**Market saturation (25 percent)**

- **Share of modern retailing (30 percent)**: A score of zero indicates a large share of retail sales is from a modern format. Modern formats include hypermarkets, supermarkets, discounters, convenience stores, department stores, variety stores, warehouse clubs, and supercenters.
- **Number of international retailers (30 percent)**: Countries with the maximum number of international 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 global average level of 200 square meters per 1,000 inhabitants.
- **Market share of leading retailers (20 percent)**: A score of zero indicates a highly concentrated market, with the top five competitors (local and international) holding more than 25 percent of the retail food market; 100 indicates a fragmented market.
**Time pressure (25 percent)**

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

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

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