

*The 2004 Global
Retail Development Index*

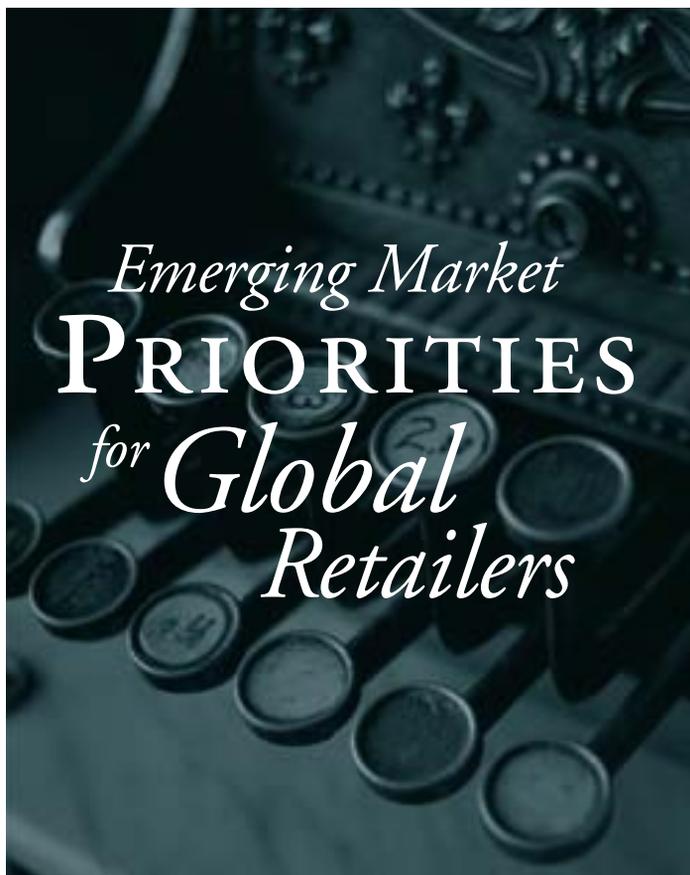


Figure 1: A.T. Kearney's 2004 Global Retail Development Index™ (top 30 emerging markets)

	Country	Geographic area	Country risk (economic and political)	Market attractiveness ¹	Market saturation ²	Time pressure	Score ³
		Weight	25%	25%	30%	20%	
1	Russia	Eastern Europe	56	56	77	100	100
2	India	Asia	62	34	92	72	88
3	China	Asia	71	42	62	90	86
4	Slovenia	Eastern Europe	83	60	43	76	84
5	Croatia	Eastern Europe	61	53	55	93	83
6	Latvia	Eastern Europe	64	55	54	89	82
7	Vietnam	Asia	52	29	90	66	76
8	Turkey	Mediterranean	50	58	67	65	75
9	Slovakia	Eastern Europe	69	48	35	100	74
10	Thailand	Asia	68	38	60	76	73
11	Ukraine	Eastern Europe	43	32	83	79	73
12	Chile	Latin America	73	56	62	41	72
13	Bulgaria	Eastern Europe	59	38	70	67	71
14	South Korea	Asia	74	80	32	53	70
15	Tunisia	Mediterranean	63	44	80	39	70
16	Hungary	Eastern Europe	74	52	39	75	70
17	Lithuania	Eastern Europe	65	51	57	56	69
18	Morocco	Mediterranean	58	36	80	46	67
19	Malaysia	Asia	70	46	59	47	66
20	Egypt	Mediterranean	51	36	84	46	65
21	Saudi Arabia	Asia	66	48	72	30	65
22	Taiwan	Asia	88	79	42	8	64
23	Philippines	Asia	51	38	71	58	63
24	Romania	Eastern Europe	55	32	57	81	63
25	Hong Kong SAR	Asia	86	81	41	4	62
26	Mexico	Americas	69	73	41	32	61
27	Poland	Eastern Europe	68	63	34	54	60
28	Indonesia	Asia	45	45	84	18	54
29	Czech Republic	Eastern Europe	72	60	15	65	52
30	Iran	Asia	46	35	75	32	49

Key	 On the radar screen
	 To consider
	 To avoid

Legend	 0 = high risk	 0 = low attractiveness	 0 = saturated	 0 = no time pressure
	 100 = low risk	 100 = high attractiveness	 100 = not saturated	 100 = urgency to go

Notes: ¹ Market attractiveness is weighted as follows: law and regulation (5%), population (5%), urban population (5%) and retail sales per capita (10%)

² Market saturation is weighted as follows: share of modern retailing (10%), modern retail sales area per inhabitant (5%), number of international retailers (10%) and market share of leading retailers (5%)

³ Total weighted score has been recalculated based on maximum score of 71 for Russia to equal 100.

Source: A.T. Kearney

Introduction

After a pullback in 2003, global retail is back on track for growth. The most significant growth is taking place in emerging markets where about two-thirds of global retailers interviewed are planning to increase their activities this year. The reasons are clear: A host of new member countries in both the World Trade Organization (WTO) and European Union (EU), and increased consumer spending in emerging markets. Tie these changes to growing competition and regulatory requirements in domestic markets, and a new view of global retail is taking shape.

To help retailers prioritize their market entry choices, A.T. Kearney developed the Global Retail Development Index™ (GRDI). This annual survey ranks emerging countries based on four key variables: country risk, market attractiveness, market saturation and time pressure (*see appendix: The GRDI Methodology*). Among the current year's key findings is that Russia, once again, ranks as the most attractive emerging market (*see figure 1*). Despite India's stiff regulatory environment, it shines as the second star of the year, offering potential similar to that revealed by China 15 years ago.

The past year proved challenging for global retailers. Carrefour, Leclerc, Reitan, Metcash, Edeka and Makro withdrew from existing markets as local players acquired more expertise, consolidated and developed more sophisticated supply chains. The growth of discounters in emerging markets is also encroaching on both traditional retailers and local players. In particular, European retailers face a growing threat from their peers in the United States. Office Depot is acquiring its way into Hungary, and the Wal-Mart juggernaut continues to gain strength. However, most U.S. retailers are still missing significant opportunities.

In entering new markets, timing and flexibility apply more than ever. At the same time, the rules of engagement are changing. As this year's index reveals, retailers are becoming more sophisticated, and regional players are quickly learning how to anticipate global retailers' future moves.

THE FINDINGS

Regionally, Eastern European countries intensified their presence on the index to comprise 45 percent of the nations in the “on the radar screen” and “to consider” categories. In fact, some Eastern European countries—Latvia and Slovenia—garnered high scores from their new memberships in the European Union. While these countries present significant opportunities in 2004, they echo the experiences of Poland and the Czech Republic, suggesting that the time available to take advantage is short.

Asia has fewer countries on the index, and although China ranks third, it is holding steady with 14 foreign retailers in the country. Newcomers such as Saudi Arabia and Iran enter the GRDI as longer term opportunities. In the Mediterranean region, countries are well represented, but less attractive this year due to changes in the GRDI methodology and the

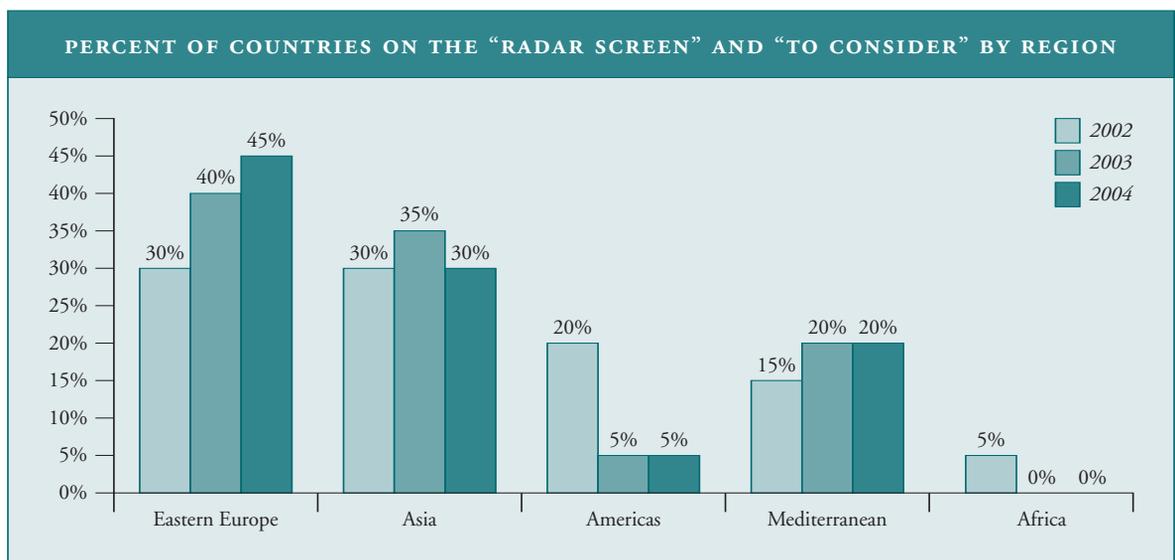
regional political environment. Latin America remains a region to address with caution. Finally South Africa—the only African country represented in the last iteration—has fallen from the index (*see figure 2*).

A closer look at the regional and country-specific findings reveals a crisp picture of the current state of global retail and offers strong indications of future promise, and the associated risk (*see sidebar: Voice of the Global Retailer*).

Eastern Europe: Now or Never

Eastern Europe continues to be one of the most attractive regions for retail expansion: Five countries from the region are in the GRDI ranking’s top 10. This year, eight countries—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia—entered the European Union. Eastern Europe also benefits from high annual growth rates, 4 to 5 percent for

Figure 2: Most attractive developing regions for retail



Source: A.T. Kearney

real GDP growth in the past three years. These countries represent fertile ground for retail expansion as they gain financial and political stability, and consumer demand increases for high-quality goods at a fair price (*see figure 3*).

Eastern Europe features three distinct areas of retail opportunity: Russia, the EU's Eastern Europe (including member countries of the European Union) and the "new" Eastern Europe (non-EU, former Eastern-Bloc countries).

Russia tops the index

Russia remains the top country for international retail expansion for the second year in a row. Its country risk decreased slightly as it took steps to improve economic and political stability, and moved closer to entering the WTO. Retailers also continue to be attracted by not only the size of the Russian market, which is home to 143

million people and an estimated US\$280 billion in annual consumer spending, but also by its potential growth. With a growth rate of 30 percent for retail sales from 1999 to 2003 and a relatively sparse retail network to serve its growing market, Russia is full of promise. Finally, the time-pressure score for Russia topped out at 100, rising 13 points over last year. Both domestic and international retailers have had success with opening their first stores and are quickly breaking ground for new outlets beyond Moscow.

Competition is increasing as both domestic and international retailers speed up their expansion plans in new sectors and cities. International retailers have rapidly enhanced their footprints in the past year, although much of their expansion has been concentrated in Russia's two largest cities—Moscow and St. Petersburg.

Figure 3: Changes in ranking for Eastern European countries, 2004 versus 2003



Source: A.T. Kearney

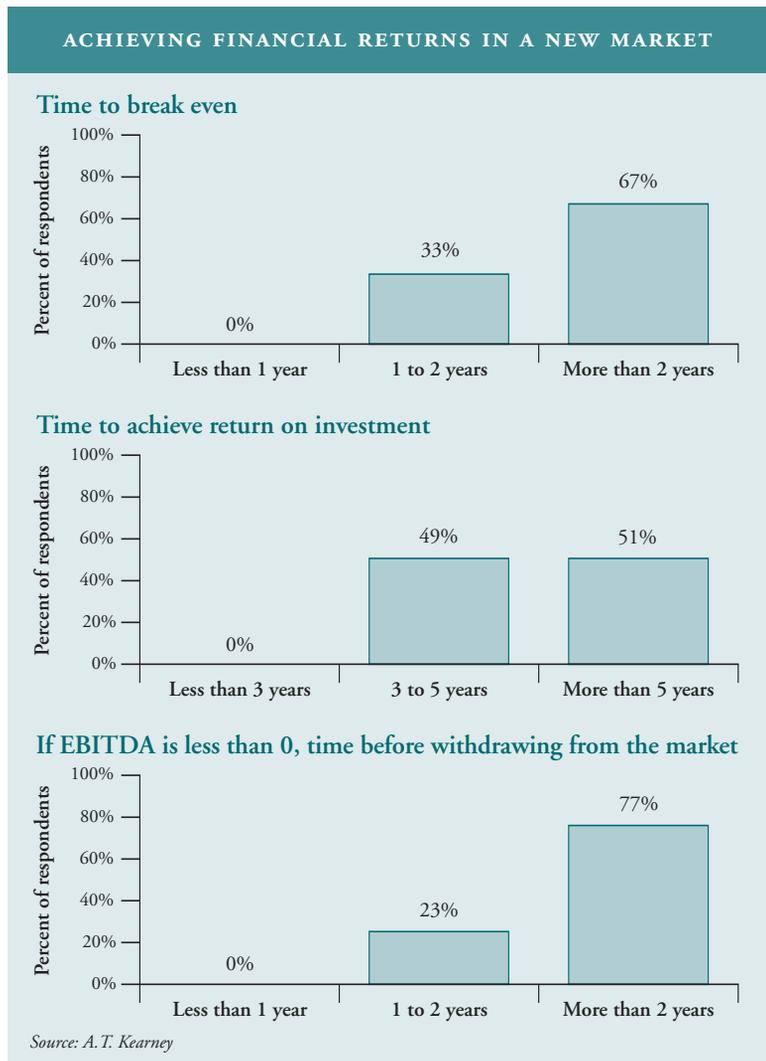
Food retailers are leading the pack with the most activity: Metro AG, which already operates seven cash-and-carry stores in Russia, plans to invest close to US\$70 million in two new Moscow hypermarkets, slated to open by the end of 2004. French retailer Auchan is also rumored to be planning eight more hypermarkets in Moscow over the next few years.

Other sectors are growing, too. Edeka's AVA subsidiary launched its first Marktkauf shopping center in Moscow in 2003, and plans to open more in the coming years. Tengelmann opened its first two do-it-yourself (DIY) stores in Moscow last November, and France's Leroy Merlin plans to enter the market as well. Other retailers, such as cosmetics powerhouse Sephora,

Voice of the Global Retailer

As part of our research, we conducted a "Voice of the Global Retailer" survey—interviewing 20 global and regional retailers and retail experts to determine what they consider key success factors in expanding outside their home markets.

Roughly two-thirds of retailers expect to pursue more activities outside their home markets in 2004 than in 2003. Their market entry strategies will primarily be direct entry and acquisitions, with most retailers choosing to adapt to the market and scale their entry timing. Financially, most retailers do not expect to generate a profit for two years after entry, and they expect to wait five years for a return on their investment (see figure). In product mix, most retailers say more than 10 to 20 percent of their assortment will be private label when they first enter a market and they will buy their assortment from international suppliers. In human resources, most retailers plan to reduce the number of expatriate executives at market maturity; 43 percent will retain 50 to 80 percent expatriate executives.



are moving into Russia through franchises.

Most international players are geographically cautious, sticking close to Moscow and St. Petersburg. Sweden's IKEA, however, is a notable exception. Having successfully opened three stores in Russia since 2000, the furniture giant has committed a reported US\$100 million to open a mall and its first regional store in Kazan, about 500 miles from Moscow.

To help shore up their own markets, Russian retailers are also looking to other cities. By moving into other cities with populations of more than one million, domestic retailers will earn a substantial first-mover advantage as they meet the pent-up demand for consumer goods. With US\$930 million sales in 2003, Pyaterochka is Russia's largest retailer and plans to stay that way through an aggressive expansion plan. It opened 118 new stores in 2003, and plans to launch 155 more stores by the end of 2004. Of those, 100 will be outside of the Moscow and St. Petersburg regions. Food retailer Perekriostok plans to nearly double its present 67 outlets—intending to open 50 more by the end of 2006—expanding into cities such as Samara, Volgograd and Togliatti. And Kopeika, which currently operates from 36 stores and four franchises, plans to acquire four competing retail chains in Moscow, Samara and Yekaterinburg as part of its strategy to operate more than 500 stores by 2008.

Despite increasingly favorable conditions, the Russian market poses significant risks to international retailers. Per capita consumer spending is relatively low at an estimated US\$1,950 versus almost twice that amount (US\$3,750) in Lithuania. And of this, independent food stores and local shops capture roughly three-quarters of the market. Also, weak physical and IT-based infrastructures continue to cause roadblocks to

distribution, a major impediment for international retailers seeking expansion beyond the big cities. Ongoing regulatory difficulties in securing sites are an equally troublesome hurdle for foreign companies.

The EU's Eastern Europe is a GRDI stronghold

Based on this year's GRDI results, companies that want a share of the European Union's developing markets—Slovenia, Latvia and Slovakia—should take action now. Many of these countries are smaller than the more mature markets of their fellow EU entrants (such as Poland, Hungary and the Czech Republic), and will likely lose their high rankings in the near future. In the meantime, however, these developing countries offer significant opportunities.

Slovenia ranks the highest, taking the fourth position in the index, following the much larger markets of Russia, India and China. Its attractiveness stems from a combination of factors. With its relatively stable government since Yugoslavia dissolved, and its recent admission into both the EU and North Atlantic Treaty Alliance (NATO), Slovenia has built a solid political track record. The country also lacks a strong international retailer presence, particularly in the grocery sector—the largest domestic retailer, Mercator, holds nearly 60 percent of the market. And with the highest per capita income in Eastern Europe, Slovenian consumers might welcome new choices. However, the country's time-pressure score has more than doubled in the past year, leaving little time for foreign retailers to delay.

At about the same physical size as Slovenia, but with a much poorer population, Latvia ranks number six in this year's index, climbing 13 places over last year. The key drivers for this

rise are a lack of international retailer presence and the time pressure to enter.¹ Local Baltic retailers and Scandinavian companies tend to dominate Latvia's concentrated retail markets. In fact, just five grocers lay claim to 45 percent of the market. Finland's Kesko and Sweden's ICA see growing opportunity here, thanks to a healthy 8 percent year-on-year growth rate in food retail sales over the past few years. These retailers recently announced plans to join forces to conquer the Baltic markets.

The time pressure, however, is greatest in Slovakia, where opportunities for international-retail development are drying up. Although the country still appears in this year's "on the radar screen" category, its ranking fell seven places to come in at number nine. Slovakia's decline on the index will likely continue, despite the fact that it has become a lower risk market and is inching toward adopting the euro. In the past year, Slovakia's market-saturation score, which is based on the number of international retailer players in the country, increased by 34 points. In the grocery sector, for example, the top five players are international companies and many have plans to expand, including Tesco and Carrefour. Still, these top five companies represent less than one-third of the market, indicating that current market fragmentation might work to the advantage of newcomers.

Croatia is new to this year's GRDI ranking, coming in at number five. Although its population is small, with fewer than five million people, Croatia expects GDP growth of 4 to 5 percent in the coming years. Lithuania also makes its debut on the index at number 17. Despite its new membership in the EU, it is the straggler in

the Eastern European region. Smart retailers will watch both countries for future opportunities.

Several mature Eastern European markets showed consistently low or declining GRDI rankings in 2003 as a result of increased competition and consolidation. The most striking example is Hungary, which fell 12 places to come in at number 16 in this year's index. Continuous expansion by foreign retailers over the past few years prompted significant market saturation. Even U.S. retailers, which tend to be more cautious in expanding abroad, are settling in. Office Depot recently acquired the Hungarian retailer that had operated its business-supply stores under a license agreement and plans to increase the number of outlets from three to 17 by 2006. However, such competition is forcing some international players, including Norwegian retailer Reitan, to completely exit the market.

Similarly, the Czech Republic fell seven places to number 29, as its retail markets reached saturation. International retailers dominate many Czech markets. The top five grocers, for example, are foreign and own 45 percent of the market. This level of market maturity translates into more modest expansion strategies as retailers turn instead to pricing, distribution and store formats for sales growth. Poland offers a similar story: Placing at number 27, its saturated markets suggest it may not make it onto the index next year.

The new Eastern Europe takes shape

With the EU's expansion into Eastern Europe, the "new" Eastern Europe is emerging. Increased competition in the region's more established markets prompted several retailers to venture further east to the Ukraine, Bulgaria and

¹ Changes in the year's GRDI methodology also affected this ranking, as market size is now a significant factor in calculating index scores.

Romania. Such countries offer untapped markets and the safety of at least a three-year horizon before they enter the EU. But retailers beware: Political, economic and market risks are still rampant in this part of the world.

The Ukraine leapt to number 11 in this year's GRDI index, and is expected to inch its way higher in the next few years. With a population of 50 million, a 50 percent increase in grocery sales since 1999 and shoppers anxious for Western products, the Ukraine offers fertile ground for expansion. Its move toward EU requirements, has also lowered its political and economic risk. Combined, these factors prompted international retailers, such as Metro AG, to break ground in 2003. Looking ahead, three international retailers—Baltic VP Market, Portugal's Jerónimo Martins and the Hungarian trade alliance CBA—have plans to move into the Ukrainian market. But with its time-pressure score rising from 22 to 79, retailers must move quickly. Ongoing risks, however, include corruption, low per capita consumer spending and a highly fragmented market.

Faced with a mix of investor sentiment, Bulgaria kept its number 13 ranking from last year, even though it improved its country-risk and time-pressure scores. On one side, Rewe, a leading foreign retailer, plans to open six more of its Billa supermarket stores before the end of the year. On the other side, German retailer Metro AG is expanding its DIY Praktiker chain to seven stores over the three next years, but it is halting further expansion of its cash-and-carry model. In addition, Belgian retailer Delhaize exited Bulgaria, having exhausted its franchise agreement with a local company.

Last year was pivotal for Romania as it slipped into the “lower priority” category of the

GRDI study. Although its country-risk score improved, foreign retailers are discouraged at being unable to attract significant market share. Since 1999, CAGRs in retail have topped 30 percent, but the market remains highly fragmented. In the grocery sector, Metro AG commands the highest market share, at 17 percent; however, Delhaize and Carrefour, which have invested heavily in Romania, still own less than 3 percent. Foreign players that try to enter the market now, such as Jerónimo Martins, will need patience. Romania's weak economy and relatively low income levels will stifle development in the short term. However, with 22 million people, Romania remains an attractive investment opportunity; the country is still well worth watching.

Clearly, Eastern European countries offer tremendous promise as they continue to gain strength year after year. However, as we discuss in the next section, the powerhouses of China and India, along with their regional neighbors, offer similarly compelling opportunities (*see figure 4 on page 8*).

Asia: A Mixed Bag

The retail environment in Asia is evolving as markets mature. India, for example, moves up to second place and China remains a powerhouse, but many other countries' markets are becoming saturated, causing them to lose ground on the index (*see figure 5 on page 9*).

India becomes “the new China”

Despite obstacles such as stringent foreign direct investment (FDI) rules and regulations, India's attractiveness among global retailers is cemented by its second-place position. Its country-risk score is higher due to improved living standards and continuing economic growth: Between

1999 and 2003, the GDP increased by 40 percent. Looking ahead, India's market size offers tremendous promise as its population is expected to surpass China's by 2050.

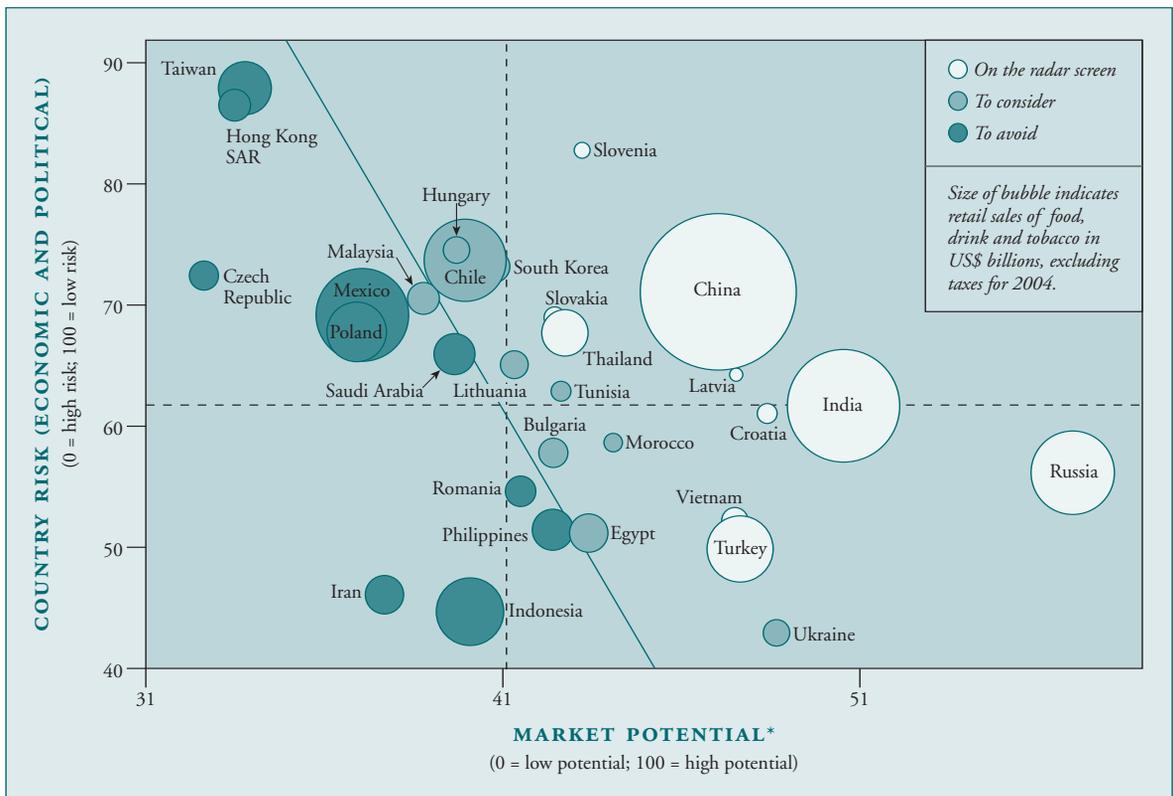
India's market-attractiveness score is relatively low because of its large rural population, but it earns high marks in other areas. Retail sales per capita have increased by one-third between 1999 and 2003. Also, its retail market is fragmented, with the top 10 companies holding about 2 percent of the market share. Two foreign retailers—Hong Kong-based Dairy Farm and Metro AG—are in the top five, and South

African retailer Shoprite is also considering making a move. A number of companies, including Wal-Mart and Carrefour, have expressed interest in India if FDI regulations ease. Currently, the country does not allow foreign ownership of local retailers. Until reforms pass, successful global retailers will have to adapt and enter using different formats. For example, for the past two years, Planet Sports India has operated two franchise stores for Marks & Spencer.

China stays strong, but for how long?

China remains third this year with a score of 86.

Figure 4: GRDI country attractiveness, 2004



Source: A.T. Kearney

*Based on weighted score of market-attractiveness, market-saturation and time-pressure scores. Includes modern retail area per 1,000 inhabitants, number of international retailers in the country, GDP/Retail 5 years CAGR

Although it's an attractive destination, economic and retail indicators are showing signs of stagnation. Investing here also comes with the caveat that each region has its own specific market dynamic.

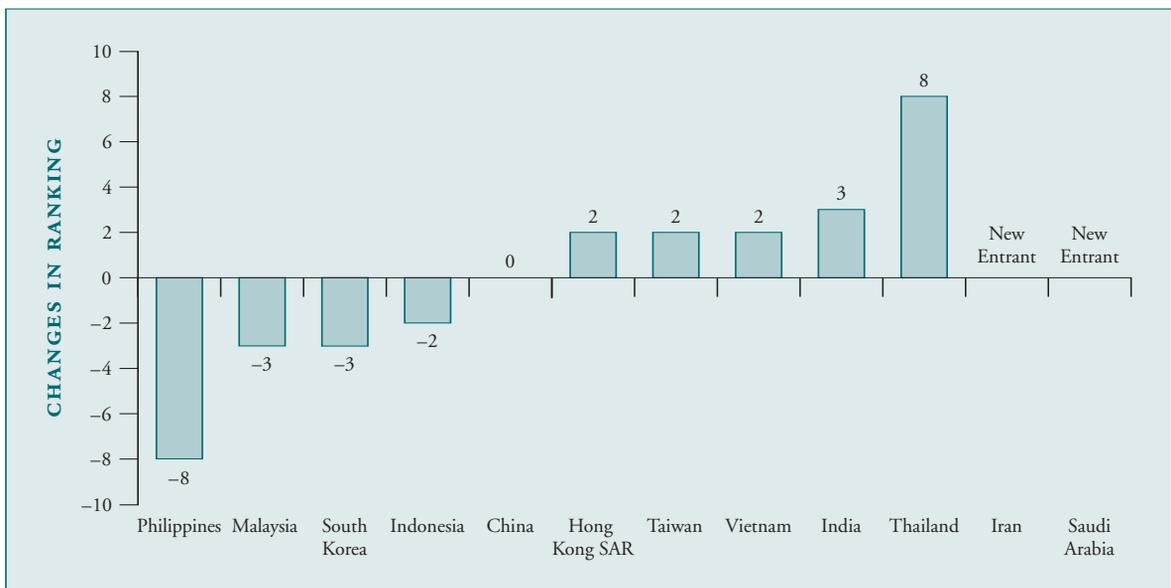
China's GDP is expected to grow 7 percent in 2004. However, because of its low starting point, the country continues to play catch up. In addition, the economy is starting to overheat. About 70 percent of all bank credits are given to state-owned enterprises, which are generally inefficient. The increase in bank loans has been driving growth over the past few years, but those loans might remain unpaid, possibly leading to a collapse in the financial sector. Continuing bank loans could also lead to a rise in inflation of about 3 to 5 percent. To counter this, the Chinese central government has placed restric-

tions on loans for investments in raw materials, such as steel for manufacturing.

China witnessed an 8 percent increase of retail sales to US\$580 billion over the past year. However, it saw drops in both retail sales area per inhabitant and the number of international retailers.

Still, 14 global retailers have operations in China, and many plan aggressive expansions. Carrefour expects to open 70 hypermarkets by the end of 2004, increasing its coverage in areas such as Beijing, Shanghai, Guangzhou and Shenzhen. The company is also launching its "Champion" supermarket format in Beijing. Wal-Mart is expanding in Shanghai and opening more Sam's Club stores, which will put added pressure on PriceSmart, the Chinese market leader in warehouse stores.

Figure 5: Changes in ranking for Asian countries, 2004 versus 2003



Source: A.T. Kearney

Other Asian countries span the spectrum of opportunity and risk

In terms of GDP growth, Vietnam is second only to China in the Asia region, garnering an 8 percent annual increase in 2003. Placing seventh on this year's index, Vietnam is committed to global economic integration through participating in the APEC (Asia-Pacific Economic Cooperation), the ASEAN (Association of Southeast Asian Nations) free-trade area and the WTO. Most restrictions will be lifted in 2004, and joint ventures between Vietnamese and U.S. companies will be allowed. Although the country is relatively poor, the population is large and increasingly urban. Its retail sales increased by almost 40 percent from 1999 to 2003, with Metro AG, Casino and Wal-Mart leading the list of global retailers.

A stable political and economic environment, low interest rates, rising consumer confidence and a high time-pressure score helped Thailand to round out the top 10. A series of positive retail indicators suggest this is an excellent time to enter the country. For example, between 1999 and 2003, the CAGR for food sales per capita was 5.5 percent, GDP per capita stood at 6.5 percent, and retail sales area increased by 9 percent. Foreign companies dominate the retail sector, with Tesco, Casino and SHV Makro among the top five retailers that hold 45 percent of the market share. As the market matures further consolidation is possible. One withdrawal of note: Ahold sold its Tops network of hypermarkets this year to Thailand's Central Group, completing its exit from Asia.

South Korea dropped three places this year and should continue to lose traction in the GRDI ranking because of its rising levels of market saturation. Retail sales per capita are

also reaching levels close to those of mature retail markets. Although South Korea represents less of an opportunity, it is still not too late for companies with the right focus. More than 60 new hypermarkets are expected to open this year, pushing the country's total past 300. Wal-Mart, Carrefour and Tesco are leading the charge in this format; they are also among the top five players that hold 38 percent of this retail market.

Malaysia is ranked number 19 on the GRDI this year. Its GDP and retail growth are high, and the government is expecting 7 percent GDP growth over the next few years. Its "2020 vision" includes deregulation and encouragement of FDI. Although Dairy Farm, AEON, Carrefour and Tesco dominate the grocery sector, the space is still fragmented. As in Thailand, hypermarkets are the most popular format, but the Malaysian government is limiting their expansion to help regional players, such as local leader Parkson, develop their preferred models.

Saudi Arabia and Iran make their debuts

With GDP growth of 6 percent over the past two years, a stable regime, and a recent trade agreement on goods and services with the EU that could lead to future WTO membership, Saudi Arabia makes its debut on the GRDI this year at number 21. It boasts the largest retail market in the region (about US\$38 billion) and a population of 21 million. Over the past two years, the country's retail sales have increased by 8 percent. Casino plans to open a Géant Store this year, and Carrefour is expecting to open three hypermarkets followed by six other stores. With such new competition, the local players might have to consolidate further: Combined, Al Azizia Panda, Giant Stores, Al Othaim, Bin

Dawood and Tamimi combined hold less than 12 percent of the market share.

Iran also joined the GRDI this year at number 30. Most retailers consider the country a risky option because of its poor economy and stiff regulations. However, there is long-term potential. About 60 percent of Iran's population of 69 million is under the age of 25, and 65 percent live in urban centers. Over the past five years, the country's GDP has grown 5 to 6 percent annually, with similar increases expected in the future. The government is also attempting to join the WTO and gain increased access to IMF loans by introducing deregulation laws. In 2000, the World Bank approved new loans for Iran for the first time since 1993. With retail sales increasing 24 percent over the past two years and low levels of market saturation, several foreign retailers such as Migros Türk are planning to enter the market in 2004 in the hopes of gaining first-mover advantage.

Lower priority countries still offer potential

Taiwan, the Philippines, Hong Kong and Indonesia remain in the "lower priority" category this year. Taiwan's market is becoming increasingly competitive, with nine foreign retailers, most of which are Japanese and French. Some global retailers, such as SHV Makro, have either exited or are planning to do so. Further consolidation is likely.

The Philippines dropped from 15 to 23 in the rankings this year, mainly due to changes in the methodology. Although its retail sales per capita are low, its time-pressure score is average and its risk score worsened slightly, the country is still attractive: The retail market is deregulated, GDP is growing by 4 percent on average, and companies such as Wal-Mart, Carrefour, Casino

and Tesco are showing increasing interest. Currently, all the key players are local, with Mercury Drug, SM Group and Rustan capturing more than 22 percent of the retail market share, making future investment here an attractive option.

Hong Kong's low ranking is due mainly to its low time-pressure score and small market size of just US\$22.6 billion. Opportunities for further retail growth are limited, its economy is stagnating, and local retailers such as Dairy Farm and A.S. Watson are already expanding in Asia and Europe.

Finally, Indonesia comes in at number 28 due to its high-risk political climate and low time-pressure score. But retailers still see potential. Although Wal-Mart withdrew from the country a few years ago and Makro downscaled its expansion plans, Dairy Farm, Carrefour and even Tesco are among those still interested in either entering the market or increasing presence.

The Mediterranean: The Impact of War

The Mediterranean has significant long-term potential for retailers. Last year, Turkey, Tunisia, Morocco and Egypt were in the "on the radar screen" category. This year, all but Turkey have moved into the "to consider" category (*see figure 6 on page 12*). The change is due to the political environment and changes in the GRDI methodology (consideration of each country's laws and regulations, market share of key players, population and market size).

Turkey ranks eighth, scoring higher on all dimensions except country risk, which dipped slightly. Turkey's population (71 million) grew by 6 percent over the past four years, with 60 percent of the population residing in urban areas. As part of the European Customs Union,

Turkey has a relatively deregulated economy. Its top five players—Migros Türk, BIM, Metro AG, Yimpas and Carrefour—have less than 20 percent of market share. Migros Türk, which is growing through both its discount store format, Sok, and through foreign expansion, now has stores in Azerbaijan, Bulgaria, Kazakhstan and Russia. The retailer plans to expand aggressively, targeting locations in Yugoslavia, Macedonia, Romania, Serbia, Montenegro and Iran.

Tunisia fell to number 15 this year because the GRDI now considers population size (Tunisia's population is just under nine million). Retail sales grew by 7 to 8 percent over the past two years. The only two foreign players, Casino (Monoprix) and Carrefour, have less than 5 percent of retail market share. Based on current regulations, the recommended mode of entry is to forge local partnerships.

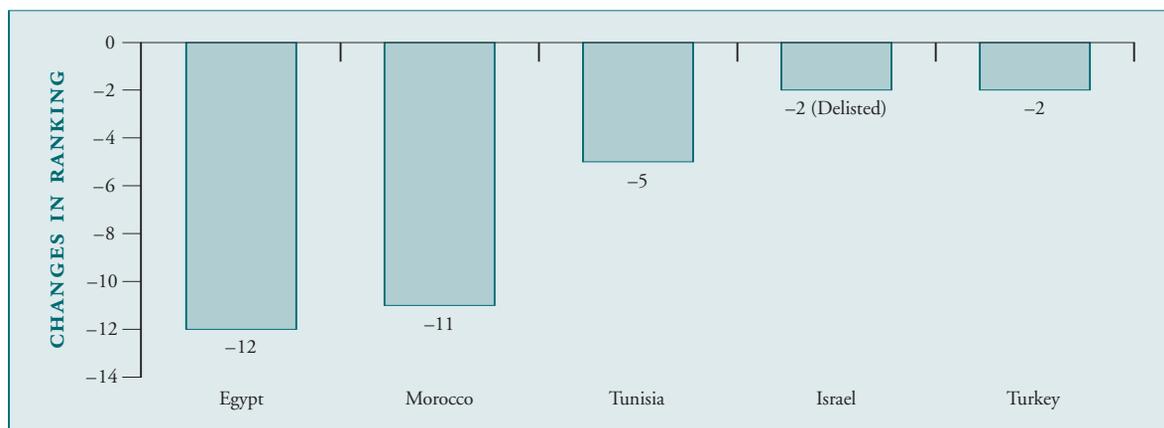
Morocco's drop in ranking was among the highest, again due to changes in the methodology. Morocco has a relatively small population and low retail sales per capita. However, Morocco's

GDP is growing by 5 percent, inflation is now stable at about 2 percent and there is little retail concentration. The top three players—Auchan, Metro AG and Aswak Assalam—represent about 15 percent of retail market share. Aswak will enter a franchise agreement in 2004 to rebrand its stores "Aswak Assalam Casino Stores," marking the entry of Casino into the market.

Egypt ranks number 20 this year, a significant drop from last year's eighth place. The reasons for the fall include a lower country-risk score, terrorism (now a GRDI variable), and the level of retail sales per capita. However, the country remains in the "to consider" category. The top two players are Carrefour and South Africa's Shoprite—however, they hold less than 0.4 percent of the retail market share. The local players rounding out the top five are Metro Markets, Ragad & Sons and Alfa Market.

Israel dropped two places this year (to 31) and is no longer on the index. The country has reached Western levels of retail sales per inhabitant, and ranks among the lowest in terms of time

Figure 6: Changes in ranking for Mediterranean countries, 2004 versus 2003



Source: A.T. Kearney

pressure—the result of stable to negative GDP CAGR over the past five years. As a mature retail market, Israel expects to see both retail consolidation and global expansion. Already, food retailer Blue Square is planning to enter the United States.

Latin America: Off the Radar Screen

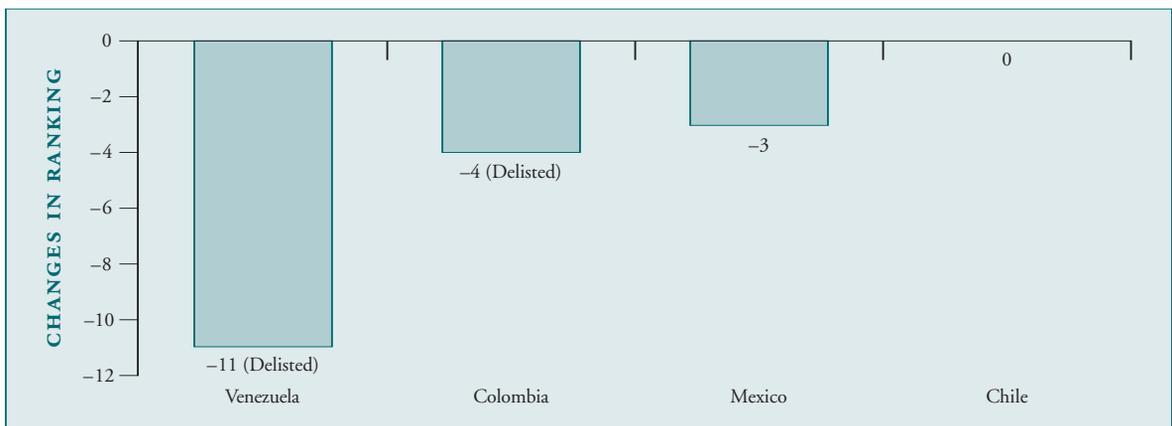
Latin America remains an unattractive region for 2004 (*see figure 7*). For the past two years, Brazil, Argentina, Peru and other countries have not appeared on the GRDI. Yet, retailers continue to invest in Brazil. Wal-Mart is in Brazil, primarily because it wants to compete with Carrefour, which has developed a strong base in the country and continent over the past decade. Wal-Mart is also trying to capture a slice of the largest consumer base in Latin America, including the cost-conscious customers currently served by “mom and pop” stores. Although spending per capita in Brazil is not very high, Brazilians spend a large percentage of their income on basic items such as groceries. In the next few years, as

consumer patterns change, Brazil could rejoin the ranking. Argentina could also rejoin the ranking as its economy recovers. In fact, Carrefour recently announced that it plans to invest an additional US\$17 million in its Argentine operations.

At number 12, Chile remains in the “to consider” category, and has one of the most stable political and economic situations in the region (4.5 percent GDP growth in 2003). There are no restrictions on foreign investment in the retail sector, and the retail market grew by 4 percent in 2003, compared with 1.7 percent in previous years. However, Chile’s retail market is fairly concentrated as the local players account for more than 43 percent of the market (including D&S, Cencosud, Unimarc and San Francisco), and there are no foreign retailers presently operating in the country.

Mexico has dropped steadily in the rankings as its retail market matures, falling from 13 in 2002 to 26 in 2004. The time pressure is low (only 0.9 percent GDP CAGR over the past five years), the market share of leading retailers is

Figure 7: Changes in ranking for Latin American countries, 2004 versus 2003



Source: A.T. Kearney

high (28.3 percent), and the share of modern retailing relatively high (41 percent). New players joining the market are usually U.S. based. This year The Home Depot acquired Home Mart, the second largest Mexican home-improvement retailer, and Wal-Mart already has more than 14 percent market share.

Africa Falls Off the Index

South Africa, the only African country on the GRDI last year, is not listed this year. The reasons are clear: Retail food sales declined from 1999 to 2003 (–0.4 percent), leading retailers possess 65 percent of market share, and retail sales per square meter grew by only 1.1 percent in the past five years. Still, international players should monitor the major local firms as they expand aggressively in the region and beyond. Shoprite is doing business in 16 countries, mainly in Africa. Pick'n Pay has expanded to six countries including Australia; Metro Cash & Carry is in 15 countries, including China and Australia; and Woolworths (RSA) is in 17 countries. Africa has some large markets, such as Nigeria, that did not pass the GRDI initial filter. However, this might not be the case in a few years.

Regional Players Counterattack

The GRDI findings reveal that regional players are also developing their supply chains, differentiating their strategies and improving their operations to counteract the rise of international players. Regional players' key advantage lie in their understanding of the retail market and knowledge of the supply market; while international retailers have the advantage of purchasing power and new formats (*see figure 8*).

In Russia, domestic retailers are protecting their turf through a variety of strategies—from

branching out into medium-size markets and cities before the global players do, to using private-label brands. Russian brands can be produced domestically at a cost that appeals to low-income, price-conscious shoppers. Already, Perekriostok, Pyaterochka and Kopeika boast private-label brands, while Sedmoi Kontinent plans to launch a range of private-label products.

Domestic retailers are also lobbying for government protection to defend their markets. Late last year, Russian retailers secured the removal of the 5 percent sales tax, claiming the tax harmed their ability to compete with low-priced international competitors. And they are investing in supply-chain improvements. Last year, Russian and international retailers joined together to begin an efficient consumer response (ECR) initiative with global manufacturers and industry associations.

In China, the Bailian Group announced plans to open 1,000 hypermarkets, supermarkets and other store formats across China in 2004 alone, hoping to aggressively compete with global rivals. Shanghai Lianhua forecasts it will have 200 hypermarkets and 2,300 supermarkets by 2005, while Beijing Hualian is planning to have 150 hypermarkets by the same year. Interestingly, Lianhua also announced it was looking to set up a trading base in Belgium as well as possibly opening a supermarket in the country this year.

Focusing on the supply chain is important for local players in China. There are a limited number of roads linking different regions and the major railway lines are overloaded. Markets outside major cities are generally not well developed and largely covered by regional and local retailers. Few multinationals have the experience required to expand in these markets.

In Vietnam, local players Saigon Co-op and Maximart are preparing to ward off global retailers by opening more stores in strategic areas. In South Korea, the “big three” local players are LG Mart, Lotte and Shinsegae. The latter two are in the top 10 global retailers based on sales and income growth—well above Starbucks, Lowe’s, The Home Depot, Best Buy and Albertsons. Shinsegae is already in China, and planning to expand to 40 stores there by 2010. Lotte is also investing in China—with Lotteria, its fast-food business—and is considering Russia and Eastern European countries in addition to Bangkok and the Philippines. Lotte will open a “Lotte Center”

in Moscow by 2006. Still, not all local players are successful at combating competition. Last year, Mexican retailers Gigante, Soriana and Comercial Mexicana announced a joint purchasing and operational alliance to ward off international retailers. In March 2004, Mexico’s antitrust authority blocked the alliance.

Hard Discounters—A Promising Future

Because there are no discounters in most emerging markets, especially Asia, the outlook is promising for hard discounters such as Aldi and Dia that use low-cost, no-frills formats to sell a limited variety of goods. For example, in

Figure 8: Key success factors in emerging markets



Source: A.T. Kearney

China, where price is a main factor in purchase decisions, discount stores are poised to take the lead. By 2006, Carrefour is planning to open 300 Dia stores, Lianhua plans to open 300 discount stores, and China Resource Enterprise is opening 180 discount stores. In Thailand, Casino plans to open 50 Leader Price stores.

Hard discounters are also poised to take the lead in South Korea and Malaysia. In India, price is still the first buying criterion and discounters such as Margin Free Market (320 stores) or Subhiksha (150 stores) are very popular. These retailers focus solely on price at the expense of store layout and customer service.

In Eastern Europe, hard discounters are the only retailers posting positive growth in like-for-like sales. In countries with relatively mature markets—such as Poland, the Czech Republic and Hungary—discounters are expanding quickly, while hypermarkets are languishing. Casino, Auchan, Carrefour and Tesco are struggling to break even or increase the ratio of sales to floor space. The low cost per square meter also seems to predispose discounters to success in these markets. In Poland, for example, Casino expects to have 130 Leader Price stores by the end of this year, projecting more than US\$260 million in sales.

Figure 9: Best practices for entering emerging countries

ACTION	APPROACH
Assess the environment	<ul style="list-style-type: none"> Send a team to the country for at least six months to build networks with local suppliers, government agencies and potential acquisition targets Measure and fine-tune key country performance indicators (such as economic environment, local competition, supply chain infrastructure) by leveraging local suppliers and market research companies
Tailor the value proposition	<ul style="list-style-type: none"> Use detailed score cards to capture real estate opportunities, legal constraints, supplier market features Investigate past performance and errors of local competitors
Map out optimal time line	<ul style="list-style-type: none"> Leverage global retailers' case studies in similar countries; develop comprehensive analysis Plan for a potential exit in advance
Develop a feasibility study	<ul style="list-style-type: none"> Create a realistic business plan that has clear measures of success (ROI, market share), and best- and worst-case scenarios for competitive performance, sales forecasts and required budgets Launch detailed dashboards for financial and operational performance to fine-tune the business plan once the first store opens
Design operations	<ul style="list-style-type: none"> Retain general product formulas that succeed in the domestic market, but be flexible Adjust staffing with increased expansion. In the case of organic entry into a new country, expatriates are initially in the best position to put a proven concept in action. However, most successful retailers involve many local managers at an early stage, recognizing and appreciating their deep knowledge of local tastes and habits
Establish and run an offshore retail operation	<ul style="list-style-type: none"> Refine strategies based on key performance indicators, including standard measures such as average basket size, product availability and price competitiveness Develop detailed implementation plans for store openings, including testing all new processes via a pilot store, recruiting and training local staff, initiating special task forces to solve ad hoc issues, and planning ways to obtain feedback from stores and customers

Source: A. T. Kearney

Across the various regions, discounter Lidl is expanding aggressively, outpacing Aldi, Dia, Kwik Save (Somerfield), Leader Price, Penny (Rewe) and Plus (Tengelmann). This year, the retailer plans to enter Hungary with 12 to 15 stores, Lithuania with 50 stores, and Slovakia with 16 to 28 stores; the company plans to enter Latvia in 2005. In Latin America, Dia is following in the steps of its parent, Carrefour, and in Turkey, Migros Türk is growing through its discount store, Sok.

With European and regional discounters on the move, U.S. discounters Dollar General and Family Dollar are lagging behind and should take this opportunity to learn from and follow the Wal-Mart example. Also, where other formats are struggling to succeed or markets have matured, hard discounters are succeeding. In most instances, the trend begins as the retail leaders start to gain significant retail market share and consolidation begins.

In emerging markets, the discount logic is yet to be developed. Unlike other global retailers

in emerging markets, the discounters enter with a limited assortment (usually 1,000 to 2,500 stock-keeping units for small formats and 3,000 to 6,000 for larger formats) and a narrow range (such as one type of salt). Their strategy is to increase their purchasing power through high turnover and limited attention to store location. This approach is not effective in all emerging markets, however, since customers typically look for branded goods in the first phase of a market entry. Strategies for entering emerging markets should be constructed around several distinct best practices (*see figure 9*).

Still, consumer trends are starting to favor hard discounters. As consumer confidence slips, customers are looking more at price and less at brand, marketing strategies or new technologies. For example, in Eastern Europe (Poland, the Czech Republic and Slovakia) the rise in unemployment is chipping away at household consumption and shifting spending to low-priced, non-durable goods.

Conclusion

In many ways, 2004 represents a revival for mass merchants and food retailers, as more intense competition keeps them focused on their international operations. In adding new countries to their rosters, many global retailers are adjusting their formats to fit local tastes, and slowing the pace of expansion in response to changing economic conditions. Also this year, the discounters have entered the fray—significantly changing the competitive landscape in emerging markets, where consumers are more price conscious. And the regional players have stepped up to the plate, willing to use their knowledge of local markets to take on the international interlopers.

As always, timing is everything. The leaders are timing their market entries to balance first-mover advantage and the benefit of hindsight. And for both regional and global retailers, success in new markets depends on having a deeper understanding of countries' infrastructures, customer requirements and supply markets.

The GRDI Methodology

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

- Country risk: more than 40 in Euromoney country-risk score
- Population size: more than two million
- Wealth: GDP per capita more than US\$2,000 (GDP per capita 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 risk (25 percent)

Risk ratings are based on the following categories: political risk (25 percent), economic performance (25 percent), debt indicators (10 percent), debt in default or rescheduled (10 percent), credit ratings (10 percent), access to bank financing (5 percent), access to short-term financing (5 percent), access to capital markets (5 percent) and discount in forfeiting (5 percent). The higher the rating, the lower the risk of failure. This year, the calculation includes the business cost of terrorism threats.

Market attractiveness (25 percent)

- **Retail sales per capita (10 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, thus representing an opportunity.
- **Law and regulation (5 percent):** Zero means that regulatory restraints are distorting business decisions. Variables used are burden of regulation (50 percent), contracts and law (20 percent) efficiency of tax system (10 percent), government intervention on competition (10 percent) and government intervention on corporate investment (10 percent).
- **Population (5 percent):** A zero indicates the country is relatively small representing limited opportunities for growth. A country with a population greater than 100 million automatically scores 100.
- **Urban population (5 percent):** Zero means the country is mostly rural; 100 indicates the country is mostly urban.

Market saturation (30 percent)

- **Share of modern retailing (10 percent):** A zero weight means share of retail sales made through a modern distribution format is high, and within the average Western European level (200 square meters per 1,000 inhabitants). Modern formats include stores predominantly selling food (hypermarkets, supermarkets, discount stores and convenience stores), and mixed-merchandise stores (department stores, variety stores, U.S.-style warehouse clubs and supercenters).
- **Modern retail sales area per inhabitant (5 percent):** A zero weight means the country ranks high in total retail area per inhabitant, close to the average Western European level. Modern formats only include stores predominantly selling food (hypermarkets, supermarkets, discount stores, convenience stores).
- **Number of international retailers (10 percent):** This year the total score was weighted by the size of retailers in the country: Three points for tier one retailers (among the top 10 retailers worldwide), two points for tier two retailers (within the top 20 retailers worldwide) and one point for tier three retailers (all others). Countries with the maximum number of retailers have the lowest score.
- **Market share of leading retailers (5 percent):** A zero indicates that the market is highly concentrated with the top five players (local and international) holding more than 55 percent of the retail food market. A 100 indicates the market is still extremely fragmented.

Time pressure (20 percent)

The time factor is measured by the sum of the CAGR (1999 to 2003) of the retail sales and the retail sales area weighted by the development of the economy in general (CAGR of the GDP from 1999 to 2003). 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 in the Global Competitiveness Report 2003-2004, national statistics, Euromoney and World Bank reports, and Euromonitor and PlanetRetail databases.

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