

Hidden heroes  
The next generation  
of retail markets



# Contents

---

Introduction	1
Algeria	3
Kazakhstan	5
Kenya	8
Morocco	11
Nigeria	14
Pakistan	17
Peru	20
Serbia	23
South Africa	26
Vietnam	30
Contacts	33

---

# Introduction

## The markets

Last year, Deloitte Touche Tohmatsu Limited (Deloitte) and Planet Retail launched the inaugural Hidden Heroes report to bring attention to ten emerging retail markets (and their retailers) from around the world. The premise was simple: while China deserves all the attention it gets, it does not deserve all the attention in the world. Thus, we looked beyond China and identified other emerging markets including the other BRICs (Brazil, Russia and India) that offer great promise.

This year we have cast the net further, going beyond the BRICs altogether, to bring together a new collection of emerging markets. This includes eight new countries – Algeria, Kazakhstan, Kenya, Morocco, Nigeria, Pakistan, Peru and Serbia – alongside two we have carried over, for good reason, from last year – South Africa and Vietnam. All of these markets are, or will soon be, on the radar screen of the world's leading retailers.

Walmart's entry into South Africa this year has thrown a spotlight on Africa – a region that has typically been overshadowed by Asia, Latin America, the Middle East and Eastern Europe when talking about future retail growth. Walmart's acquisition of Massmart, however, not only gives it a foothold in the key South African market but also a presence in some 13 other African markets – ranging from Botswana to Zambia. With the world's largest retailer now active in the continent, it seems likely that other leading global retailers will investigate opportunities in the region for themselves.

It is for this reason that the ten Hidden Heroes markets this year include five from Africa (Algeria, Kenya, Morocco, Nigeria and South Africa). While these vary significantly in terms of size and level of development, the one thing they have in common is the fact that they represent opportunities for growth. All have fast growing economies, young and growing populations and fragmented retail sectors. Moreover, although traditional forms of retailing are still dominant, a growing middle class is increasingly demanding branded products and the opportunity to shop in modern retail formats.

The remaining five markets cover Eastern Europe (Serbia), Asia (Kazakhstan, Pakistan and Vietnam) and Latin America (Peru). Each of these markets is set to experience rapid retail development in the coming years, aided by the growing presence of global retailers and a handful of strong local players.

In this regard, some of these markets, such as Pakistan, are only now at the beginning of this cycle, while others, such as Kazakhstan and Vietnam, have already secured some foreign investment and are set to see a whole host of global retailers enter in the next couple of years.

## The retailers

In each of the Hidden Heroes markets we have profiled one retailer. Some of these retailers are local operations of large global retailers (such as Metro Group in Pakistan or Delhaize Group in Serbia), while others are smaller local retailers (such as ONA in Morocco). All are worthy of mention – either for being an early pioneer, experiencing strong growth, or simply for holding their own in an increasingly competitive trading climate. Most are looking to expand in their respective market and have put in place ambitious expansion plans, meaning that their influence will likely increase in the coming years.

Taking a closer look at these retailers reveals some strategic and operational commonalities that link them together.

**Early-mover advantage** – A number of the Hidden Heroes retailers have been pioneers in their markets. Whether this includes local players such as ONA in Morocco, Supermercados Peruanos in Peru and Nakumatt in Kenya, or foreign players entering a new market, such as Migros Ticaret in Kazakhstan and Metro Group in Pakistan, establishing a presence at an early stage gives retailers advantages in terms of securing the best sites, establishing a brand and learning about local consumers.

**Product offer and availability** – The most successful Hidden Heroes retailers are those able to offer a combination of imported brands, which are sometimes hard to find elsewhere and appeal to ex-pats, and local produce that appeals to the local population. Retailers such as Shoprite in Nigeria, for example, have invested in a professional supply chain to ensure good quality and below-average out-of-stock rates. Migros Ticaret in Kazakhstan, meanwhile, has also been working hard with local producers to increase its procurement in this area. Metro Group in Pakistan sources around 80% of its products from the country, despite its under-developed nature. Delhaize Group is able to utilise its own manufacturing facilities to bring products to market cheaply in Serbia.

**Financial credit** – With some emerging markets characterised by weak financial infrastructures and retail banking, a number of retailers have stepped in to take advantage. This gives them a crucial advantage over rivals, especially when it comes to larger purchases. Nakumatt in Kenya, for instance, provides a range of financial services including bill payment services and cash-back. In Morocco, meanwhile, ONA offers interest free payments to customers looking to make big-ticket purchases.

**Regional expansion** – A number of the Hidden Heroes retailers are local operations of a wider regional strategy. This means they are backed by strong parent companies willing to invest and able to suffer losses on a level that smaller local rivals cannot sustain. In this category we can include Shoprite in Nigeria, which could benefit from further investment if the South African parent looks to focus on promising markets in the wake of Walmart's entry into its home market. Lotte Shopping meanwhile has the ambition to top retailer across Asia. In Vietnam, it could well use funds to acquire a rival retailer in the market in order to boost its presence.

**Multi-format strategy** – Being able to operate through a number of different formats also gives retailers a degree of flexibility to cater for different segments of consumers. Delhaize Group's Delta M in Serbia is actively pursuing such a strategy, with recent years seeing it launch discount store and hybrid cash & carry/hypermarket concepts to complement its existing chain of supermarkets and neighbourhood stores. Supermercados Peruanos in Peru also operates a range of formats allowing it target affluent, mid-market and more price-conscious consumers.

---

A number of the Hidden Heroes retailers are local operations of a wider regional strategy. This means they are backed by strong parent companies willing to invest and able to suffer losses on a level that smaller local rivals cannot sustain.



# Algeria

## Background data

With the world's 14th largest oil reserves and the fifth largest gas reserves, Algeria's economy relies heavily on the hydrocarbon industry. Nearly 60% of the government's revenue is generated from the petroleum sector. Furthermore, the hydrocarbons industry contributes roughly 30% to the country's GDP and petroleum products constitute more than 95% of Algeria's exports. Thus, with oil prices relatively high, one would expect the Algerian economy to be performing very well.

Instead, Algeria has fallen short of achieving its growth potential. Limited economic diversification, coupled with government intervention and regulation, has stifled private sector investment. While the government has attempted to diversify the economy away from oil, the regulatory environment has deterred both foreign as well as domestic direct investment. The result is that economic growth has been modest at best. The economy achieved 3.3% GDP growth in 2010 and growth is expected to range between 3-3.5% between 2011 and 2015.

On the other hand, the hydrocarbons sector, along with higher government spending, will support steady GDP growth in the years ahead. Expansion of the civil service, higher public sector wages, and massive infrastructure projects will contribute to increasing average income levels. Consequently, real consumer spending is likely to rise moderately in the coming years.

Algeria depends heavily on imports to meet its food requirements. Furthermore, the government's involvement has kept the import market highly monopolised. Food price inflation has resulted in higher levels of overall inflation. Algeria's exposure to imported inflation, particularly food inflation, will likely persist in the near future.

## Algeria: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	34,400	34,460	35,600	36,134	36,676
GDP (USD mn)	131,849	167,068	136,701	158,003	206,108
GDP/capita (USD)	3,833	4,848	3,840	4,373	5,620
GDP (% real growth)	3.0	2.4	2.4	3.3	3.6
Consumer price inflation (%)	3.6	4.9	5.7	4.3	5.0
Consumer spending (USD mn)	41,768	47,994	46,003	48,563	55,297
Consumer spending/capita (USD)	1,214	1,393	1,292	1,344	1,508
Retail sales, net (USD mn)	28,744	32,919	31,436	33,071	37,511
Retail sales, net/capita (USD)	836	955	883	915	1,023

Source: Planet Retail  
GDP and other data presented in annual average exchange rates

Algeria's population in 2010 exceeded 36 million and the average population growth rate is forecast at 1.5% per year. Furthermore, nearly 70% of the population falls between the 15-64 age category, with nearly 25% aged below 14 and less than 6% over 65 years of age, indicating a low dependency ratio in Algeria. Thus, demographics will serve Algeria well in terms of growth potential and the development of the consumer market. On the other hand, failure to diversify away from hydrocarbons risks creating a vast supply of unemployed young adults. Already the unemployment rate is elevated and inflation is high. Such a combination, in turn, risks further social unrest.

---

**While the government has attempted to diversify the economy away from oil, the regulatory environment has deterred both foreign as well as domestic direct investment.**

### **The Algerian retail scene**

Retail sales witnessed a strong increase in 2010 and the trend is likely to continue through 2016 given rising incomes, population growth, and high inflation. Non-grocery retailing remains smaller than grocery retail. However, growth in non-grocery spending outpaced grocery spending in 2010. In 2011, non-grocery spending is expected to rise 15% while grocery spending will likely rise a healthy 13%. This trend is likely to continue through 2016.

The retail industry in Algeria is dominated by the informal and independent sectors. Consequently, concentration of the market is limited. However, some retail companies have put forward ambitious growth plans. Thus, the industry is likely to become less fragmented in the years ahead.

There are several factors that augur well for modern retailers in Algeria. These include a youthful population, rising incomes, and the positive benefits of higher oil prices. On the other hand, a relatively protectionist environment means that import prices remain high, thereby limited consumer spending power. In addition, Algeria's heavy reliance on imported foods, combined with rising global food prices, augurs poorly for boosting spending power.

There are few significant players in Algeria at present. Numidis, a subsidiary of Cevital, opened its first UNO hypermarket in 2010. It also operates supermarkets called UNOcity across the country offering a wide variety of products including food products, cosmetics and personal care clothing, electronic appliances and leather goods. In 2007, the company opened its first convenience store under the Tabaân brand.

Another important domestic retailer was Blanky. The company operated supermarkets in the capital and enjoyed considerable success as the pioneering grocery retailer. However, the business was closed in 2008 as it suffered from lack of product availability.

Alongside local chains, international players are also investing in this market. France's Carrefour started a partnership with Algerian group Arcofina to operate hypermarkets in 2006. However, at the beginning of 2010 the venture was ended with Carrefour having only opened a single store out of 18 planned by 2012. The failure was put down to difficulties in finding suitable properties, as well as stocking issues.

Auchan meanwhile has plans to open 10 hypermarkets in Algeria by 2012. The company plans to invest EUR150 million (USD210 million) over a five year period. It is setting up an Algerian-registered company to push through the project and is in the process of constructing its first store in Algerian registered.

# Kazakhstan

## Background data

Kazakhstan is a youthful, middle income country that does not attract much attention other than for its large supply of hydrocarbons. Yet that is starting to change. Although the economy slowed down during the global economic crisis, its growth before and since that crisis has been strong. In the coming years, economic growth is expected to exceed 6% per year. The result is a rapid increase in consumer incomes and a rising middle class.

The strong growth of the economy is fuelled by exports of petroleum and metals as well as agricultural products. Kazakhstan is actually one of the world's largest exporters of grain. Elevated energy and food prices are playing a positive role. On the other hand, the economy is vulnerable to commodity price volatility. In addition, this landlocked country depends heavily on trade with neighbouring China and Russia. The country has formed a customs union with Russia and Belarus.

## Consumer market

Favourable demographics will likely benefit Kazakhstan going forward. The country's population in 2010 was nearly 16 million. Nearly 70% of the population falls between the 15-64 age category and over 21% are aged below 14. Just 7% of the population is over 65 years of age in Kazakhstan. The demographic profile of the country is likely to remain the same through 2016. Furthermore, unemployment declined to below 6% in 2010 and is forecast to decline below 5% by 2015. Thus, a large youthful population appears to be able to find work.

The rise in the middle class in Kazakhstan has boosted modern retailing. Among the shopping trends is an increasing preference for formal retail outlets. According to the Statistics Agency of the Republic of Kazakhstan (SARK), approximately 55% of the population lives in urban areas. Furthermore, there is a significant disparity between rural and urban households, both in terms of incomes and spending pattern. Regional disparities between the north and the south translate into per head household expenditures in the north more than double the level in the south. Kazakhstan has a very high level of income inequality. Thus, there are a small but significant number of relatively affluent households.

As household incomes rise, spending on food as a share of total expenditure is expected to gradually decline and discretionary spending on non-food items will pick up. Compared to a decade earlier, spending on food is forecast to decline from over 55% to less than 40% by 2015.

## Kazakhstan: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	15.537	15.553	15.568	15.584	15.599
GDP (USD mn)	100,403	132,930	112,013	136,482	170,834
GDP/capita (USD)	6,462	8,547	7,195	8,758	10,952
GDP (% real growth)	8.9	3.2	1.2	7.0	5.9
Consumer price inflation (%)	10.8	17.1	7.4	7.4	9.1
Consumer spending (USD mn)	46,033	57,110	49,576	56,658	67,705
Consumer spending/capita (USD)	2,963	3,672	3,184	3,636	4,340
Retail sales, net (USD mn)	27,720	34,155	29,581	33,639	39,989
Retail sales, net/capita (USD)	1,784	2,196	1,900	2,159	2,564

Source: Planet Retail  
GDP and other data presented in annual average exchange rates

## Ramstore

### Overview

The first Ramstore in Kazakhstan was opened in 1999 as Turkey's Migros Ticaret (then called Migros Turk) looked to expand into emerging markets in Central Asia and Russia. Until 2006, Ramstore Kazakhstan was 51% owned by Migros Ticaret with the remaining stake held by local partner Butya Group (40%) and investment funds (9%). However, Migros acquired the remaining shares in 2006 and Ramstore Kazakhstan is now 100% owned by Migros Turk. Alongside Kazakhstan, Migros Ticaret also has a presence in Kyrgyzstan and Macedonia (its operations in Russia and Azerbaijan were sold in 2007 and 2011 respectively).

Ramstore mainly operates supermarkets in Kazakhstan with an average sales area of around 2,000 square metres. At the end of 2010, there were 20 such supermarkets in operation. In addition, it operates two larger hypermarkets. Activities centres around Almaty, which is the country's most important region in terms of retail sales. A number of stores in and around Almaty are open throughout the night. Overall, Ramstore had a presence in seven cities around the country by the end of 2010.

### Company mini profile

Ramstore – Migros  
Ticaret

### Key facts

**Location**  
Almaty

**Start of operations**  
1999

**Main formats**  
Supermarkets

**Stores (2010)**  
22

**Net sales (2010)**  
USD136 mn

**International presence**  
5 (Migros Ticaret)

The rise in the middle class in Kazakhstan has boosted modern retailing. Among the shopping trends is an increasing preference for formal retail outlets.

### **The Kazakhstan retail scene**

Kazakhstan's growing economy, combined with an underdeveloped modern retail sector (particularly in terms of food retailing) means that it is attracting a growing amount of attention from leading global players.

Retail sales had been growing strongly since the turn of the millennium, with annual rates of growth exceeding 20% in local currency. Between 2004 and 2008 the size of the country's retail sector effectively doubled. However, the impact of the global economic crisis led to a slowing in the rate of growth from 2008 until 2010, although it has picked up as conditions have improved and confidence has returned. Retail sales are therefore expected to see further rapid growth in the next few years. Compared to 2010, retail sales are forecast to more than double by 2016. In dollar terms, retail sales are expected to reach USD68.6 billion in 2016, indicating considerable potential in Kazakhstan.

Despite sustained growth, the market is still fragmented and far from saturated. This is due to the country's scattered population, widespread corruption, a weak infrastructure leading to high logistic costs, and the low purchasing power of its population. Almaty is by far the most important region for retail in the market. In fact, it is estimated that the region accounts for almost half of all the country's retail sales. In addition, the lack of production means that many retailers (at least until very recently) have had to import food products from Russia and other CIS markets. Being landlocked, Kazakhstan has to maintain cordial relations with its neighbours in order to transport goods.

That said, recent years have seen some consolidation. Government policies encourage investment and private participation in the retail sector. Retailers from several countries are entering Kazakhstan, while existing retailers are expanding rapidly.

In 2008, the largest local player, SM Market, acquired rival Gross, significantly boosting its network to 50 outlets. Other local players that have invested in recent years include hypermarket operators Green, Magnum and Arzan. Most local players are now embarking on ambitious expansion strategies in order to grab as much land before additional foreign retailers arrive. Up until 2008, the availability of cheap credit helped fuel their ambitions. Russia's Vester also entered the market in 2007 and currently has four Vester Hyper hypermarkets in operation.

Germany's Metro Group opened its first cash & carry in late 2009 in Astana. Metro sees a potential for ten to 15 cash & carry stores in Kazakhstan. The company has already expanded relatively fast and now has five stores in the country.

Global non-food players are also taking a firm interest, particularly through franchisees. The Gap already operates a small number of franchised stores, while late 2010 saw Inditex (operator of the Zara chain) open its first stores in Almaty. In the future, Inditex sees the potential for over 30 stores in the market across a number of its banners. Even luxury US department store retailer Saks is planning to open a franchised Saks Fifth Avenue store in Almaty in 2012 to tap into the growing number of affluent Kazakhstanis looking to Western luxury brands.



The stores stock the Ramstore private label, while the Ramstore Club loyalty card gives members access to exclusive promotions and discounts through instore kiosks. Due to the lack of production in the country, Ramstore had to import food products from Russia and other CIS markets, as well as from Turkey. However, starting in 2009, the company started to ramp up procurement from local producers and this is seen as important going forward.

### Growth

Kazakhstan is now seen as the priority growth market for Migros Ticaret internationally. 2010 saw rapid growth, with store numbers growing impressively to end the year on 22. This compares to just 12 at the end of 2009 and 10 at the end of 2008.

This impressive organic growth (store numbers tripled between 2006 and 2010) combined with the growth in retail sales in general has driven sales growth in recent years.

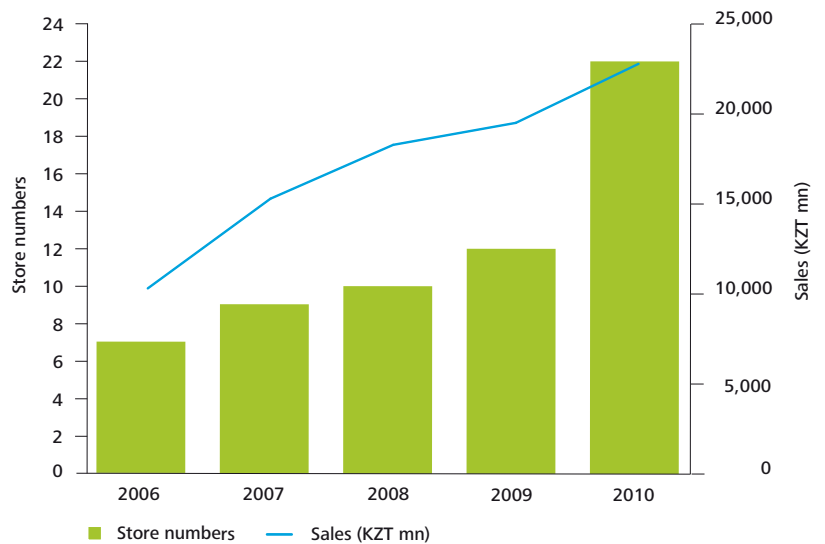
### Reasons for success

**Early mover** – Being one of the first foreign retailers to enter the market has enabled Ramstore to build up a strong presence in important locations. The chain is widely recognised for the quality of its modern stores, range of products and services and prices. Ramstore is well-positioned to benefit from the future growth in retail sales and the rising popularity of modern grocery retailing.

**Local knowledge** – Ramstore has been ramping up procurement from local producers in recent years and can therefore be seen to have had an important wider economic role in the country. This strategy has enabled it to better tailor its stores and their product range to local consumers and helps it compete against rival local chains.

**Strong expansion** – Kazakhstan is now the priority growth market for Migros Ticaret internationally. The operation has benefited from this focus in terms of significant investment and rapid organic expansion. In 2010 alone, store numbers almost doubled to 22 outlets.

Ramstore Kazakhstan: Retail banner sales and store numbers, 2006-2010



Source: Planet Retail – [www.planetretail.net](http://www.planetretail.net)

**Impressive stores** – There is little doubt that Ramstore trades from some of the most modern and impressive stores in the country. Stores are open around the clock and also offer private labels. The Ramstore Club loyalty card is also an advantage and exclusive promotions and discounts are available to members by swiping their cards on instore kiosks.

### Future strategic priorities

With Kazakhstan now identified by Migros Ticaret as its most important overseas market, further investment is inevitable. In early 2011, Migros Ticaret sold its operations in Azerbaijan with the intention of freeing up resources for Kazakhstan.

Ramstore Kazakhstan is likely to push on with ambitious organic store expansion as it attempts to keep pace with its local rivals, but also to gain as many sites as possible before other foreign retailers arrive. Going forward, we forecast that Ramstore Kazakhstan could potentially open a minimum of five stores annually, allowing it to reach over 50 outlets by 2016.

# Kenya

## Background data

Kenya is a very poor nation where less than 10% of the population live in urban areas, where income distribution is highly skewed, where inflation is in double digits, and where the majority of households spend the majority of their incomes on food alone. Thus, one might be forgiven for asking why this country warrants interest on the part of the world's global retailers.

The answer is that, at a time when Sub-Saharan Africa is finally showing signs of significant growth for the first time in decades, Kenya is among the countries that are leading this growth. The result is a rapid increase in consumer spending power. Moreover, Kenya is relatively open to foreign investment in retailing and importation of foreign goods. Thus, Kenya appears to offer promise.

## Economic situation

Kenya has a versatile economy ranging from trade in industrial and agricultural goods to financing. It is the most important economic centre in East Africa. Kenya is likely to remain an important and influential market in the region, with considerable potential for further growth in the next few years. The economy stands to benefit from a boom in the telecommunication and banking sectors. However, infrastructural bottlenecks, skills shortages, corruption, and political uncertainty could retard growth.

Following the global recession, GDP growth rebounded in 2010 to near 5% supported by favourable rainfall. Growth in 2011 may be impacted by drought and rising inflation. However growth is expected to pick up in the next few years averaging over 6.5%.

Despite rising income levels, GDP per head figures mask deep disparities between a small, rich elite and the vast majority of poor Kenyans. The proportion of the population living in poverty (nationally defined) is about 45-50%, while Kenya's income inequality is far worse than in neighbouring Uganda, Tanzania and Ethiopia.

Low-income households will remain the largest in number, thereby ensuring that food remains the largest category of consumer expenditure, as is the case in most developing countries. Kenya remains a predominantly agricultural society. Nevertheless, medium-term growth in disposable income and increased urbanization will lead to both a reduction in spending on food as percentage of income and a rise in expenditure on transport and communications, education and health, and recreation. This is already reflected in the sharp increase in recent years in sales of cars and mobile phones, in particular, and of other relatively expensive consumer durables, such as air conditioners and refrigerators.

## Kenya: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	36,379	37,473	38,600	39,742	40,910
GDP (USD mn)	26,966	29,073	28,437	30,947	34,814
GDP/capita(USD)	741	776	737	779	851
GDP real growth (%)	7.00	1.55	2.59	4.98	5.72
Consumer price inflation (%)	4.26	16.18	9.25	3.86	7.24
Consumer spending(USD mn)	20,398	22,010	21,992	23,198	25,851
Consumer spending/capita(USD)	561	587	570	584	632
Retail sales(USD mn)	14,397	15,442	15,347	16,125	17,868
Retail sales/capita(USD)	396	412	398	406	437

Source: Planet Retail  
GDP and other data presented in annual average exchange rates

---

The economy stands to benefit from a boom in the telecommunication and banking sectors.

The main risk to the economy stems from rising inflation. Food price inflation as well as rising energy costs has pushed inflation upward. In July 2011, the inflation rate was 15.5%. While it is expected that inflation will moderate in the next year, it is likely to remain uncomfortably high.

Kenya has a population of almost 40 million people. Furthermore, the middle class is growing (albeit from a small base) and, combined with demand from the affluent and the significant expatriate community, will help to underpin demand for high-end consumer goods, including household appliances, automobiles and processed foods. The prospective growth in the number of middle-class households, combined with a progressively more open domestic market, will offer considerable potential for manufacturers and retailers.

Consumer spending has seen strong increases in recent years, interrupted only by the effects of the global economic downturn in 2008/09. However, only 5-10% of the population lives in urban areas and a large majority of the people reside in the countryside.

Mobile banking and mobile purchases have gained prominence in Kenya. Mobile money service M-pesa, which enables users to send and receive money through their mobile phones, saw over 305 million transactions in the past year. Clearly there is a shift in shopping trends across Africa with Kenya in the lead in the use of mobile money.

## Nakumatt

### Overview

Nakumatt is the leading player in Kenya's fragmented retail landscape, despite operating only 28 stores at the end of 2010. The company mainly runs supermarkets and superstores targeting the higher income strata, although recently it has also been targeting consumers further down the income spectrum as the economy stagnated as a result of the global economic downturn of 2008/09. Small foreign operations have been launched in Rwanda and Uganda.

Complementing its network of supermarkets & superstores, Nakumatt launched its Nakumatt Express convenience-orientated supermarket banner in 2008.

### The Kenyan retail scene

As for modern retailing, Kenya has one of the most developed industries in Sub-Saharan Africa. The Kenyan retail scene is dominated by a huge informal sector full of independent stores, open markets and private second-hand sellers. Almost 90% of national grocery sales continue to be generated in the traditional and informal sectors, with modern outlets limited to Kenya's largest cities such as the capital Nairobi, or Mombasa on the coast. It is these cities where the biggest part of consumer spending takes place, as a result of large investment volumes and the mere existence of financial services.

At present, the market is fragmented. Nakumatt, for instance, is the undisputed market leader despite having less than 30 stores. Modern retail mainly targets members of the upper and upper middle classes. It is predominantly based on large-sized formats stocking wide ranges of domestic and imported products, with the latter typically coming from Europe and the Middle East. The comfort of one-stop shopping is occasionally complemented by the service of 24 hour opening.

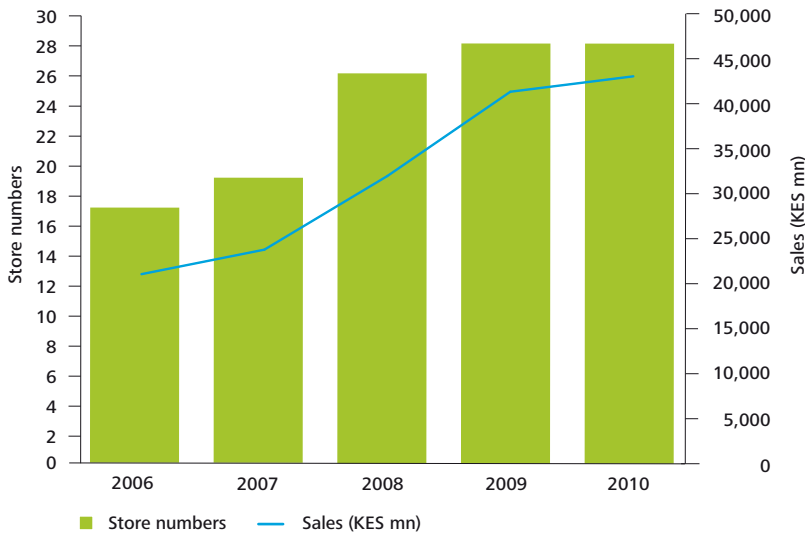
Kenya has a relatively liberal retail market and there are few laws regulating the retail industry. Furthermore, tough competition laws are not in place and the retail sector is self-regulatory; thus, selling below cost is a legal practice. Price controls have been abolished even though legislation states that all products should carry a price tag. In some cases, manufacturers are required to show recommended retail prices on their packages, but the prices of most consumer products are regulated by market forces.

Kenya has no restrictions on foreign investment and repatriation of profits or capital. However, foreign ownership of the ordinary shares in listed Kenyan companies is generally restricted to 75%. Kenya allows most imports of retail goods without significant restriction. Moreover, regional opportunities will increase due to integration within the East African Community (EAC), which comprises Kenya, Tanzania and Uganda, plus new entrants Burundi and Rwanda. The expanded market and reduced restrictions on trade and investment will create new opportunities for foreign investors in Kenya.



The Nakumatt Junction store in Nairobi

**Nakumatt: Retail banner sales and store numbers, 2006-2010**



Source: Planet Retail – www.planetretail.net

**Reasons for success**

**Outstanding product offer** – Nakumatt is a provider of wide and international product ranges, targeting a community of expats and domestic higher-income households. Nakumatt is one of a very small number of retailers serving the demands of these relatively affluent consumers.

**Product availability** – In a retail landscape where out-of-stocks are a common sight, Nakumatt provides above-average product availability both on shelf and time-wise. Its core outlets were among the pioneers of 24h opening in Kenya.

**Financial services** – In a country characterised by weak financial infrastructure and long queues in front of the small number of existing bank branches, Nakumatt is helping its customers save time by providing a range of financial services. These include cash-back offerings and bill payment services for utilities, mobile phones and TV channel subscriptions.

**Future strategic priorities**

In 2011 and beyond, Nakumatt is planning to launch new outlets both in its Kenyan home market and abroad. In Kenya, new stores are scheduled for Nairobi, Nakuru and Malindi.

In order to drive sales, Nakumatt will continue to increasingly target middle-income consumers in addition to its traditional upper and upper middle class customers. By 2015, we forecast that the number of outlets in Kenya could double to 56.

In addition, Nakumatt has announced that it has plans to enter further Sub-Saharan countries within the next five years. Through a project code named Nakumatt 2.0, the company is embarking on a feasibility study to facilitate entry into such countries as Burundi, Zambia, South Sudan, Democratic Republic of Congo, Nigeria, Botswana and Malawi. The opening of the first outlet in Tanzania is already under preparation.

**Company mini profile**  
**Nakumatt**

**Key facts**

**Location**  
Nairobi

**Start of operations**  
1987

**Main formats**  
Hypermarkets & Superstores

**Stores (2010)**  
28

**Net sales (2010)**  
502USD mn

**International presence**  
2 (Rwanda, Uganda)

**Growth**

Following a difficult 2009 and early 2010 period – which was shaped not only by Kenya’s economic slowdown but also by the destruction of two important stores and a number of management exits – the retailer is now returning to growth mode via both new store openings and acquisitions.

In Kenya, Nakumatt has opened new outlets across the country, including Kakamega and Eldoret (western Kenya), Nanyuki (central Kenya) and Diani (south east coast) since early 2010, with a stronger focus on lower income costumers. In an acquisitive move in 2010, Nakumatt picked up four outlets in the city centre of Nairobi from domestic competitor Woolmatt Supermarkets.

# Morocco

## Background data

Morocco is a relatively stable, high growth economy with close economic ties to Western Europe. With 32 million people, the country is already attracting interest on the part of retailers from the US, Europe, and Turkey. The economy is driven by mining, construction, tourism, and manufacturing. As for the latter, it benefits from relatively low labour costs and a currency tied to the value of the euro. Hence, Moroccan goods are competitive in Europe, although they face growing competition from Asia. Still, Morocco is seen as a favourable location for sourcing goods sold in Europe given its close proximity – especially at a time of rising transport costs.

In addition, about 20% of Morocco's labour force is employed in Europe as ex-pat workers. Remittances thus account for about 8% of Morocco's GDP. While the economy is expected to grow at a moderate pace in 2011, Europe's economic troubles could hurt Morocco. On the other hand, rising investment from Persian Gulf countries and strong tourism revenue will be helpful for economic growth. In the coming years, it is expected that Morocco will grow at a strong pace in excess of 6% per year.

Inflation in Morocco is expected to remain low. The government has promised to keep domestic prices stable through subsidies, but this will place an increasing burden on public finances. In 2008, when food and energy prices surged, the subsidy bill was equivalent to 5% of GDP. Although the government pledged to limit the subsidy bill to a maximum of 2% of GDP, it was around 2.5% of GDP in 2010 and it is set to increase further in 2011, given rising global commodity prices. However, despite the subsidy, inflation will probably exceed current levels. For 2011, inflation will likely hover near 3%.

## Morocco: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	30,841	31,177	31,514	31,851	32,187
GDP (USD mn)	74,607	88,285	90,357	90,337	102,497
GDP/capita (USD)	2,419	2,832	2,867	2,836	3,184
GDP (% real growth)	2.7	5.6	4.9	3.2	3.9
Consumer price inflation (%)	2.0	3.9	1.0	1.0	2.9
Consumer spending (USD mn)	43,584	53,009	53,539	53,364	60,322
Consumer spending/capita (USD)	1,413	1,700	1,699	1,675	1,874
Retail sales, net (USD mn)	30,135	36,415	36,684	36,496	41,129
Retail sales, net/capita (USD)	977	1,168	1,164	1,146	1,278

Source: Planet Retail  
GDP and other data presented in annual average exchange rates



**Inflation in Morocco is expected to remain low. The government has promised to keep domestic prices stable through subsidies, but this will place an increasing burden on public finances.**

### **The Moroccan retail scene**

Although large segments of the retail sector, notably grocery retailing, are concentrated in smaller outlets such as corner shops, there is an increasing trend for shoppers in urban areas to make use of hypermarkets. Indeed Morocco's retail sector is set to undergo a major shift in the coming years as large-scale purpose-built retail areas become more prevalent.

In addition, tourism grew by an estimated 6% in Morocco in 2010 and is expected to continue growing at a rapid pace. Morocco's tourism industry has a direct impact on the retail sector. While geared mainly to the domestic market, the Morocco Mall and other modern venues will likely appeal to foreign visitors. The Morocco Mall, set to open its doors early next year, is located in Casablanca. The shopping centre has a floor area of 200,000 square meters, making it the largest retail outlet on the continent outside of South Africa. The mall is expected to have 250 shops and food outlets, and also feature a large aquarium and an IMAX cinema. The headline tenant is to be upscale French department store Galériés Lafayette.

Morocco's youthful and growing population will certainly attract the attention of global retailers in the years ahead. The skewed income distribution means that there is a small but significant market for upscale and luxury products, a market buttressed by the presence of Western tourists. On the other hand, the strong cultural tradition of shopping in street bazaars may be a hard habit to break. Moroccans, especially those on low-incomes, are also interested in buying tax-free products that are traded on the streets, which are generally offered at lower prices when compared to the ones available in retail outlets.

In larger cities, especially in Casablanca, independently-owned modern supermarkets are becoming more popular. The perception that supermarkets offer better quality and a selection of international brands is attracting growing numbers of consumers, especially those with above average incomes.

The trend towards modern grocery retailing has been aided by a handful of major European retailers which have invested in the market – with mixed results. From 2002, France's Auchan operated a small number of hypermarkets and supermarkets in a joint venture with local company ONA. However, after a disagreement over the operational structure of the company, ONA bought out Auchan's share in the operation in 2007. ONA is now therefore the leading retailer in the country with over 50 stores.

More recently, in late 2010, Metro Group exited by selling its eight cash & carry stores to local player Label'Vie, which has turned them into hypermarkets. Label'Vie is an important local player, which now operates almost 40 hypermarkets and supermarkets, having expanded its presence significantly over the past five years. Label'Vie is also the local franchisee of Carrefour in Morocco. A third significant local player is Hanouty, a major convenience and forecourt store operator, with around 350 outlets.

Despite the exits of Auchan and Metro Group, Morocco is likely to attract growing attention from international retailers in the coming years. Later in 2011, The Gap aims to open its first outlets in the country, while French department store chain Galeries Lafayette will also open its first store in Casablanca by the end of the year.

A retailer worth watching is Turkish hard discounter BIM. The retailer opened its first batch of stores in 2009, and now has around 50 stores in Casablanca. BIM plans to almost double its network in 2011 and given its phenomenal rate of growth in its home market over the past decade, the company could quickly become a major player in Morocco within a few years.

Although modern retailing is no doubt gaining market share (albeit from a low base), the sheer number of small traditional stores, situated within the Moroccan cities and towns, will continue to dominate as they offer easy access and enjoy a strong traditional standing.



## Omnium North Africa (ONA)

### Overview

Omnium Nord Africain (ONA) is a major conglomerate in Morocco. As part of its activities it is also the country's largest retailer. The group operates Acima supermarkets and Marjane hypermarkets, which were initially opened as part of a joint venture with France's Auchan (which held a 49% stake in the entity). The partners opened the first stores in 2002. However, in 2007, Auchan sold its stake to its partner, giving ONA complete ownership of the operations.

As well as its hypermarkets and supermarkets, ONA also operates the Electroplanet consumer electronics chain.

### Growth

Following the takeover of the retail operations by ONA, the company undertook strategic decisions on product ranges and opened new stores to accelerate growth. The group opened up Marjane and Acima stores in cities with a population of more than 300,000 people and started constructing its first joint centralised distribution platform.

### Reasons for success

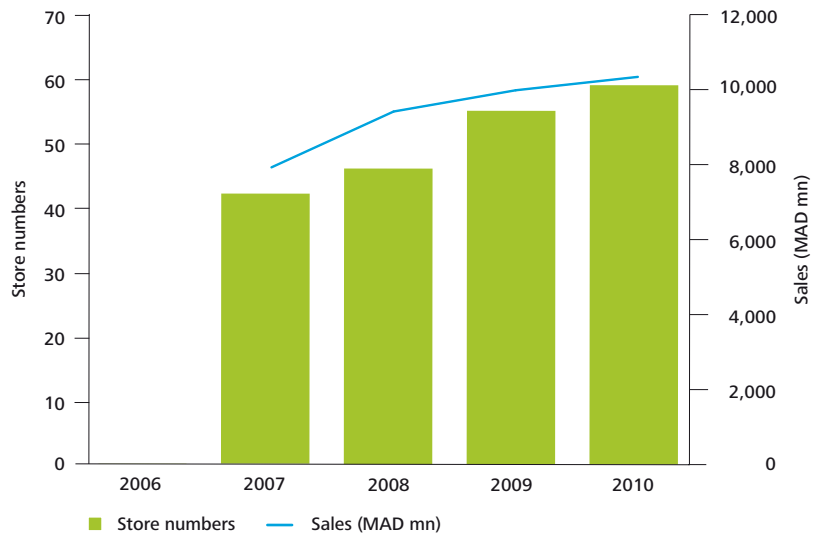
**Under-developed market** – Lack of major foreign rivals in the market means that ONA has been able to grow to become the country's largest retailer.

**Products** – The stores offer a wide variety of products including international brands and local favourites at competitive prices. Demand for international brands is becoming greater in Morocco so Marjane and Acima are well positioned.

**Financial credit** – The group offers the Faiz card providing interest free payments, which is proving increasingly popular with shoppers looking to make big-ticket purchases.

**Advertising** – Marjane has been actively advertising sales and discount offerings through radio broadcasts luring in price sensitive consumers.

ONA: Retail banner sales and store numbers, 2006-2010



Source: Planet Retail – [www.planetretail.net](http://www.planetretail.net)

### Future strategic priorities

In 2010, ONA merged with fellow conglomerate Societe Nationale d'Investissement (SNI). The two companies, and their subsidiaries, have been delisted from the Casablanca stock market. The merged conglomerate will become an investment company that gives larger autonomy to its subsidiaries in the management of their affairs. In order to achieve this, and to generate funds for other core operations, the new entity is looking to sell minority shareholdings in some of its subsidiaries, including its retail operations. This could open up opportunities for investors to become involved in the country's leading retail chains.

However, in the future, competition is likely to increase. Local rival Label'Vie has the advantage of the Carrefour brand and products range behind it and is also expanding fast. Meanwhile, Turkish hard discounter BIM could have an important impact on the market if its concept proves a success and it gains scale.

#### Company mini profile Omnium Nord Africain (ONA)

##### Key facts

**Location**  
Casablanca

**Start of operations**  
2007

**Main formats**  
Hypermarkets,  
supermarkets

**Stores (2010)**  
65(e)

**Net sales (2010)**  
USD1,400 million (e)

**International presence**  
0

# Nigeria

## Nigeria: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	143,854	147,810	151,874	156,051	160,342
GDP (USD mn)	162,304	204,276	166,282	211,457	266,405
GDP/capita (USD)	1,128	1,382	1,095	1,355	1,661
GDP real growth (%)	6.97	5.98	6.96	8.39	6.87
Consumer price inflation (%)	5.41	11.58	12.54	13.72	11.09
Consumer spending (USD mn)	94,362	110,995	105,685	127,710	149,615
Consumer spending/capita (USD)	656	751	696	818	933
Retail sales (USD mn)	69,256	81,280	77,075	92,713	108,202
Retail sales/capita (USD)	481	550	507	594	675

Source: Planet Retail  
GDP and other data presented in annual average exchange rates



**Open market in Lagos: Grocery retailing in Nigeria is overwhelmingly dominated by traditional and informal trade structures, even in the biggest cities**

## Background data

With over 150 million people and an economy that has grown at a healthy pace, it may seem surprising that Nigeria has not already attracted significant attention in global retail circles. Yet this country also suffers from a variety of headaches that have deterred foreign investors. These include political instability, poor physical infrastructure, unreliable electricity generation, high inflation, and the volatility that comes from excessive reliance on oil exports. Yet today, the benefits are starting to outweigh the challenges. Strong economic growth, favourable demographics, high energy prices, and rising interest in Africa in general are conspiring to make Nigeria increasingly attractive to global retailers.

For now, the economy is growing nicely. Not only is Nigeria benefitting from high oil prices, but the non-oil sector is also performing well. Investment in agriculture as well as strength in the telecommunications and construction sectors contributed to good growth in 2010 with growth expected to be strong in 2011 and beyond. GDP growth is expected to be in the range of 6-7% per year over the next few years. In addition, provided that the price of oil remains strong, Nigeria should benefit from continued strong infrastructure spending by the government. Consumer spending is also closely tied to the fortunes of the oil sector.

On the other hand, Nigeria continues to experience relatively high inflation. Moreover, inflation has been in double digit territory for all but one year of the past decade. The current inflation is exacerbated by rising global energy and food prices as well as central bank funding of government deficits.

The government faces other problems as well. Inadequate electricity generation has led the government to plan the privatisation of electric power. There could be substantial long-run benefits from doing this, but for now electricity is an obstacle to faster economic growth. Moreover, the country's financial sector is troubled, with several major banks having been bailed out. Problems in the financial sector could stymie private sector credit growth.

On the positive side, the country's population is relatively young and the working age population is expected to increase as a share of the total in the next decade. This bodes well for the development of a stronger consumer market as well as for faster economic growth.



In addition, the government is implementing reforms designed to encourage more foreign investment. This should help in its privatisation plans as well as spur more investment in the non-oil sector.

## Shoprite

### Overview

Six years after its market entry in 2005, Shoprite still operates only a small network of two supermarkets in Nigeria. Both are located in Lagos, the country's largest city with around 10 million inhabitants.

After overcoming initial difficulties – related mainly to the local administration, staff recruitment and finding suitable retail property – expansion is finally set to accelerate significantly in the near future. A total of 10 new stores are reportedly under preparation now. The fact that this is possible has been the result of Shoprite's patient pioneering work which other retailers will benefit from, too, in the future.

Shoprite has described the improvement of its local supply chain as its greatest challenge in Nigeria, both for imports and local purchases. While bureaucratic obstacles continue to be behind import challenges, in terms of domestic buying the retailer co-operates with local suppliers (mainly in the fresh foods area) to bring their output to the required quality standard.

#### Company mini profile

##### Shoprite

#### Key facts

**Location**  
Lagos

**Start of operations**  
2005

**Main formats**  
Supermarkets

**Stores (2010)**  
2

**Net sales (2010)**  
USD13 million

**International presence**  
16 (Shoprite)

### The Nigerian Retail scene

Nigeria's retail market is already quite large, being the second biggest in Africa after South Africa. The size of this market, of course, is mostly related to the large population as opposed to the high income levels in South Africa. In Nigeria, roughly two thirds of consumer spending is spent on food.

Nigeria's retail sector is dominated by small-scale stores. The formal grocery industry currently accounts for about 10% of overall sales. Most consumer goods, such as clothes, footwear, cheap electronic goods and cosmetics, are sold in small shops or markets, or by hawkers who buy them from wholesalers. Local players dominate the retail market, with modern retail outlets limited to the urban centres of Lagos, Abuja and Port Harcourt, often in shopping malls.

The Nigerian retail sector is expected to become more consolidated and modern as more shoppers migrate from informal retail to formal retail venues. This process will be fuelled by the expanding middle class supported by a growing economy, relative political stability and a rising population. However, given relatively low incomes, consumers are likely to be very price driven. For now, the most popular formats for selling groceries are convenience stores and petrol stations. Yet this is likely to change as companies invest in supermarkets and other formats. Both European and South African retailers are actively investing in the Nigerian market.

Overall, there are a rising number of modern shopping mall developments and levels of investment among supermarket operators are increasing. Shoprite, for instance, is finally preparing to step on the accelerator and push itself into the market leading position within a short period of time. That being said, currently, there are virtually no supermarket chains around that operate more than five or six outlets. Apart from the market entry of SPAR in late 2010 and potentially Walmart/Massmart, Shoprite now is the only modern grocer with ambitious expansion plans.

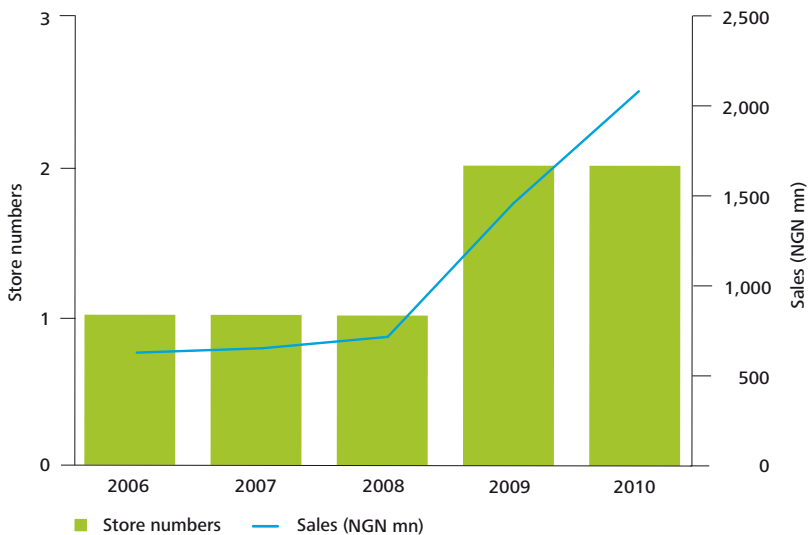
The reasons why investment levels have not been higher in recent years range from corruption and red tape to a weak property market that is only beginning to meet the needs of retailers.

Other factors include a lack of qualified staff and a highly fragmented supplier landscape. Improvements have been recorded in all of those areas recently. However, in the face of still low incomes and limited investment budgets at Africa's largest retailers, market modernisation will be a matter of decades, rather than years.



Shoprite may be just one out of many small supermarket operators in Nigeria. However the financial muscle of its South African parent will ensure it will soon outgrow all its competitors

Shoprite in Nigeria: Retail banner sales and store numbers, 2006-2010



Source: Planet Retail – www.planetretail.net

### Growth

During the first six years of operation in Nigeria, Shoprite’s growth has been dampened by a combination of administrative obstacles, a lack of suitable property, sourcing problems and difficulties in recruiting qualified staff. Now that interaction with authorities, the property sector and suppliers has improved, the retailer is ready to expand its network swiftly – having identified oil-rich markets of Western Africa, such as Nigeria and Angola, as long-term growth opportunities.

Currently, a total of ten new stores are reportedly under preparation, partly again in Lagos but also in cities like Abuja, Calabar and Kano. Interestingly, expansion to Port Harcourt in the oil-rich Niger Delta was cancelled until further notice in 2009, as a result of continued flare-ups of political instability.

### Reasons for success

**Patient pioneering work** – Shoprite entered Nigeria at a time when there were no supermarket chains around with more than a handful of outlets. Improving market conditions will now allow Shoprite to grow its small store network six-fold within a short period of time, making it the undisputed market leader in Nigeria.

**Attractive product availability** – As a highly internationalised business, Shoprite imports products to Nigeria that consumers will find hard to buy elsewhere. A wide range of locally-sourced products meanwhile makes sure the offer is not just attractive to expats working in Nigeria, but also to the local population. Thanks to its professional supply chain, Shoprite also excels through far below-average out-of-stock rates. This combined with the retailer’s high freshness and cool chain standards makes sure the supermarkets are attractive destinations for high and medium-income shoppers in Lagos and soon elsewhere.

**Support from strong parent company** – Having laid the foundations for expansion, Shoprite in Nigeria can now push for growth and conquer the top spot in Nigerian retailing fast with the support from its profitable parent in South Africa. The fact that Shoprite in South Africa will look to diversify its operations in the wake of Walmart’s recent market entry only means that even more investment may be channelled into promising foreign operations such as Nigeria.

### Future strategic priorities

Along with its accelerated store growth plan in Nigeria, Shoprite will look to keep building relationships with suppliers and improving further import procedures. The latter will mainly involve sea transport via the country’s southern ports, rather than the more dangerous truck routes.

In the long term, apart from the capital Abuja and other large cities in the north of Nigeria, growth can be expected to mainly focus on Nigeria’s southern urban belt. This will benefit from the country’s recently-improved political stability while featuring large numbers of consumers moving into the middle class, as well as one of Sub-Saharan Africa’s best infrastructures.

# Pakistan

## Background data

Despite relatively slow economic growth, considerable political uncertainty, and very low per capita income, Pakistan is showing up more brightly on the radar screens of major retailers. That is largely due to the massive and growing population of roughly 170 million people. Although the country is poor, if only a small share has discretionary spending power, this represents a sizable market for modern retailers. Moreover, the country did experience strong economic growth in the period 2004-2007 thereby boosting consumer spending power.

Although the economy slowed in 2011 due to massive flooding, growth is expected to be in the range of 3-4% in the coming years. With rapid population growth, per capita GDP is therefore expected to grow slowly. Perhaps the biggest hindrance to more rapid growth is the very low level of fixed asset investment. Instead, consumer spending accounts for roughly 90% of GDP. A hike in government wages and pensions, strong agricultural exports, income tax reforms, and social programmes had a positive effect on domestic consumption lately. Furthermore, a spike in remittances from overseas Pakistanis supported the domestic economy.

Agriculture is the largest sector of Pakistan's economy and accounts for 22% of GDP. It provides employment to over 40% of the total employed workforce. As a result, the performance of the agricultural sector is critical for the economy.

Inflation in Pakistan has risen for 42 months in the row. Pakistan's Consumer Price Index (CPI) in May 2011 was up 13.4% year on year. Lower commodity prices may help ease inflationary pressure. However high fuel prices, tax exemption reversals, and a weakening currency may weigh heavily on inflation. Inflation is likely to decline in the coming years, yet it will probably stay at double digit levels in 2011.

## Pakistan: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	158,170	160,970	163,774	166,578	169,380
GDP (USD mn)	142,610	144,677	155,794	170,730	205,315
GDP/capita (USD)	902	899	951	1,025	1,212
GDP (% real growth)	5.6	1.6	3.4	4.8	2.8
Consumer price inflation (%)	7.8	12.0	20.8	11.7	15.5
Consumer spending (USD mn)	107,600	110,672	116,841	126,358	149,563
Consumer spending/capita (USD)	680	688	713	759	883
Retail sales, net (USD mn)	75,650	77,188	81,197	87,600	103,389
Retail sales, net/capita (USD)	478	480	496	526	610

Source: Planet Retail  
GDP and other data presented in annual average exchange rates

## Metro Group

### Overview

Metro Group has operated cash & carries in Pakistan since October 2007. The retailer initially planned to enter in 2006, but its plans were delayed. The retailer has since expanded to five outlets, which mainly target business customers such as hotels, restaurants, caterers as well as small and medium-sized retailers. Many goods are offered in bulk and multi-packs for large-volume purchasing. The range comprises more than 20,000 food and 30,000 non-food articles and includes well-known international brands as well as private label products. Approximately 80% of the product range is sourced in Pakistan.

### Company mini profile Metro Group

#### Key facts

**Location**  
Lahore

**Start of operations**  
2007

**Main formats**  
Cash & carries

**Stores (2010)**  
5

**Net sales (2010)**  
USD170 million

**International presence**  
32

Although the economy slowed in 2011 due to massive flooding, growth is expected to be in the range of 3-4% in the coming years.

### **The Pakistan retail scene**

The Pakistani retail industry is one of the least concentrated in the world. There are few major chains. Low rates of car ownership, home refrigeration, purchasing power and relatively small number of modern retail formats mean that most Pakistanis shop daily at small neighbourhood mom-and-pop speciality shops. They are spread across the length and breadth of the country. Indeed, the numbers of traditional mom-and-pop stores have actually mushroomed in recent years.

In addition to mom-and-pop stores, street markets, roadside vendors and hawkers operate in all the major cities and villages across Pakistan. In many rural areas, this informal sector forms an important retail channel and holds a critical position owing to their access to fresh produce. Overall, the traditional sector accounts for the vast majority of the country's retail sales. However, in the long term, as competition increases, modern retail formats will gradually take an increasing share of the market. The ongoing migration in the population from rural to urban areas will help underpin this gradual shift. However, the process will be slow and modernisation will be confined to urban areas.

Supermarkets are the most important modern grocery distribution format in the country at present and it is expected that they will increase in number and popularity over the coming years as modern distribution channels develop. Yet supermarkets remain in their infancy in Pakistan, and the few supermarkets in operation are restricted to the country's commercial capital, Karachi, and its second-largest city, Lahore.

Pakistan is an attractive market for the international grocers; with its large and youthful population, the market has huge potential. Although relatively poor and underdeveloped at present, the country has experienced rapid economic development in recent years and incomes are gradually rising. In addition, the retail sector is still highly fragmented with few major chains or strong local competition. With a growing middle-income class (estimated at about 25% of the total population), increasing urbanisation, growing popularity of international food products, and a rising number of international restaurants and fast food chains, Pakistan is emerging as an expanding market for US and European products. Pakistan has been actively pursuing foreign investment and has removed most restrictions. Foreign firms still require the government's permission to enter, but can own up to 100% of a company and are free to acquire local companies. However, despite deregulation, foreign investors still treat the country with suspicion and are concerned about corruption, high duty rates, smuggling and restrictive laws. Also, the ongoing political instability makes Pakistan a challenging market for Western retailers.

That said, major European retail giants Metro Group and Carrefour have taken the plunge. The former has operated cash & carries since 2007, while the latter has a franchise agreement with its Middle East partner Majid Al Futtaim group since 2009. The entry into the Pakistani market made Carrefour the first hypermarket operator in the country. At that time, the retailer said it planned to open at least seven new Hyperstar hypermarkets in Pakistan within the next five years.

There are few local chains of note. The largest chain is the state-owned Utility Stores Corporation (USC), which despite operating almost 6,000 outlets is virtually insignificant, accounting for less than 1% of the modern sector. USC operates a chain of neighbourhood stores which aim to provide affordable, staple food items to the Pakistani population. Thousands of USC stores operate in towns and villages across the country. Other retailers include Canteen Department Stores which is owned by the Pakistani Military (around 100 stores) and K&N's (also around 100 outlets).

Because of the limited financial resources of most consumers, retailers primarily sell on a cash-only basis. This is likely to remain the case over the next few years, as change in this area is occurring only very gradually. Credit card use is likely to become an increasingly important element of personal finance in the long term, but in the short to medium term the use of credit cards will be constrained by Pakistan's poor economic climate.

### Growth

Metro in Pakistan saw store numbers jump from two to five between 2008 and 2009. Although the number of outlets remained stable between 2009 and 2010, Metro has high ambitions for Pakistan. Although relatively cautious, this rate of growth has secured Metro's presence as a major player in the market.

### Reasons for success

**Early mover** – Entering the market in 2007 gave Metro Group an early mover advantage. Pakistan has a large number of traditional stores or independents and restaurants, which are the core customer group for the company.

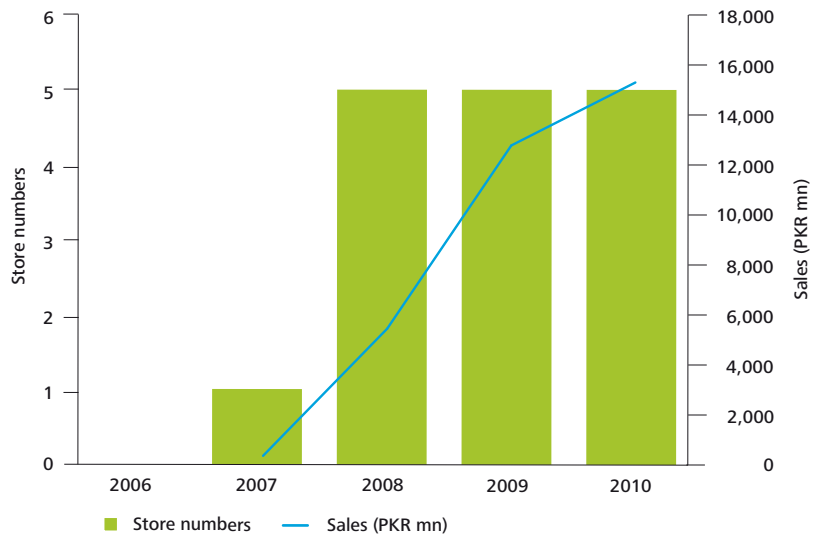
**Private label development** – Private label development is a key part of Metro Group's strategy to grow sales and profitability. On average, the selling price of Metro's private label products is 10-20% lower than similar branded products. This gives it a competitive advantage over other channels of wholesale.

**Local produce** – Despite the country's underdeveloped nature, around 80% of Metro's product range is sourced in Pakistan.

### Future strategic priorities

When Metro opened its first store in 2007, it announced plans to establish up to 10 stores in big cities of Pakistan, including Karachi and Rawalpindi by the end of 2012. However, this now seems to be an ambitious plan as the retailer only had five stores at the end of 2010. However, future store openings are likely – particularly in Punjab, a region that has become an industrial hub in the country. The long-term aim is to establish a network of 20 outlets in Pakistan.

Metro Group: Retail banner sales and store numbers, 2006-2010



Source: Planet Retail – [www.planetretail.net](http://www.planetretail.net)

Metro in Pakistan saw store numbers jump from two to five between 2008 and 2009. Although the number of outlets remained stable between 2009 and 2010, Metro has high ambitions for Pakistan.

# Peru

## Background data

From 2005 until the start of the global economic crisis in 2009, Peru experienced spectacularly strong economic growth – especially compared to the other major economies in Latin America. Although the economy stalled during the global recession, strong growth resumed quickly, clocking in at 8.8% in 2010. Robust investment spending as well as the effects of high commodity prices on export revenue contributed to good economic growth. Going forward, growth is expected to moderate to more sustainable levels, but still remain strong. However, monetary and fiscal policies are likely to be tightened to restrain rising inflation. Yet, the central bank may not be able to keep headline inflation within the target range of 2%.

More than a decade of strong GDP growth has led to a reduction in poverty and the expansion of an urban middle class, thereby supporting growth in private consumption. Poverty levels have declined, albeit gradually, and the downward trend is likely to continue if the new government continues the country's pro-growth policies. This has also led to a rising middle class and higher disposable incomes. Furthermore, Peru's demographic profile is favourable for the development of a consumer culture.

Strong economic growth and easier credit have led to a rise in personal incomes. As incomes rise, Peruvian consumers are gradually shifting their preference for shopping from small independent shops and market stalls (often part of the large informal economy) toward the growing modern retail sector.

However, retail sales per capita remain low by international standards, owing to comparatively low disposable income.

## Supermercados Peruanos

### Overview

Supermercados Peruanos is Peru's second largest grocer behind Cencosud. The company follows a multi-format strategy which encompasses superstores, supermarkets and discount stores. Supermercados Peruanos is growing at a good pace, and reportedly – although perhaps too optimistically – hopes to overtake Cencosud as the country's top supermarket operator in the short to medium term.

The company, which has the financial backing of major economic group Interbank, runs a successful portfolio of banners which range from upmarket Vivanda supermarkets to middle range Plaza Veja stores and the Mass and Economax discount outlets. As a result, Supermercados Peruanos operates a relatively sophisticated multi-format strategy which effectively covers all potential customer segments.

### Growth

Supermercados Peruanos has more than doubled its sales over the 2006 to 2010 period to PEN2,398 million (USD837 million), opening 28 new net stores to reach 68 outlets. The retailer has pursued an expansion based on organic growth. In terms of fascias, the main vehicle for growth has been the Plaza Veja superstores, which accounted for practically all store growth (27 new outlets) over the last five years.

Supermercados Peruanos pioneered the expansion of modern stores in the provinces, with the opening in 2007 of its first Plaza Veja superstore outside the Lima area in the city of Trujillo. Since then, new openings have taken place in other cities such as Ica and Chimbote, to reach 16 Plaza Veja stores outside Lima by mid-2011.

It is worth mentioning that Walmart's pending entry into Peru, via its 2009 acquisition of D&S, may put a dampener on Supermercados Peruanos' lofty ambitions to lead the Peruvian supermarket sector. However, the retailer has perhaps gained a first mover advantage in parts of the country by being the first to cement its brand in second tier cities.

### Company mini profile Supermercados Peruanos

#### Key facts

**Location**  
Lima

**Start of operations**  
2003

**Main formats**  
Superstores,  
supermarkets, discount  
stores

**Stores (2010)**  
68

**Net sales (2010)**  
USD837 mn

**International presence**  
0

### Peru: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	28.22	28.66	29.10	29.55	30.01
GDP (USD mn)	104,901	125,252	125,203	151,310	174,910
GDP/capita (USD)	3,717	4,371	4,302	5,120	5,829
GDP (% real growth)	8.91	9.80	0.86	8.80	7.50
Consumer price inflation (%)	1.78	5.79	2.94	1.53	2.70
Consumer spending (USD mn)	64,513	80,199	81,872	95,569	109,227
Consumer spending/capita (USD)	2,286	2,799	2,813	3,234	3,640
Retail sales, net (USD mn)	39,795	49,145	50,046	58,164	66,184
Retail sales, net/capita (USD)	1,410	1,715	1,720	1,968	2,206

Source: Planet Retail  
GDP and other data presented in annual average exchange rates



### The Peruvian retail scene

The Peruvian food retail sector is mainly made of small grocery stores and street vendors. A large proportion of the population sells and resells products on the streets, creating a huge parallel sector that escapes any control from the government in terms of taxation and quality controls. The established operators consider this as unfair competition, as they do have to comply with government regulations and bear its costs.

However, sales through modern supermarkets are growing, thanks to the strong economic growth. Consequently, although local markets and small independent shops are the venue of choice for many Peruvians, they are rapidly losing market share to modern retail outlets and malls in urban areas. The burgeoning middle class increasingly prefers to shop at supermarkets, and this growing demand is being met by aggressive expansion strategies of big supermarket chains. Increased access to credit through cards has also fuelled a consumption boom.

The modern grocery sector remains based mainly in Lima. The capital has almost one third of Peru's population and accounts for more than 60% of the country's GDP. Supermarkets are now developing a strategy based on expansion to peripheral areas around Lima, where they will be targeting low-income customers, as opposed to its current customer base made out of a high proportion of high-income customers from the affluent areas of Lima.

The country's three largest grocers – Cencosud, Supermercados Peruanos and Falabella – have all embarked on expansion to other main cities such as Arequipa, Trujillo and Chiclayo.

Both market leader's Wong (now under ownership of Chilean Cencosud) and Supermercados Peruanos operate a multi-format strategy, while fellow Chilean Falabella operates the Tottus hypermarket fascia. Meanwhile, Peru's recent economic growth has attracted a new international player, Dutch cash & carry operator SHV Makro, which entered the country in 2009 and plans to open 15 stores in Peru by 2012. In fact, there are no restrictions on foreign participation in the retail sector, and other important foreign players include Chilean-owned Plaza malls, which has a commercial partnership with Chilean-owned Saga-Falabella and Ripley department stores.

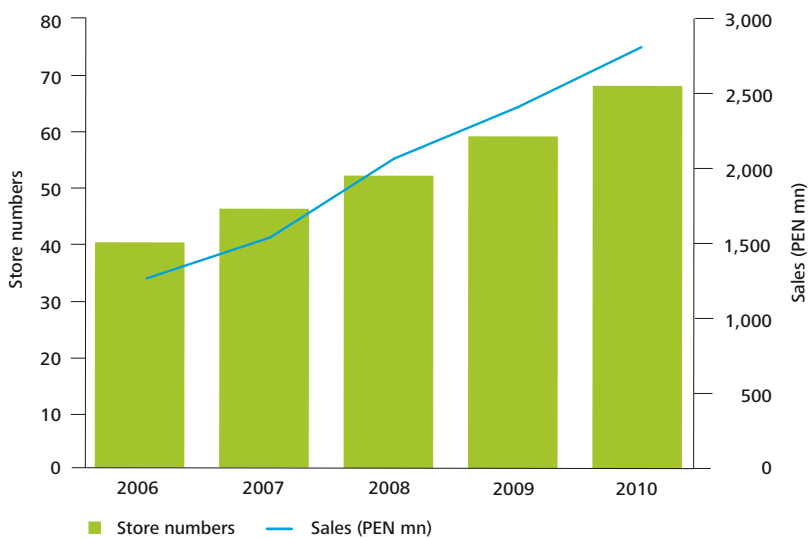
In the last few years, supermarkets have grown in number. Consumers have shown a growing preference for purchasing in supermarkets and products of higher quality and variety, presented in a clean, tidy and conveniently located place with good service.



Traditional retailing still accounts for the lion's share of the market in Peru

Source – Planet Retail – [www.planetretail.net](http://www.planetretail.net)

Supermercados Peruanos: Retail banner sales and store numbers, 2006-2010



Source: Planet Retail – www.planetretail.net

Supermercados Peruanos pioneered the expansion of modern stores in the provinces, with the opening in 2007 of its first Plaza Vea superstore outside the Lima area in the city of Trujillo.



Plaza Vea, Supermercados Peruanos' mid-market format, targets the growing Peruvian middle class

**Reasons for success**

**Long-standing presence** – Supermercados Peruanos has built up a strong presence in the market over a period of a number of years. The company was formerly owned by Ahold, which operated in Peru under the Santa Isabel brand.

**Multi-format strategy** – The company operates with a wide range of formats aimed at a broad spectrum of consumer groups. This allows it to target affluent, mid-market and more price-conscious consumers.

**Regional expansion** – Furthermore, Supermercados Peruanos has successfully positioned itself as a major player in Peru through new store openings outside the capital, Lima.

**Future strategic priorities**

In terms of expansion, Supermercados Peruanos' focus will continue being Lima and its surrounding area, although there is an increasing interest in expansion outside the capital, an interest shared by other Peruvian retailers.

In 2011, Supermercados Peruanos plans to invest USD60 million in the opening of eight new stores. This will include five outlets of the new discount Economax fascia in Lima. The Economax format was launched in March 2011 and follows an EDLP pricing strategy.

Longer term, the company also wants to expand its Vivanda premium supermarket to the provinces, with the cities of Arequipa and Trujillo as probable targets. Supermercados Peruanos aspires to lead the grocery retail sector in Peru in the short to medium term, a difficult goal given market leader Cencosud's expansion pace in the country. In any case, Planet Retail expects that strong economic growth in Peru and a continued store opening programmes will see Supermercados Peruanos closely trail Cencosud in the years to come, posting sales of USD2.3 billion and operating around 150 stores by 2015.



# Serbia

## Background data

Countries that successfully emerge from protracted periods of violence and/or social turmoil often become attractive places for the development of a consumer market. Witness the experiences of Colombia, South Africa, Indonesia, and even Russia. Something similar is now taking place in Serbia. Having gone through a decade of war following the collapse of the former Yugoslavia, Serbia has lately been on a stable path, with strong economic growth just prior to the global crisis. Although the country suffered a mild economic downturn during the global economic crisis, most analysts expect moderate growth to continue in the years ahead. The speed of Serbia's growth, however, will depend not only on Serbia's own economic policies, but on what happens in the rest of Europe.

The Serbian government has focused on implementing policies that will enhance the likelihood that Serbia will one day join the European Union (EU). Yet the problems in the EU, and especially the problems that Greece has experienced as a member of the EU, are causing a decline in political support within Serbia for eventual EU membership. Moreover, polls show that Serbians are increasingly pessimistic that the EU will be open to Serbian membership. On the other hand, the positive experience of several Eastern European countries in the EU is a significant driver of support for EU membership on the part of Serbia's leadership.

With roughly 7.4 million people, Serbia is a relatively poor country by European standards but middle income by the standards of other emerging markets. When measured according to true purchasing power, Serbia's per capita GDP is roughly similar to that of South Africa and about 33% higher than that of China. Yet its per capita GDP is little more than one third that of neighbouring Greece.

Serbia's biggest economic challenge is an uncomfortably high rate of double digit inflation (14.7% in April 2011). The result will be a significant fiscal contraction in the coming years, part of an agreement with the IMF designed to stabilise the economy. This means that, while consumer spending played a big role in the growth during the past decade, it is expected to grow more slowly in the years ahead. In addition, the troubles in Europe will likely have a negative impact on Serbia's export growth. On the other hand, the currency is competitively valued which should be beneficial to export growth.

## Serbia: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	7.38	7.38	7.38	7.40	7.41
GDP (USD mn)	38,555	48,496	41,414	38,923	46,795
GDP/capita (USD)	5,223	6,569	5,610	5,263	6,314
GDP (% real growth)	6.90	5.52	-3.12	1.76	3.00
Consumer price inflation (%)	6.50	12.43	8.11	6.17	9.90
Consumer spending (USD mn)	33,969	42,693	37,046	34,759	41,666
Consumer spending/capita (USD)	4,602	5,783	5,018	4,700	5,622
Retail sales, net (USD mn)	19,929	24,854	21,515	20,113	23,973
Retail sales, net/capita (USD)	2,700	3,367	2,915	2,719	3,235

Source: Planet Retail

GDP and other data presented in annual average exchange rates

Another economic challenge is a very high rate of unemployment (over 22% in April 2011) and a low rate of labour force participation (under 50% at mid-2011). This bodes poorly for dealing with the fiscal deficit. On the other hand, the prospect of EU membership could boost investment thereby creating new job opportunities. The high rate of unemployment means that labour in Serbia is relatively inexpensive.

Despite the serious economic challenges, the consumer market is seen as attractive given the relative fragmentation of the retail market, the rising living standards of the population, political and social stability, and the openness of the market to foreign investment. As such, several global retailers are already showing interest in this small market.

## Delhaize Group

### Overview

Thanks to the 2011 acquisition of the Delta Maxi, the entire retail business of the Serbian conglomerate Delta Group, Delhaize Group has gained a dominant position in the country's grocery retail market. Although rivals such as Mercator and Agrokor have also been expanding, their share of the market is significantly lower. Delhaize Group has also gained access to four new markets of Bosnia and Herzegovina, Bulgaria, Albania and Montenegro, where Delta M Group's market share is low, but there is high potential for further store development.

### Company mini profile Delhaize Group

#### Key facts

**Location**  
Belgrade

**Start of operations**  
2011

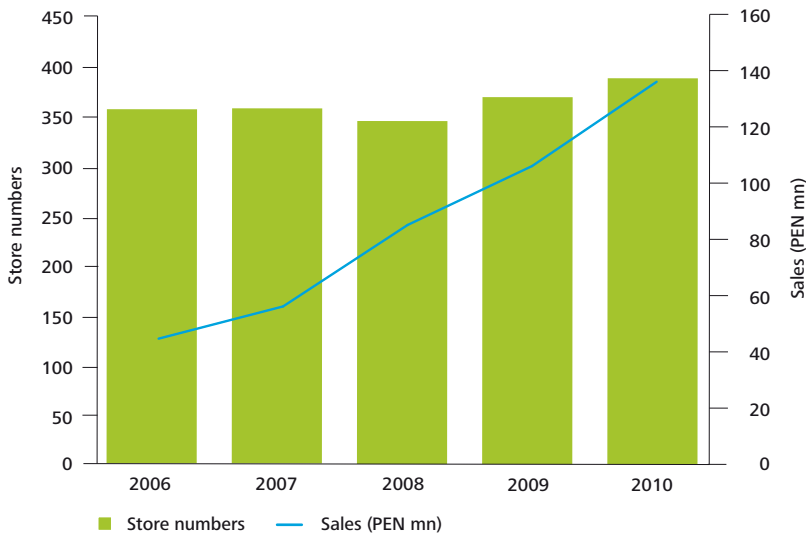
**Main formats**  
Hypermarkets,  
Supermarkets &  
neighbourhood stores,  
Cash & carries, Discount  
stores

**Stores (2010)**  
386

**Net sales (2010)**  
USD1,738 mn

**International presence**  
12 (Delhaize Group)

**Delhaize Group (Delta M Group): Retail banner sales and store numbers, 2006-2010**



Source: Planet Retail – www.planetretail.net

The acquired store portfolio is very similar to Delhaize’s store structure in its domestic market Belgium. It includes Maxi supermarkets, neighbourhood stores, Tempo Express discount stores and Tempo cash & carry stores, the last of which is a hybrid concept of a cash & carry store and hypermarket and also the price leader in Serbia.

**Growth**

Facing financial problems, Delta M developed its store network slowly, opening around 20 stores annually in the last few years. Delta M has been the fastest growing retailer in Serbia in terms of revenue growth, with annual sales growth (in local currency) exceeding 25% between 2008 and 2010. Apart from the opening of new supermarkets and neighbourhood stores, Delta launched its hybrid Tempo cash & carry/ hypermarket format in its own shopping mall in 2009 as well as its Tempo Express discount store concept.

**Reasons for success**

**Connections** – Superb links to the Serbian government and local politicians eased Delta M smooth expansion across the country.

**Market conditions** – Bureaucracy, unfair business practices and political risks discouraged not just Western European retailers from investing in the market, but also Balkan retailers. This helped the retailer to develop its store network and gain market share.

**Products** – As a part of Delta Group, which owns several grocery manufacturers, Delta Maxi sourced products at low prices and sold them with high margins. Prices of some staple products were higher than in Western European chains.

**Multi-format strategy** – As the level of disposable income significantly varies between urban and rural areas, Maxima’s multi-format store portfolio helped the retailer to target different segments of consumers.



**Tempo Express was the first discount format in Serbia launched by Delta M in 2009**

Source: Planet Retail

### Future strategic priorities

Delhaize Group's acquisition of Delta Maxi should be completed in the autumn of 2011. The retailer has not announced any strategic plans yet, but it is likely that it will continue in the expansion of the most profitable formats such as the Tempo cash & carries and Tempo Express discount stores. In addition it may invest in generating synergies in terms of logistics, marketing and procurement with its operations in Romania and Greece.

Delhaize Group, a member of the AMS buying group, may introduce in Serbia its wide range of private label products and therefore gain a price advantage over local brands.

The retailer's dominant market position in Serbia looks secure, unless other players like Mercator and Agrokor invest massively in their own store development. A possible greater risk could come in 2012 when Schwarz Group is expected to open its first Lidl discount store in the market.

---

**Delta M has been the fastest growing retailer in Serbia in terms of revenue growth, with annual sales growth (in local currency) exceeding 25% between 2008 and 2010.**

### The Serbian retail scene

Until 2011, the Serbian retail scene was dominated by domestic, or at least Balkan, players. Foreign retailers considered the country risky due to its political instability, manufacturers owned by domestic conglomerates and local retailers' close ties with the authorities. However, with Serbia's membership of the EU becoming increasingly likely, the market is set to become more attractive to European and global players. 2011, for example, saw Belgium's Delhaize Group take the risk and invest in the country. Germany's Schwarz Group is also expected to open its first Lidl discount store in the market in 2012.

Relatively advanced retail structures can be found in the capital Belgrade and other big cities, whereas retail in small towns and in the countryside remains very fragmented. Most modern grocery stores are now in the hands of Delhaize Group, which holds a dominant position in the market thanks to its recent acquisition of local market leader Delta Maxi. Other, less significant market players are Germany's Metro Group and France's Intermarché, as well as regional players like Slovenia's Mercator and Croatia's Agrokor.

Despite Delhaize's leadership, market concentration in Serbia is still low, given the generally poor degree of economic development. However, further market consolidation is expected since Serbia is in the process of becoming an official member of the EU, which should lead to more foreign retailers investing into the country. With low buying power and the population living mainly in small cities and the countryside, the cash & carry, supermarket and discount store formats will be the winning concepts in the future.

# South Africa

## Background data

South Africa has emerged as something of a regional powerhouse, with its President having been invited to a meeting of the BRIC leaders. In the years following the end of apartheid, this once troubled country has proved many pessimists wrong and demonstrated success both economically and politically. Today South Africa is the richest country in Africa. Yet troubles remain. These include massive income inequality largely based on race, a high rate of crime, and a very high incidence of HIV/Aids. Despite these problems, South Africa is of interest to the world's leading retailers. Indeed the world's largest retailer has agreed to enter the market through acquisition. Moderate economic growth has enabled the continuing expansion of a black middle class with significant discretionary purchasing power. The country's strong resource base augurs well for future growth given the high demand for commodities coming from big emerging markets such as China. As for the investment climate, South Africa is attractive. In various ease of doing business and global competitiveness surveys South Africa scores relatively well – especially in the sophistication of its markets and institutions, as well as perceived long-term political risks, existing business management and know-how, legal frameworks, and long term economic outlook ratings.

## Current economic situation

South Africa's economy recovered well and recorded strong growth in the early part of 2010 but growth remains relatively slow compared to other high profile emerging markets. Naturally GDP growth has benefitted from increased demand for metals and minerals from Asian economies, mainly China. However, a large part of recent economic growth emanated from strong consumer spending, itself fuelled by robust wage gains as well as the positive effect on household cash flow from declining household debt relative to GDP. Going forward, the economy is expected to grow at a moderate pace, in the neighbourhood of 3-4% per year. Consumer spending, at 61% of GDP, is high relative to many other emerging countries and is likely to remain so for many years.

The tourism and retail sectors are expected to benefit from moderate growth.

Reducing budget deficits is likely to be a focus of government in the coming years, but employment will probably suffer in the process. Also, development of infrastructure may slow as a majority of such investment has come from the government. Indeed inadequate infrastructure, especially electricity generation, will adversely affect the economy. Shortcomings in the transport network may accentuate logistical bottlenecks for retailers and small businesses. Nonetheless, the development of infrastructure should help to accelerate growth potential by the end of the decade.

## South Africa's consumer market

With nearly 50 million people, South Africa is a market of significant size. With a per capita income similar to that of Turkey, it is a relatively affluent market among emerging countries. Moreover consumer spending has grown more rapidly than GDP in the last few years. Yet due to a history of racial discrimination, the country ranks poorly on the Gini index which measures the degree of income inequality. The country has a modest number of people leading a lifestyle similar to that of the US or Western Europe. It also has a large population of people living in conditions comparable to some of the world's poorest countries. While there is a rising middle class among blacks, it is a minority. Hence, the average level of income, while high, can be misleading when measuring the affluence of the overall market.

South Africa has a relatively young population with over 60% between the ages of 15 and 60. The country also has a very high rate of unemployment, roughly 25%, owing to a mismatch between the supply of and demand for skills. In addition, strikes and labour unrest are frequent occurrences. The government has an enormous challenge in creating employment to absorb the young workforce, failing which, further social unrest is likely. On the positive side, expansion of education has caused an increase in the size of the black middle class. This pattern is likely to continue over the next few years. As labour skill sets improve, wages may be revised upwards increasing disposable incomes and spending potential.

Historically the spending patterns of South Africans have been determined, in part, by the availability of credit. After a binge, consumers have begun to pay down debts and the debt to GDP ratio has declined. This sets the stage for improved discretionary income going forward.

## Massmart

### Overview

South African retail and wholesale group Massmart has been majority-owned by US giant Walmart since the latter acquired a 51% majority stake in the business in June 2011. Walmart's market entry followed more than nine months of preparations, accompanied by a heated public debate around potential job losses in local manufacturing which resounded in extended procedures in front of the national competition authorities. Despite Walmart effectively taking control of Massmart, the company remains a separate business listed on the Johannesburg Stock Exchange (JSE).

While Massmart is a highly internationalised group with operations in 12 foreign markets across Sub-Saharan Africa, its cross-border operations are mostly small. In fact, its business in South Africa continues to account for almost 90% of group sales. In its home market, Massmart ranks as the second-largest retailer after Shoprite in terms of total sales, but its large exposure to variety stores and DIY stores means that it plays a significantly smaller role in the national grocery sector, where it only ranks as the number four with a market share of 5%.

This comparatively weak presence in the food sector is one of the key areas due to change under Walmart ownership, which has pledged to step on the accelerator and grow Massmart's food retail portfolio. This focus on food retail formats also appears to imply that expansion of Massmart's cash & carry, warehouse club and delivered wholesale operations – which largely target independent store operators and restaurants in South Africa's highly fragmented market – will take a back seat in the near future.

Apart from pushing Massmart's food retail offering, the influence of Walmart will be felt strongly in a more efficient supply chain that is due to convert Massmart into an everyday low cost business with an everyday low pricing strategy and a complementary online offer. While extending an international food supply chain to South Africa will certainly take its time, Walmart's experience in private label and its muscle in global non-food buying have started to become visible very early. The way all this will predictably trickle through to shelf prices is forcing local competitors already to push efficiencies and cut jobs, and Massmart's increasing price aggressiveness can, with firm belief, be expected to have a lasting effect on South Africa's once unperturbed retail landscape.

### South Africa: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	47.851	48.687	49.320	49.912	50.511
GDP (USD mn)	285,202	274,818	283,725	356,086	405,270
GDP/capita (USD)	5,960	5,645	5,753	7,134	8,023
GDP real growth (%)	5.57	3.58	-1.68	2.78	3.52
Consumer price inflation (%)	7.09	11.54	7.13	4.27	4.93
Consumer spending (USD mn)	178,893	171,309	174,409	214,356	246,946
Consumer spending/capita (USD)	3,739	3,519	3,536	4,295	4,889
Retail sales (USD mn)	107,857	102,838	104,542	128,156	147,190
Retail sales/capita (USD)	2,254	2,112	2,120	2,568	2,914

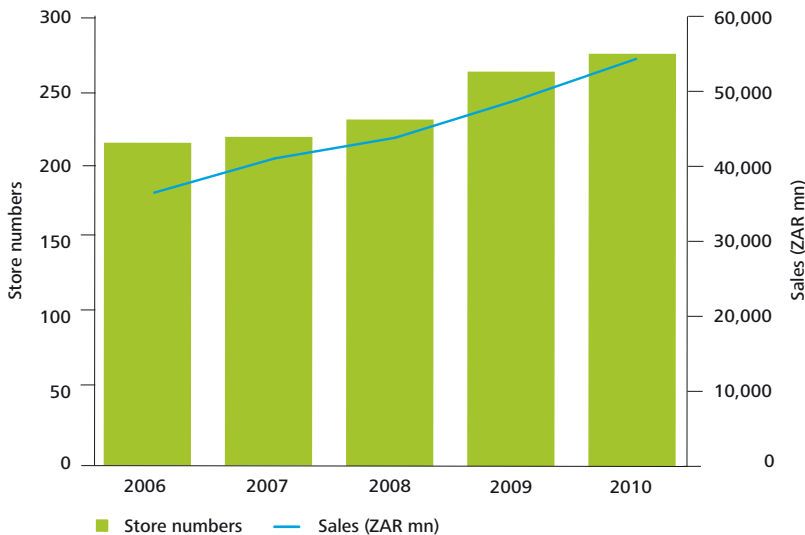
Source: Planet Retail  
GDP and other data presented in annual average exchange rates



**As South Africa's leading grocers will increasingly to target lower-income consumers, traditional spaza shops like this will come under pressure**



Massmart in South Africa: Retail banner sales and store numbers, 2006-2010



Source: Planet Retail – www.planetretail.net

### Growth

To counter its comparatively weak presence in South Africa’s hitherto lucrative grocery sector, growth ambitions for Massmart under Walmart ownership are now mainly focused on food retail formats, such as the recently-acquired Cambridge Food supermarket chain, as well as FoodCo – a format which was introduced in late 2010 as both a fresh food department at existing Game variety stores, as well as a private label range featured in these departments. In the medium term, FoodCo may also be rolled out as a standalone food store concept.

### Reasons for success

**Walmart support** – The financial support, the operational expertise and the access to its global supplier network which Walmart will provide to Massmart will give the company all it needs to close the gap with market leader Shoprite within a period of around five years. The way Walmart’s low-cost approach will finally translate into EDLP will shape South African grocery retailing irrevocably.

### The South African retail scene

With the recent decision by Walmart to enter South Africa, the country’s position on the global radar screen has been illuminated. Until now, domestic players have dominated retailing. These relatively sophisticated retailers now see a huge potential to venture to rural areas and introduce discount stores that will target consumers with lower income levels. This bodes well from an employment perspective. The country’s leading retailers have also been investing heavily in other African countries. If more foreign retailers enter South Africa, they are likely to use the country as a springboard into other promising markets on the continent.

Supermarkets constitute the largest share of the retail industry in South Africa and continue to grow due to substantial investment. The hypermarket model, however, is still underdeveloped. Currently hypermarkets cater only to relatively affluent consumers. As the black middle class rises, hypermarkets may tap into this segment with an appeal to convenience for time pressed shoppers.

As a result of the persisting social gaps, it comes as little surprise that national grocery retailing overall is divided into an infrastructure of fairly modern and well-supplied stores for the higher income strata and an underdeveloped traditional and informal sector where the majority of people continue to bulk shop mainly for staple foods at no-frills neighbourhood stores (also known as spaza shops), open markets, street traders and cash & carry outlets. It is worth mentioning in this context that cash & carry stores in South Africa, unlike their counterparts in Western Europe, are not mainly used by business clients, but also by private customers to a significant extent.

Importantly, South Africa’s modern grocers have virtually all declared expansion into the lower-income strata a priority over international growth, and this targeting of low-income consumers in the domestic market will accelerate the gradual shift away from traditional retailing. The independent sector meltdown will be further fuelled by the lasting impact of tougher price competition now initiated by Walmart. Yet, given income levels in South Africa and the sheer size of the traditional and informal sectors, it is obvious that the latter will not disappear overnight but will be around in significant volumes for decades to come.

**Diversified store portfolio** – Massmart’s push into food retailing under Walmart’s ownership will help to balance and shield the business at a time when high unemployment and high levels household debt will keep the economy and consumers in a vulnerable state for years to come. Thus, the previously strong exposure to vulnerable market segments such as DIY retailing (dependent on consumer credit volumes), general merchandise retailing (dependent on consumer confidence) and grocery wholesaling (dependent on an independent trade sector in decline), makes way for a more stable portfolio.

**Regional reach** – The African continent is home to just over 1 billion inhabitants, with 850 million living in the Sub-Saharan region alone. While Africa is only beginning to attract the interest of global investors – and mostly outside the retail arena – Walmart is doing well to support Massmart’s position in a number of countries across the region now. This ensures the company will be well ahead of virtually all retail competitors when Africa becomes the next big global growth story after China and India – probably in the 2020s.

---

**Massmart’s push into food retailing under Walmart’s ownership will help to balance and shield the business at a time when high unemployment and high levels household debt will keep the economy and consumers in a vulnerable state for years to come.**



**Following Walmart’s acquisition of a 51% stake in Massmart this year, expanding the food retail offer has been a key priority. The launch of FoodCo was a pre-acquisition initiative in late 2010**

**Future strategic priorities**

The intention behind Walmart’s acquisition of a controlling stake in Massmart was not to re-invent the growth strategy of the business, but to accelerate growth with a strong focus on food retail activities, while providing financial support and management expertise to boost efficiencies and performance in all things buying, technology and supply chain.

Following the implementation of low-cost structures – which will also involve the use of Walmart’s global buying power and a stronger private label offer – Massmart can be expected to launch an EDLP policy as the first major grocer of South Africa in a market whose grocery sector is overwhelmingly dominated by promotional activities. In South Africa’s comparatively high-priced food market, the benefits to consumers will be obvious independently of what the long-term impact is on domestic retail and manufacturing jobs.

Further priorities will include the launch of an e-commerce offer, with Massmart due to provide customers a choice between home delivery and a click & collect service.

**Company mini profile**  
Massmart

**Key facts**

**Location**  
Sandton (Greater Johannesburg)

**Start of operations**  
1990

**Main formats**  
Cash & carries, warehouse clubs, variety stores, DIY stores, supermarkets

**Stores (2010)**  
275 (South Africa only – update may be required after Annual Report is out in late August)

**Net sales (2010)**  
USD6,649 million (SA only – update may be required after Annual Report is out in late August)

**International presence**  
12

# Vietnam



The first FamilyMart in HCMC opened in 2009

## Background data

Vietnam's economy has slowed down in response to monetary tightening, itself the result of a significant inflation problem. That, in turn, resulted from the policy response to the global economic slowdown. At that time, the authorities unleashed aggressive monetary and fiscal policy which ultimately led to recovery from a modest downturn.

As inflation took off, interest rates were increased during the first half of 2011 and the speed of economic growth is now expected to decline in 2011. Yet inflation has continued to rise, reaching over 22% in July 2011, at which point interest rates were reduced by the central bank. This alarmed markets and raises questions about the sustainability and suitability of economic policy. The government's bonds have suffered a downgrade by credit rating agencies and fears exist that the country will require IMF assistance.

Given this level of economic uncertainty, why should global retailers take an interest in Vietnam? The reason is that, despite economic policy problems, Vietnam has certain similarities to the China of twenty years ago. A formerly communist nation, having undertaken market oriented reforms, faces a conflict between the promise of the market and the instinct of governmental control. Like China in the past, Vietnam is poor, with a per capita income roughly half that of China today. And, like China over the past twenty years, Vietnam has experienced very rapid economic growth, averaging above 8% per year over the past half-decade.

This has been fueled by increasing foreign investment geared toward exports (which have also grown rapidly), partial privatisation of state-run enterprises, the shifting of labour from agriculture to industry, and rapid growth of investment. Yet like China in the 1980s and 1990s, Vietnam has also endured a relatively high level of inflation. The question now is whether the authorities will get that under control.

Going forward, Vietnam's economic success will depend on several factors. These include continued market liberalisation and privatisation, continued foreign investment, and a structural shift in China's economy. The latter might seem surprising, yet as China shifts away from a focus on low value-added exports, Vietnam is one of the countries that is already benefitting. Some of the low-wage manufacturing processes previously done in China are being transferred to lower wage countries such as Vietnam and India. The degree to which that capacity shifts to Vietnam will depend on Vietnam's openness to foreign investment, its investment in infrastructure, and the protection of private property rights.

Vietnam has one of the largest populations in Asia with almost 90 million people. The population is expected to reach 100 million by the mid-2020s. About one third of the population is below the age of 15, although the population is gradually aging. Only about one quarter of the population lives in urban areas. This, too, is changing.

## Lotte Shopping

### Overview

South Korea's Lotte Shopping is one of the largest and fastest-growing retailers in Asia. To grow outside its increasingly competitive and saturated home market, Lotte Shopping is now pursuing international expansion based on its Lotte Mart hypermarkets and its upmarket department stores. The company now operates stores in China, Russia and Indonesia.

In December 2008, Lotte Shopping opened its first Lotte Mart hypermarket in Ho Chi Minh City, with a second opening in the city in July 2010. Going forward, Lotte Shopping sees Vietnam as a key market and investment and expansion is likely to be ramped up in the coming years.

In addition, as part of its two format strategy, Lotte Shopping plans to tap into the growing affluence in the market by launching an upmarket department store in Hanoi in 2014.

### Vietnam: Key macroeconomic data

	2007	2008	2009	2010	2011
<b>National statistics</b>					
Inhabitants (mn)	85,155	86,177	87,211	88,257	89,316
GDP (USD mn)	69,648	88,880	92,098	102,463	117,183
GDP/capita (USD)	818	1,031	1,056	1,161	1,312
GDP (% real growth)	8.5	6.3	5.3	6.8	6.3
Consumer price inflation (%)	8.4	23.1	6.7	9.2	13.5
Consumer spending (USD mn)	45,101	59,909	61,215	66,066	74,506
Consumer spending/capita (USD)	530	695	702	749	834
Retail sales, net (USD mn)	32,266	42,303	43,027	46,119	51,579
Retail sales, net/capita (USD)	379	491	493	523	577

Source: Planet Retail  
GDP and other data presented in annual average exchange rates



### The Vietnamese retail scene

Consumer spending in Vietnam is limited. Per capita retail sales are the lowest in East Asia. Most shopping is done either at wet markets or independent shops. Only in the two biggest cities (Ho Chi Minh City and Hanoi) has there been even a modest level of retail modernisation. Yet even in Ho Chi Minh City, it is estimated that there are 2,000 wet markets and 6,000 independent shops. This situation is very similar to what existed in other Southeast Asian countries prior to the development of modern stores. Those countries, such as Thailand and Malaysia, have seen massive retail modernisation in the past 20 years. Vietnam is now moving in the same direction, with investment in modern formats rising, including some investments from overseas.

Consumers are evidently attracted to the modern formats. While they possess many attributes such as convenience and air conditioning, the most important seems to be hygiene. Following the avian flu crisis in 2003, Vietnamese consumers became more concerned about food safety. The better hygienic conditions of modern stores could not have arrived at a better time. Since then, modern formats have blossomed.

There is now a growing number of hypermarkets, supermarkets, convenience stores, and department stores. Yet low incomes and lack of automobiles means that average transaction size remains very small. The government appears to be interested in promoting modern retailing. In fact, from early 2009, the Vietnamese authorities took steps to reduce the number of open-air markets in major cities by prohibiting the new markets to open city centres such as Ho Chi Minh City, and requiring many existing ones to upgrade to a require legal standard or risk closure.

Deregulation permitted foreign direct investment in the retail sector in 2009 has encouraged a growing number of foreign (particularly Asian) retail giants to invest in the sector. These include Casino, which has a presence through its Big C banner, Metro Group, with its eponymous cash & carries, Malaysia's department store operator Parkson, and Hong Kong-based Dairy Farm, which gained a license to operate a number of Citimart supermarkets in mid-2006. South Korea's Lotte Shopping entered Vietnam in 2008 with its Lotte Mart hypermarkets with plans to branch out into department stores as well.

Convenience stores also seem like a growth channel of the future. In 2009, FamilyMart became the first Japanese c-store brand in the country, opening its first store in Ho Chi Minh City in 2009, followed this year by AEON's Ministop.



Traditional trade still dominates retailing in Vietnam

### Company mini profile Lotte Shopping

#### Key facts

**Location**  
Ho-Chi-Minh City

**Start of operations**  
2008

**Main format**  
Hypermarkets

**Stores (2010)**  
2

**Net sales (2010)**  
USD52 mn (estimated)

**International presence**  
5

### Growth

Starting from a low base, Lotte Shopping has seen strong growth since it opened its first Lotte Mart in 2008. In 2010, the company reported that total sales were VND1,010 billion (USD52 million), which represented a 87% increase on 2009. This was no doubt partly helped by the addition of the second store half way through the year. Despite this, however, same-store sales growth was 32.3%.

### Reasons for success

**Early entrant** – Entering the market relatively early (2008) gives Lotte Shopping an advantage over global rivals which may make an appearance in the coming years – such as Shinsegae, Tesco and Carrefour. Lotte Mart has the opportunity to secure prime sites and gain knowledge of the Vietnamese market and consumer.

**Funds to acquire** – Lotte Shopping's strong position in its home market enables it to acquire local players to boost its presence. In both China and Indonesia it has acquired existing chains and a similar strategy cannot be ruled out in Vietnam. Acquiring a local player would boost its scale and also allow it to gain valuable local knowledge.

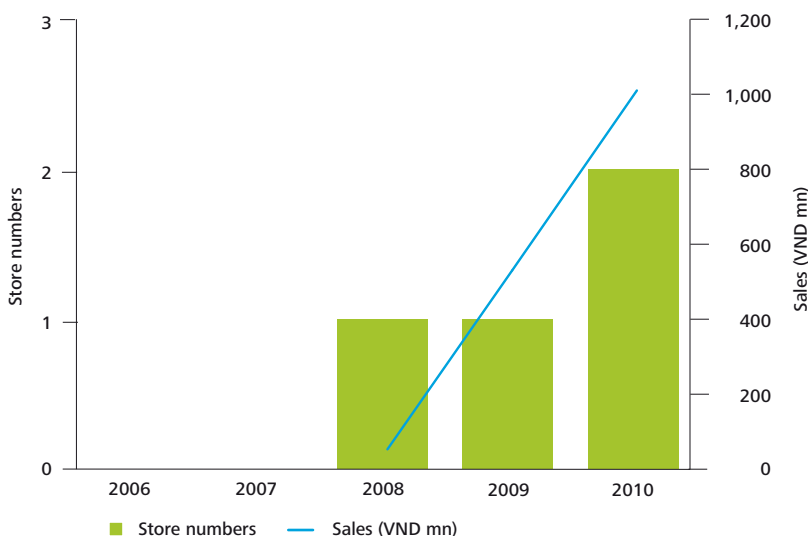
**Hypermarkets as growth channel** – Hypermarkets are set to be a major growth channel in Vietnam in the coming years. Lotte Mart is therefore well positioned to benefit from the increasing popularity and willingness of Vietnamese to visit large modern retail stores. With Lotte Mart's positioned as part of larger shopping centres, they can also benefit from the growing popularity of shopping as a leisure activity. Associate Lotte Cinema is already operating cinemas in such locations, for example.

**Option to diversify** – Aside from its hypermarkets, Lotte's department store expertise will allow it to tap into the growing number of affluent Vietnamese looking for famous Western luxury brands. In addition, Lotte Shopping could in the future move in to smaller store formats such as supermarkets and convenience stores – as it has done in its domestic market.

### Future strategic priorities

Lotte Shopping's initial plans have called for some USD5 billion to be invested in opening up to 30 stores by 2024. The retailer has also been linked with a possible acquisition of an existing local player Maximark. Indeed, Lotte Shopping admitted in 2010 that it was interested in co-operating in some form with market leader Saigon Co-op in order to learn more about the Vietnamese market and consumer. In its other Asian markets – China and Indonesia – Lotte Shopping has acquired existing chains to bolster its presence.

Lotte Shopping: Retail banner sales and store numbers, 2006-2010



Source: Planet Retail – www.planetretail.net

---

Starting from a low base, Lotte Shopping has seen strong growth since it opened its first Lotte Mart in 2008.

# Contacts

## Authors

Ira Kalish  
*Deloitte Services LP*  
ikalish@deloitte.com

Rob Gregory  
*Planet Retail*  
robert.gregory@planetretail.net

## Retail contacts for Deloitte Touche Tohmatsu Limited and its member firms

DTTL Global Consumer Business & Transportation  
Industry Leader  
*Lawrence Hutter*  
lhutter@deloitte.co.uk

Europe, Middle East, and Africa  
*Richard Lloyd-Owen*  
rlloydowen@deloitte.co.uk

South Africa  
*Roger George*  
rogeorge@deloitte.co.za

Americas  
*Vicky Eng*  
Deloitte Consulting LLP  
veng@deloitte.com

Latin America, Caribbean  
*Omar Camacho*  
ocamacho@deloitte.com

Asia Pacific  
*Yoshio Matsushita*  
yomatsushita@deloitte.com

Brazil  
*Reynaldo Saad*  
rsaad@deloitte.com

Canada  
*Brent Houlden*  
bhoulden@deloitte.ca

India  
*Shyamak Tata*  
shyamaktata@deloitte.com

Malaysia/SE Asia  
*Hsiao Wey Tan*  
hstan@deloitte.com

Mexico  
*Omar Camacho*  
ocamacho@deloitte.com

Russia  
*Alexander Dorofeyev*  
adorofeyev@deloitte.ru

Turkey  
*Ugur Suel*  
usuel@deloitte.com

United Kingdom  
*Ian Geddes*  
igeddes@deloitte.co.uk

United States  
*Alison Paul*  
Deloitte Consulting LLP  
alpaul@deloitte.com

## Planet Retail

Paul Martin  
*Managing Director*  
paul.martin@planetretail.net

### **About Planet Retail**

Planet Retail is the leading provider of global retailing information, from news and analysis to market research and digital media. Covering more than 10,000 retail and foodservice operations across 140 markets around the world, many of the world's leading companies turn to Planet Retail as a definitive source of business intelligence. By joining the latest in web technology with over 15 years of retail industry insight, we deliver immediate business value to our customers who span the entire retail supply-chain as well as financial services, consulting, advertising, IT, property, investment, entertainment and academia.

Planet Retail has offices in London, Frankfurt, Chicago and Tokyo.

### **For more information**

+44 (0) 20 7728 5600

[info@planetretail.net](mailto:info@planetretail.net)

[www.planetretail.net](http://www.planetretail.net)

### **Deloitte Global Profile**

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 140 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 182,000 professionals are committed to becoming the standard of excellence.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/about](http://www.deloitte.com/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, any of its member firms or any of the foregoing's affiliates (collectively the "Deloitte Network") are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

© 2011 Deloitte Global Services Limited

Designed and produced by The Creative Studio at Deloitte, London. 14188A