Emerging Market Priorities For Global Retailers

By: A.T.Kearney

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THE 2006 GLOBAL RETAIL DEVELOPMENT INDEXTM

As the pace of globalization quickens so does the race into new markets—with the promise of large, wealthy emerging markets too attractive to ignore. But success in this race does not necessarily go to the swiftest. Rather, it goes to companies that make the right moves at the right times. Location is still important, but timing is the name of this retail game.

The globalization of modern retail continues to accelerate. Since 2001, more than 49 retailers have entered about 90 new markets. In 2005 alone, more than 30 "wave 2" companies—those that follow the primary entrants such as supermarkets—including do-it-yourself and apparel retailers, entered new markets. But acceleration does not equal success: Retailers left 17 markets in 2005 and are expected to exit another 19 in 2006. Many others are struggling to generate profits. How can companies navigate such uneven terrain?

For the past five years, A.T. Kearney has helped retailers prioritize their global development strategies by publishing the Global Retail Development IndexTM(GRDI). The Index ranks 30 emerging countries based on more than 25 macroeconomic and retail-specific variables (see sidebar: About the Global Retail Development Index). Figure 1 highlights the 2006 findings. In addition to the country ranking, we developed the Retail Labor Index to rank the labor pools of 15 emerging countries.

Beyond the yearly findings, we also examined more than 10 years of data points. From this analysis, we gained new insights into the patterns and effects of retail in emerging markets, including:

- Emerging markets pass through windows of opportunity, which remain open for an average of 5 to 10 years
- Certain retail formats work better than others, depending on time of entry and region
- Modern retail expansion contributes to economic growth

This last point, in particular, should resonate with governments and policymakers in emerging markets: From India to Brazil, from China to Mexico, countries must create the right competitive environment to attract foreign companies and thereby reap the economic benefits that increased retail activity can provide. Ultimately, timing is in their hands.

We begin with an overview of this year's findings :

FIGURE 1

The 2006 Global Retail Development Index™

2006 rank	Country	Region	Country risk	Market attractiveness	Market saturation	Time pressure	GRDI score
		Weight	25%	25%	30%	20%	
1	India	Asia	55	34	89	76	100
2	Russia	Eastern Europe	43	59	53	90	85
3	Vietnam	Asia	43	24	87	81	84
4	Ukraine	Eastern Europe	42	37	76	81	83
5	China	Asia	58	40	57	86	82
6	Chile	Americas	67	57	47	48	71
7	Latvia	Eastern Europe	58	50	31	88	69
8	Slovenia	Eastern Europe	78	52	25	70	68
9	Croatia	Eastern Europe	57	51	28	91	67
10	Turkey	Mediterranean	46	59	64	40	66
11	Tunisia	Mediterranean	58	40	79	25	65
12	Thailand	Asia	57	39	49	72	64
13	Korea, South	Asia	68	73	35	36	63
14	Malaysia	Asia	66	49	54	38	62
15	Macedonia	Eastern Europe	32	32	75	64	61
16	United Arab Emirates	Asia	78	67	33	25	60
17	Saudi Arabia	Asia	53	46	67	30	59
18	Slovakia	Eastern Europe	61	51	23	78	58
19	Mexico	Americas	54	67	47	28	57
20	Egypt	Mediterranean	45	35	81	35	60
21	Bulgaria	Eastern Europe	48	37	52	65	55
22	Romania	Eastern Europe	45	40	53	60	54
23	Hungary	Eastern Europe	65	50	17	76	53
24	Taiwan	Asia	83	69	32	6	52
25	Bosnia and Herzegovina	Eastern Europe	31	18	71	75	51
26	Lithuania	Eastern Europe	59	52	32	55	50
27	Brazil	Americas	46	56	64	16	49
28	Morocco	Mediterranean	45	31	76	30	48
29	Colombia	Americas	39	42	65	37	47
30	Kazakhstan	Asia	48	15	99	8	46

Key
- On the radar screen
- To consider
- Lower priority

Legend
- Country risk: 0 = high risk; 100 = low risk
- Market attractiveness: 0 = low attractiveness; 100 = high attractiveness
- Market saturation: 0 = saturated; 100 = not saturated
- Time pressure: 0 = no time pressure; 100 = urgency to enter

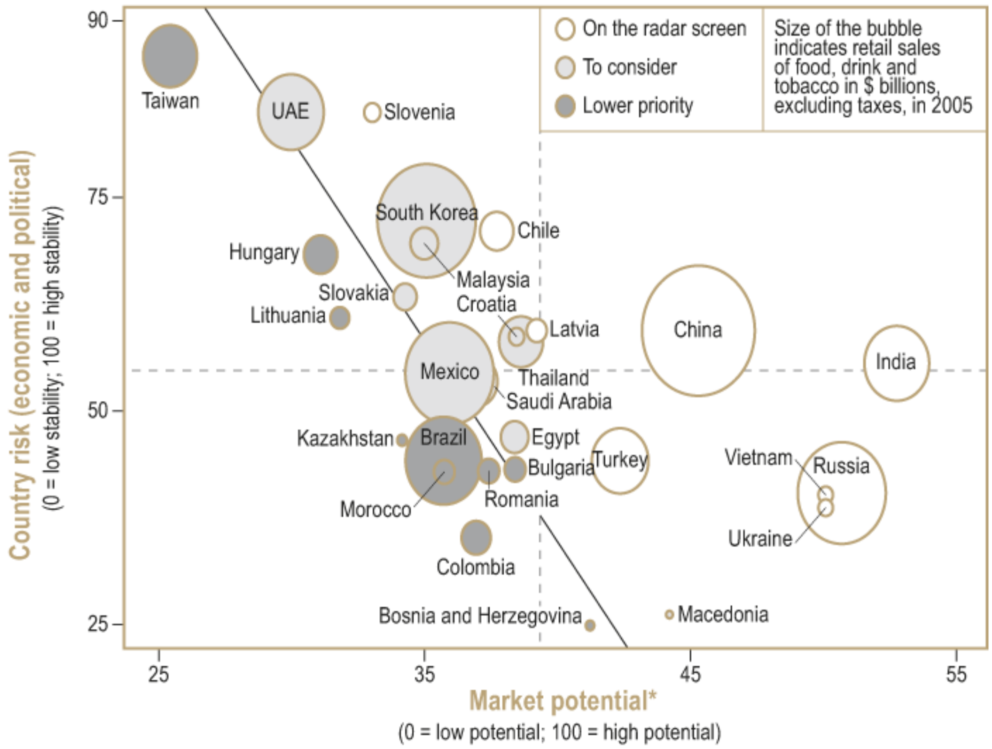
Sources: Euromoney, World Bank, Global competitiveness report 2005 and A.T. Kearney analysis

THE 2006 GRDI FINDINGS

On a regional level, Asia reclaimed the lead position from the maturing markets of Eastern Europe. As part of Asia, the Middle East posted the highest retail sales growth globally, led by United Arab Emirates and Saudi Arabia. The Mediterranean held steady with mixed results, while Latin America recovered from its economic crises and enjoyed a strong return on the Index. Finally, Africa remains outside the game, but that is not stopping retailers from entering this populous region. Figure 2 maps out the relative market attractiveness of all countries on the Index. A closer look at each region follows:

FIGURE 2

GRDI 2006 market attractiveness



* Based on weighted score of market attractiveness, market saturation and time pressure scores
Source: A.T. Kearney

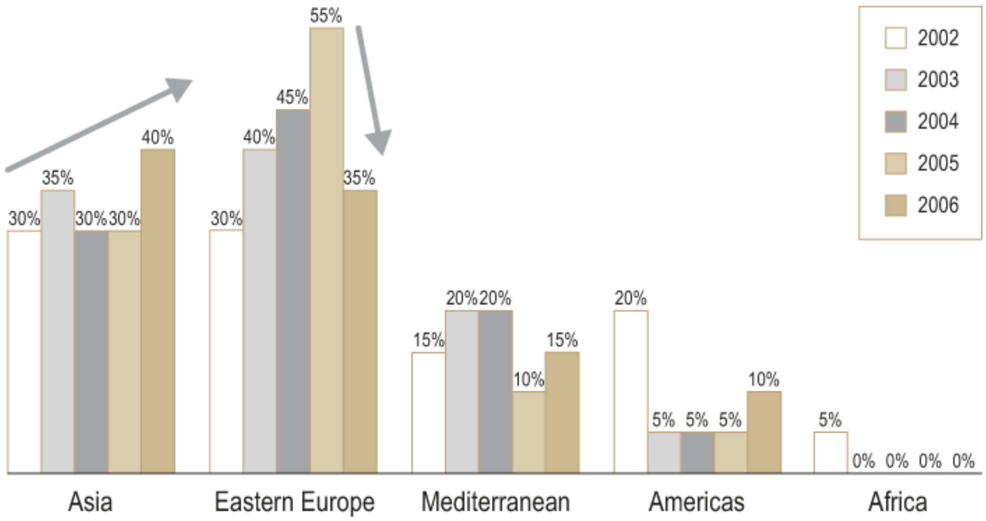
Asia Reclaims the Lead

In a reversal of the past few years, Asian countries dominate this year's Index and outrank those from Eastern Europe (see figure 3). Asian countries hold 40 percent of the top 20 GRDI markets, while Eastern European countries hold 35 percent. Just last year, Asia accounted for 30 percent while Eastern Europe captured 55 percent. This shift is not a surprise. Asia has always been the largest region of emerging markets: It represents 26 percent of global GDP and 32 percent of global retail sales. Its annual retail sales grew at a healthy rate of 7 percent in 2005. More important, modern retailers have tapped into just 28 percent of the region, compared with 42 percent of the markets in Eastern Europe.

FIGURE 3

Most attractive developing markets for retail by region

Percentage of markets that are "on the radar screen" and "to consider"



Source: A.T. Kearney

The leading Asia markets are also getting hotter: India topped the 2006 Index and Vietnam moved up five places to reach 3rd place. Three other Asian tigers—Thailand, South Korea and Malaysia—also made it to the top 15. The following snapshots provide insight into key markets:

India keeps its lead. India is more attractive than ever to global retailers. India's economic growth, forecasted at 8 percent GDP in 2006, continues to support the retail industry. The estimated $350 billion retail market is expected to grow 13 percent and the top five retailers account for less than 2 percent of the modern retail market. And with one billion people, it is the second largest population in the world.

There are also fundamental changes underway in India. In early 2006, the government announced that it would allow foreign companies to own up to 51 percent of a single-brand retail company, such as Nike or FCUK. This is a significant break for global retailers and will spark a flurry of investment. Already, companies including Gap, Zara, Timex and United Colors of Benetton have announced plans to enter the market.

However, the relaxed regulations do not extend to companies that sell a variety of brands, such as Wal-Mart and Tesco. Despite the ongoing obstacles, Wal-Mart is eager to open its doors in India and is investigating its options. One possibility would be to open a Sam's Club wholesale business through a joint venture and sell strictly to other retailers. This strategy skirts the issue of not being able to sell directly to consumers and establishes a presence in the local market.

Tesco is planning to enter the market through a partnership with Home Care Retail Mart Pvt Ltd and expects to open 50 stores by 2010.

Still, controversy about how globalization will affect local retailers continues, and local conglomerates are moving quickly to ensure they don't lose out to international players. For example, Reliance, a leading Indian conglomerate, announced that it will invest $3.4 billion to become the country's largest modern retailer by establishing a chain of 1,575 stores by March 2007. Hypercity Retail, a subsidiary of K Raheja Corp Group, plans to open 55 hypermarkets by 2015.

India's government seems to be on a gradual, but definite, path toward allowing foreign retailers into the country. And when it takes the final steps, the peak time to enter will quickly pass—giving retailers that enter now a distinct edge.

China loses ground. Although China slipped one spot to number 5 on the Index, its retail market grew by more than 12 percent in 2005 and remains very attractive. However, because international retailers are fueling this growth, market saturation is also on the rise. More than 40 foreign retailers have entered the market to date.

"Wave 1" retailers, such as grocers and convenience stores, entered the market in cities along the east coast and have begun moving west. "Wave 2" companies—consumer electronics, do- it-yourself and apparel retailers—are a few years behind, but are following the same east-to-west path. This group includes Best Buy, Leroy Merlin and Home Depot, which acquired Orient Home.

Success stories are on the rise. Do-it-yourself retailer B&Q entered China in 1999 and has enjoyed double-digit growth every year since. Last year, sales grew by about 50 percent to nearly $550 million, and it purchased the China operations of Germany-based home decor company OBI. Looking ahead, B&Q plans to open 100 stores in China in the next five years.

Another example is Tesco. Although the U.K.-based retailer didn't move into China until 2004—long after Wal-Mart and Carrefour entered in the mid-1990s—its performance has been strong. Tesco is planning to open 16 new stores in China, three of which will be in Dongguang. Annual retail sales in this region increased by more than 17 percent in 2005, making it one of the most promising areas of China. Tesco also operates 41 hypermarkets in the country through a joint venture with Ting Hsin.

With Wal-Mart and Carrefour firmly entrenched and Tesco gaining ground, the retail market is poised for some interesting developments in the next few months. However, saturation levels, especially in China's more attractive tier-one centers, are increasing.

Vietnam: the little India. Vietnam rose five places this year to number 3 on the Index. Vietnam has consistently performed well over the past five years and has one of the fastest growing economies in Asia. Its ever-increasing population is a big draw: Half of its 84 million people are below age 30 and they like to shop. Consumer spending increased by about 16 percent and modern retail sales rose by 20 percent from 2004 to 2005.

In many ways, Vietnam resembles a little India, particularly because of its fragmented retail market. In fact, 90 percent of retail outlets are neighborhood stores run by locals, similar to the Indian kirana shops. Also like India, the biggest hurdles to entering this market are its FDI regulations, high import taxes and difficulties in obtaining licenses to open more stores. Once again, timing depends on policymakers and government officials.

Still, retailers are tapping into Vietnam's potential as best they can. South Korea's leading retailer, Lotte, is entering the market through a joint venture and plans to open a chain of wholesale and retail superstores in Ho Chi Minh City. Other retailers that have successfully maneuvered the bureaucratic obstacles include Groupe Bourbon from France, Metro Cash & Carry from Germany, and Costco from the United States. Also, Levi Strauss & Co. recently launched its first store in Hanoi.

Asian tigers stay strong. Overall, the Asian tigers remain attractive and have the longest window of opportunity across all markets. Thailand and South Korea are still in the top 15, with annual retail growth of 7 percent and 19 percent respectively in 2005. These markets have become battlegrounds for local and international retailers. In South Korea, for example, Lotte, GS Retail and Shinsegae are in fierce competition for market share. In Thailand, the market is highly concentrated with the top five retailers holding about a 45 percent share of the market, leaving little room for new entrants. Still, some Asian retailers, including Dairy Farm, are continuing to move in.

The Middle East growth phenomenon. Between 2001 and 2005, the Middle East's modern retail sector grew 38 percent, second only to that of Central and Eastern Europe's, which increased 41 percent. This is far above other Asian markets (16 percent), Latin America (20 percent) or even Western Europe (16 percent) and the United States (22 percent). The Middle East also has one of the highest growth rates in consumer spending and a low level of retail concentration. In Saudi Arabia, for example, the top five retailers hold less than 11 percent of retail sales.

European retailers are entering the region quickly, particularly in United Arab Emirates, Kuwait and Saudi Arabia. The most common entrants are non-food retailers that use low-risk models, such as franchises, to gain a foothold. In the past year, for example, Burberry, Paul Smith, Jimmy Choo, Asprey and Emporio Armani have all opened shop in United Arab Emirates. Harvey Nichols also plans to enter soon, and Louis Vuitton is expanding its presence. From the United States, Gap Inc. is planning a major expansion in the Middle East, launching both Gap and Banana Republic stores in five markets.

These companies must fight for consumers from companies that have already set up shop, including The Body Shop, Zara, La Senza, Guess, Next and Mothercare. Many of the retailers—both old and new—are gaining an edge by adapting their merchandise to local tastes. Burberry has been working on producing a “Gulf chic” range of branded abayas, headscarves and sandals.

Two markets in particular stand out:

United Arab Emirates, which entered the Index this year at number 16, has an annual GDP growth rate of nearly 7 percent and an annual retail growth rate of 11 percent in 2005. Carrefour is the top retailer in the market followed by Consumer Co-op UAE and Casino. The market is also home to some of the world's largest malls, with retail sales space growing by 110 percent in 2005.

More than five retailers entered UAE in the past year, including AS Watson, Panda and Marks & Spencer, along with U.S. retailers Borders and Liz Claiborne. IKEA is also planning to open its largest store in the country this year. These companies joined existing retailers such as Saks Fifth Avenue, JCPenney and Tiffany.

Saudi Arabia's entry into the World Trade Organization last year prompted more relaxed investment rules, including allowing foreign retailers to control up to 51 percent of local companies. This helped push the country to number 17 on the Index. Saudi Arabia's healthy economic growth (6 percent in 2005) and low concentration of modern retailers (the top five hold just 11 percent) support the country's attractiveness. For non-food retailing, shopping center growth is around 100 percent as several malls opened in Riyadh and other major cities. Carrefour plans to open 18 new stores through its local alliance partner and is adopting new strategies, such as game centers and new floor layouts to enhance the shopping experience. Casino also plans to enter the market through its Geant store format.

Eastern Europe: A Maturing Market

As a region, Eastern Europe falls behind Asia in the 2006 GRDI top 30. All countries—except Macedonia, which went up one spot—either kept or lost their place compared to last year. This doesn't mean the region is losing its allure; rather, it indicates that the “boom” following the end of the Cold War is starting to fade. Figure 4 shows fewer retailers are entering and exiting Eastern Europe.

FIGURE 4

Global retailer entries and exits in 2006

*Excluding Latin America

Source: A.T. Kearney

Indeed, the rush is ending primarily because the market is filling up. In the past two years, retailers including Spar, SOK Prisma, IKI, Rimi, Lidl, Paterson, AS Watson, Mercator and SOK Prisma entered Latvia, Lithuania , Estonia, Slovakia and Slovenia— leaving little room for more newcomers.

Still, the EU integration is spurring many retailers to move east. Like Ukraine last year, some "new" Eastern European markets are attracting Russian and other international retailers. As for Ukraine this year, domestic retailers are actively moving into tier-two cities. A potential newcomer for next year is Belarus. Although it is not in the top 30, it is starting to move up the ranks. With 10 million people, retail sales of $7 billion, GDP of $25 billion and a GDP growth rate of 8 percent, Belarus is poised to enter the GRDI in 2007.

Russia goes against the Eastern European grain

As most Eastern European countries slide on the Index, Russia holds its second place position. The country's economic attractiveness is clear: Its retail market of $180 billion increased 19 percent in 2005 and its GDP of $740 billion grew nearly 6 percent. As a result, the steady stream of new foreign retailers continues. Boots, the U.K. retailer, plans to enter this year, as do The Body Shop, Lotte, and Marks & Spencer. Others, including Tesco, Tengelmann, REWE and Casino are monitoring the Russian market closely.

Some foreign retailers that have been in the market for a few years, such as IKEA and The Metro Group, are beginning to expand outside the popular cities of Moscow and St. Petersburg. Local retailers, including Sedmoi Kontinent, Perekryostok, Park House, Petrovsky and Kopeika, are also expanding aggressively. Some are even investing outside Russia, as illustrated by Pyaterochka's move into Kazakhstan and Ukraine. As Russia's retail market fills up, however, opportunities will diminish.

The Mediterranean: A Mixed Bag

After a period of slow growth, economic activity in the Mediterranean region has continued to pick up over the past three years, while individual markets in the region continue to offer a wide range of potential.

Turkey fell one spot, to number 10 in the Index, but remains attractive due to its relatively high GDP per capita (twice that of Morocco and four times that of Egypt), large population (69 million) and relatively fragmented retail market. The top five retailers account for 20 percent of the market. Annual retail sales grew by 12 percent in 2005. Also, the country's increasing urbanization and prime location to supply other Eastern European markets make its long-term potential attractive.

Egypt climbed four spots to number 20, mostly the result of its high annual retail sales—20 percent in 2005—and strong GDP performance at nearly 5 percent. Despite this jump, regional crises are affecting retailers. For example, Carrefour withdrew Danish goods from its stores due to a Middle East boycott of Danish goods brought on by the publication of a controversial political cartoon. While Carrefour and Shoprite have been successful in Egypt by aligning with franchises and local partners, significant opportunities remain: The combined market share of Metro, Carrefour and Shoprite is only about 2 percent.

At number 11, Tunisia is a relatively small, but growing market. International companies have captured only about 3 percent of the country's retail market and are continuing to expand there through joint ventures.

Morocco dropped five spots in the Index to number 28 as a result of slower retail growth (just 3 percent from 2004 to 2005) and increasing retail saturation. Three successful international retailers—Metro, Auchan and Casino—have captured about 17 percent of the retail market. Although there is still room to enter, success depends on building strategic partnerships, which is what Auchan has done.

Lebanon is not on this year's Index. Its top five retailers hold 10 percent of the market, with Casino in the lead. The market is about ready for wave 2 companies, such as consumer electronics stores and do-it-yourself retailers. Syria, which has 19 million people, GDP growth of 3.5 percent and retail sales of $8 billion, could also be attractive to retailers that prefer low-risk models.

Latin America: Beyond the Economic Crisis

Latin America dropped in the Index over the past three years due to its economic crisis, but is making a comeback. Key countries include Brazil, Chile and Mexico.

Brazil is climbing up the Index again this year, reaching 27. Although the country's GDP per capita fell 35 percent between 2000 and 2003 and retail sales per capita dropped 16 percent over the same period, both measures have since recovered nearly 90 percent of the lost value. GDP is growing at more than 3 percent annually and the retail market is worth $250 billion. Also, with 185 million people, Brazil has the world's fifth largest population.

The top five retailers in Brazil are international companies, but account for just 27 percent of the market. Recently, Ahold withdrew from the country, while Wal-Mart has continued its expansion through new Sam's Club stores.

Chile rose five spots to number 6 in the Index. The market remains stable from both political and economic points of view. GDP increased 6 percent in 2005—its strongest growth in eight years—and the retail market grew by 20 percent. However, Carrefour withdrew because it couldn't establish its business as one of Chile's top two retailers, and Ahold pulled out because of accounting issues in its home market. These departures allow new opportunities for domestic retailers to expand. Already Falabella has announced plans to spend $200 million in 2006 to build as many as 20 new department stores, home improvement centers and supermarkets.

Mexico also increased its ranking to come in at number 19. Per capita GDP rose, as did retail sales per inhabitant. These helped to offset Mexico's high retail saturation levels. GDP grew 4 percent in 2005, but a drop in ranking is likely in the coming years as the market becomes saturated.

The new entrant for Latin America is Colombia. This market has a GDP growth of 4 percent, annual retail growth of 24 percent in 2005 and an increasingly stable economy. The top five retailers, including Casino and Carrefour, account for roughly 37 percent of Colombia's retail market. Carrefour is opening its first A-class hypermarket in the northern region of Bogotá. The new store represents an investment of $25 million. Argentina has a similar story and is following close behind Colombia.

Africa Calls for Low-Risk, High-Return Strategies

Africa accounts for about 2 percent of global GDP and 3 percent of the global retail market. Although the region is not in the Index this year, some retailers are maintaining their presence there. In fact, of the top 10 retailers in the region, the first six are Africa-based companies while the remaining four are Western European: Casino, Carrefour, Auchan and Metro.

In venturing into Africa, leading companies favor low-risk entry strategies such as franchises. Shoprite, for example, successfully expanded into Namibia and Tanzania through supermarket and discount store formats. SPAR tailors its store formats in countries such as Botswana and Namibia, which are the largest African markets outside South Africa. Today, Shoprite and SPAR control about 50 percent of Namibia's retail market.

THE RETAIL LABOR INDEX

As retailers explore their market options, they must also examine each country's labor pool. Success is unlikely without a talented workforce to support expansion into a new market. Each market presents different challenges and opportunities for companies as they develop a strong workforce, from laborers and support staff to middle managers and executive leaders. For example, retailers considering the peaking Indian market must worry about the availability of experienced senior managers. Those looking at China will have to focus more on finding the right infrastructure to train and develop their people.

FIGURE 5

The 2006 Retail Labor Index

2006 Retail Labor Index rank	2006 GRDI rank	Country	Talent availability	Talent development	Labor economics	Retail Labor Index score
		Weight	50%	30%	20%	
1	19	Slovakia	100	79	77	100
2	14	Malaysia	56	96	100	75
3	8	Slovenia	69	62	65	66
4	7	Latvia	61	65	82	65
5	23	Hungary	61	64	86	65
6	26	Lithuania	62	64	78	64
7	22	Romania	50	50	81	50
8	1	India	43	100	28	50
9	4	Ukraine	55	49	59	49
10	5	China	48	55	70	48
11	9	Croatia	56	29	58	43
12	27	Brazil	34	80	45	40
13	2	Russia	54	6	83	39
14	15	Macedonia	61	10	44	37
15	18	Bulgaria	54	0	69	34

Legend	Talent availability	Talent development	Labor economics
	0 = low talent availability 100 = high talent availability	0 = low talent development 100 = high talent development	0 = high cost of labor 100 = low cost of labor

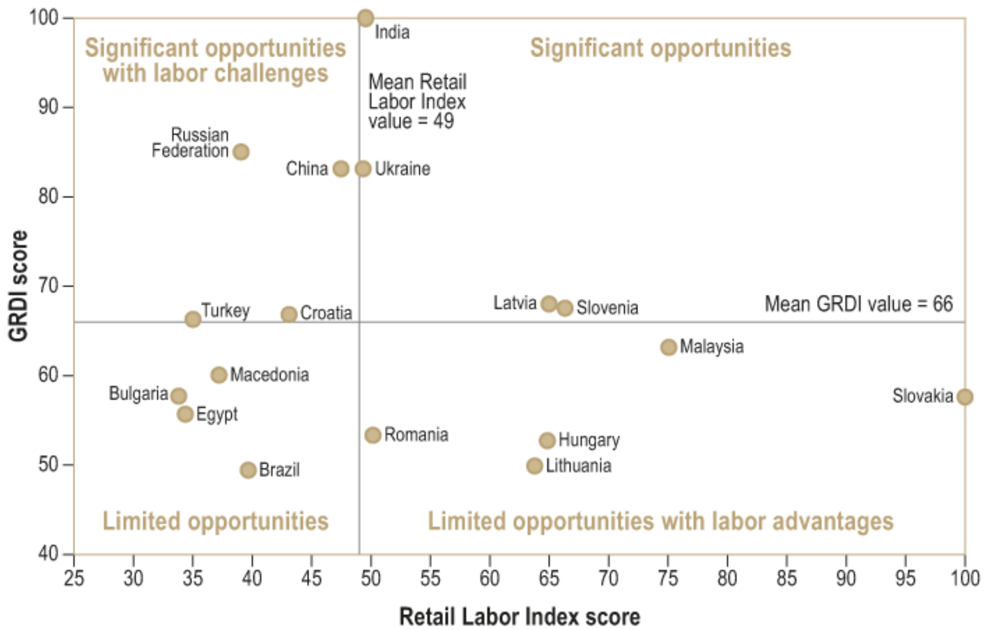
Sources: World Bank, "Doing Business," 2005; World Economic Forum, "Global Competitiveness Report 2005-2006,"; International Labor Organization's LABORSTA Database, A.T. Kearney

To help executives evaluate the different labor markets, we developed the Retail Labor Index (see figure 5). Similar to the GRDI in structure, this Index is based on 20 human resources variables and ranks countries on a 100-point scale (see sidebar: About the Retail Labor Index). We then plotted the labor index rankings against the GRDI rankings on a two-by-two matrix using the following four categories (see figure 6):

Significant opportunities. Ukraine, Latvia, Slovenia and India offer excellent labor markets. They have higher levels of talent available and more development capabilities because of their proximity to Western European nations and smaller, demographically homogenous labor forces. Labor rates are also significantly cheaper.

FIGURE 6

Global Retail Development Index vs. Retail Labor Index



Sources: World Bank, "Doing Business," 2005; World Economic Forum, "Global Competitiveness Report 2005-2006,"; International Labor Organization's LABORSTA Database, A.T. Kearney

Significant opportunities with labor challenges. Russia and China are undoubtedly among the hottest retail markets. However, despite their large populations, the supply of qualified people is limited. The myth of large labor pools in developing countries must be tempered with the realization that qualified talent is limited and competitive retailers and other businesses are wooing the same small group. Although China has 1.3 billion people, only about 3 million (about 0.2 percent) graduated college in 2005. Of these graduates, only about 10 percent will be suitable for employment in large multinational corporations (see sidebar: Retail Labor Index: India vs. China).

Stiffer competition also translates into higher employee turnover at all levels and poaching of senior managers. To limit these effects, companies should be developing employee acquisition and retention packages that offer market-competitive compensation, defined career plans, ample training opportunities and a positive work environment.

Limited opportunities. Markets such as Macedonia and Bulgaria face significant challenges in developing their workforces given their nascent industrial history and lack of institutional infrastructure. Their educational systems are predominantly based on local languages and produce few graduates with sufficient English skills. Retailers should continue to monitor these markets to see if the opportunity grows and labor challenges ease.

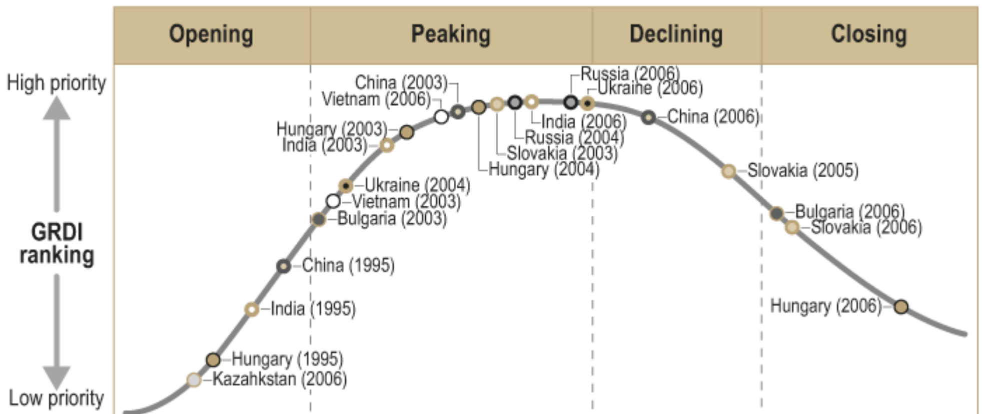
Limited opportunities with labor advantages. Retailers pursuing regional expansion strategies or risk-hedging opportunities should consider developing countries such as Slovakia and Bulgaria. Although labor is not the biggest cost for retailers in these countries, they will have to invest in talent.

LESSONS LEARNED FROM THE PAST 11 YEARS

The Global Retail Development Index was first developed in 2001. Last year, we took a step back in time—gathering data from 1995 to 2000 to recreate the Index for this time period, and expand it to 2006. In analyzing global retail trends over the past 11 years, we found that market attractiveness generally follows the same consistent pattern, that certain formats are most appropriate for certain stages of market development, and that modern retail contributes to a market's overall success. The lessons learned are as follows:

FIGURE 7

Window of opportunity analysis (based on GRDI rankings for 1995–2006)



	Opening	Peaking	Declining	Closing
Strategy	Monitor market; consider sending research team	Open sourcing office or step up retail stores; test the market	Scale up openings to capture market share	Determine market position; reevaluate strategy as needed
Formats	Not applicable	Consider supermarkets and hypermarkets, cash and carry, and convenience stores over other formats as they have higher success rates	Consider discounter models	No pattern identified
Labor	Identify skilled labor pool for market	Hire and train local talent; create balance with expatriate employees	Switch balance from expatriate to local staff	No pattern identified

Source: A.T. Kearney

Windows of Opportunity Last 5 to 10 Years

Market attractiveness usually follows the same consistent pattern. Markets progress through four stages as they evolve from an emerging to a mature market, usually over the course of 5 to 10 years (see figure 7). This model is particularly useful as executives plan their market-specific strategies, giving them insight into timing and allowing for better strategic decision-making. The four stages are:

Opening. An opening market is one that is just entering the GRDI or is just outside the top 30 markets. At this stage, retailers should be monitoring the market and performing high-level assessments. They should also begin planning their entry strategies and send task-force teams in, if necessary. Patience is key, as entering too early can lead to failure. India in the late 1990s is a good example of a country in the opening stage, while in 2006, Kazakhstan is the country to watch.

Peaking. A peaking market is developing quickly and is ready for modern retail. At this stage, retailers should enter the market through sourcing offices, local representation and new stores. Current peaking markets include Ukraine, India and Vietnam. Retailers that enter during this stage have the best chance for long-term success. Wal-Mart and Carrefour's success in China in the late 1990s and early 2000s illustrates the importance of committing to a promising high-growth market at the right time. Today, Wal-Mart and Tesco are adopting the same strategy in India—testing the market conditions before diving in. Looking ahead to 2011, don't be surprised if Wal-Mart and Tesco are among the top three international retailers in India.

Declining. The declining stage is when the market is still big and growing, but the space for new entrants is becoming tighter—and retailers must act quickly. China is a good example. Wal-Mart, Tesco and Carrefour have established their presence in the primary hubs, and are now focusing on tier-two cities. Retailers entering a declining market have limited time to explore, and their margin for error is thin. In general, they must play by established rules and be prepared to deal with more competition from other international retailers.

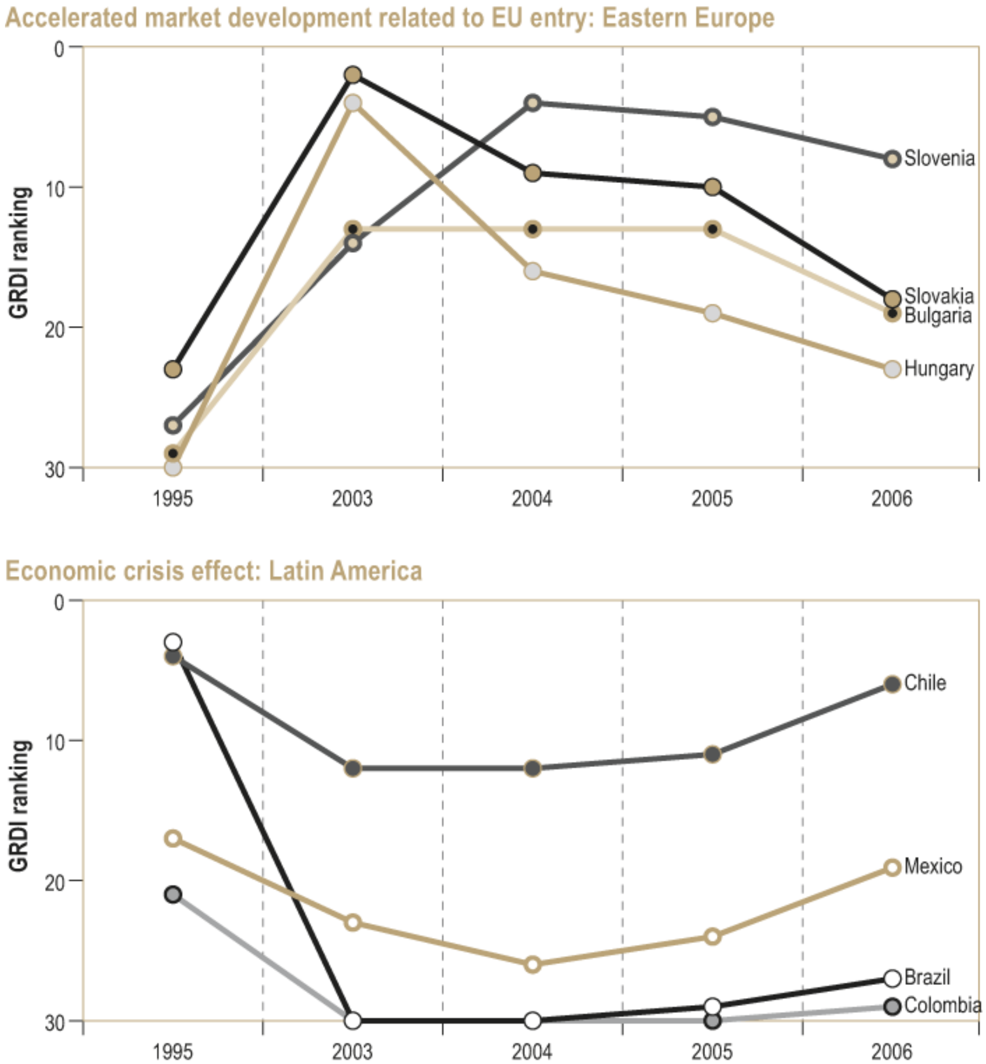
Closing. The window of opportunity is closing fast. The share of modern retail is very high, reaching 40 to 60 percent. Most Eastern European markets, including the Czech Republic and Poland, are in this phase. Though the opportunity is closing, retailers can enter with new formats such as discount models, or non-food formats such as consumer electronics and apparel.

A window of opportunity lasts about 5 to 10 years before a market enters the closing phase and reaches saturation levels close to developed markets. India, for example, was in the opening stage in 1995, entered the peaking stage in 2003 and reached the number 1 rank in 2005. We expect India to remain in the peaking stage for two to three years and then begin to move into the declining stage. While wave 2 formats such as discount stores could succeed in later stages, the ability to earn significant market share and profits is limited and competition is fierce.

However, there are two exceptions to this rule (see figure 8). First, markets that join a regional or economic community, such as the World Trade Organization or the European Union, tend to develop more quickly. Retailers often rush to a market just before it joins such groups to take advantage of the benefits membership will eventually provide—and saturate the market in the process. For example, recent entrants in the European Union—Latvia, Lithuania, Slovakia, Bulgaria and Hungary—have moved from the peaking stage to the declining stage far more swiftly than have other emerging markets.

FIGURE 8

Exceptions to the window of opportunity analysis (1995–2006)



Source: A.T. Kearney

Second, a regional economic crisis can also alter the typical timeframe. Latin American countries, for example, suffered a severe economic downturn in the early 2000s but made a strong comeback this year. We expect these countries to follow the window of opportunity curve, but on a faster trajectory.

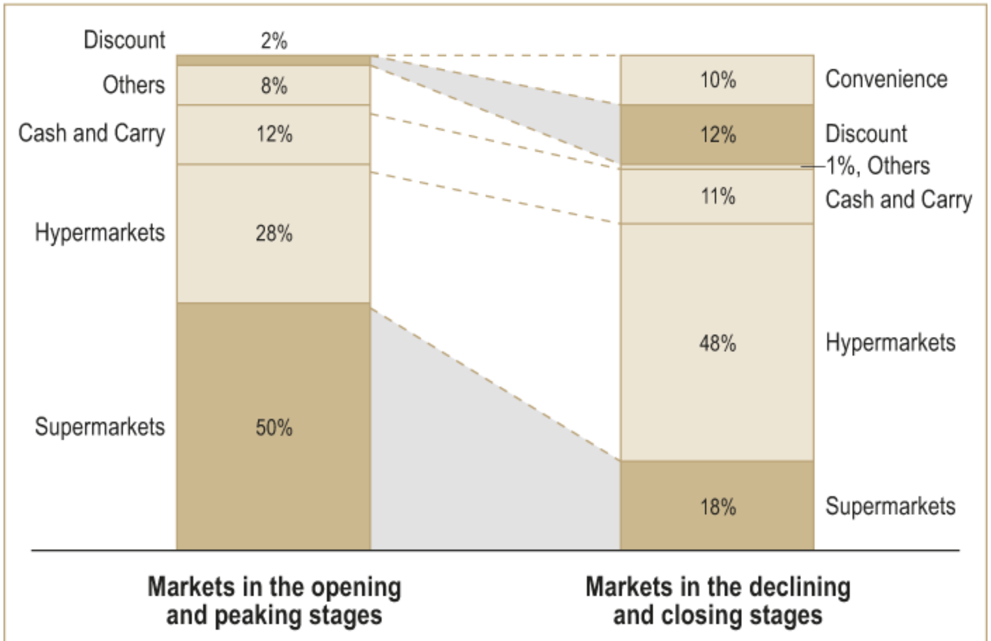
Retailers can use the window of opportunity analysis to formulate specific actions on entry timing, entry strategy (joint venture, organic growth, acquisition), entry format (cash and carry, discount) and human capital strategy. Going further, this analysis can also be tailored to specific retail segments.

Formats Should Align with Market Stages

As companies time their entry into a new market, they must also consider what format will work best (see figure 9). In markets that are emerging or peaking, supermarkets and cash and carry formats are the most successful. Forcing an unfamiliar format onto a new market generally doesn't work. In India, for example, where space is limited in the larger cities, Tesco is introducing a smaller store under the Magnet banner.

FIGURE 9

Formats and timing patterns (based on GRDI ranking for 2004–2006)



Markets that have consistently risen on the GRDI over the past three years include India, Russia, Slovenia, Ukraine, Chile, Vietnam and Latvia	Markets that have consistently fallen on the GRDI over the past three years include Hungary, Slovakia, South Korea, Czech Republic, Turkey, Morocco, Tunisia, the Philippines and Egypt

Source: A.T. Kearney

Entering a market in the declining or closing stages inherently means increased international competition, but choosing the right entry format in the right window of opportunity could provide sizeable market opportunities. Metro launched several cash and carry outlet stores in Ukraine, which is in the early part of the declining stage; Lidl is opening a series of discount store in Latvia, which is in the closing stage.

In these final stages, seasoned consumers enjoy a broad variety of shopping experiences. Although no format is off-limits, targeting the best one becomes riskier. When modern retailers saturate a market, a new entrant must have very specific plays. Tesco, for example, is making a highly publicized move into the United States—a very mature market—with a very specific format.

As retailers select the best format for a new market, however, they must also tailor it to local tastes and expectations. For example, when U.K.-based B&Q moved into China, it created the buy-it-yourself model, which is a more personalized, comprehensive format than the traditional do-it-yourself approach. The difference stems from the fact that most apartments in China are sold as empty shells, requiring new owners to completely finish the space. Carrefour also changed most of its floor plans for its stores in China. Overall, the only formats that remain similar across regions are those with strong lifestyle and brand images, such as Gap and Starbucks.

Modern Retail Expansion Contributes to Economic Growth

As part of our 11-year analysis, we looked at modern retail's impact on emerging market economies. There is an ongoing debate on whether the presence of modern retail has a positive or negative impact. Those in favor argue that it drives the economy through increased productivity, investments in capital stock, new job creation and lower prices. Opponents maintain that it promotes the monopolistic power of modern retailers, disrupting the local economy and culture. They fear that modern retailers will put local retailers at a competitive disadvantage and ultimately put those that are unable to adapt out of business. The most successful modern retail policies will build on positive economic drivers while recognizing the concerns and needs of local businesses.

The benefits of modern retail on emerging economies are much different than those in developed markets, although detractors continue to argue that modern retail is monopolistic and cutthroat. The advantages include:

Jumpstarting the retail sector. Modern retail can spur a market economy by introducing significant productivity improvements. For example, from 1995 to 2000, Brazil experienced a wave of market entry by modern retailers. Prior to 1995, productivity numbers for the country's retail market stagnated. Since then productivity has increased by 4 percent. Productivity improvements are even more impressive in China. While not retail specific, the inflow of FDI into China's brown and white goods sector in part contributed to productivity growth of 39 percent and 30 percent, respectively.

To keep pace, suppliers must also become more efficient and improve their category management skills, which local businesses eventually copy. Efficiencies include modern centralized distribution, larger, more efficient storefronts, and advanced forecasting programs, which together decrease the cost of doing business. In modern retail markets, companies pass these lower costs on to consumers in the form of lower prices. Not only do these lower prices benefit the poor, they are also good for the overall economy because lower prices can counteract inflationary pressures. For example, the consumer price index (CPI) in Brazil grew at an annual rate of 7.4 percent between 1995 and 2001, but the food component of the CPI grew at an annual rate of just 4.5 percent during this rush of modern retailers.

Opening export markets. When markets open up to modern retail, export volume tends to surge. As an example, we can look at how the governments of China and India have dealt with foreign investors. China's policy of being open to foreign investment directly led to a surge of exports of more than $60 billion per year. Wal-Mart alone exports approximately $20 billion in products from China—a significant rise in exports occurred after the company developed operations in China. By comparison, India's policy of being more closed to foreign investments means exports are hovering under $1 billion per year. These figures are less about the success of individual companies and more about the market's overall openness to modern retail.

Creating positive social change. Although modern retail expansion creates new jobs, it often results in a loss of traditional retail-sector jobs. For example, Wal-Mart in China plans to hire 150,000 employees over the next few years as it opens new stores: This might result in regional labor displacements as workers move from rural traditional-retail jobs to urban modern-retail jobs. However, the disruption may not be as bad as people fear. In India, traditional retail is often located in residential areas, and the family-owned store is an extension of the family home. Labor costs are low since employees are mostly family members, which means fixed costs and the associated break-even points are low. These businesses would have to suffer significant volume losses to put them in the red.

Decision-makers in emerging markets must adopt policies that encourage modern retail, while addressing these important social issues. This is the only way to achieve the benefits that modern retail promises. Poland, the Czech Republic and other Eastern European countries have all done a good job of striking the right balance. With strong GDP growth over the past 10 years, relatively solid employment and lower prices in the retail sector, these markets successfully evolved to modern—and global—retail.

Mexico and Brazil successfully opened their markets to modern retail in the 1980s and 1990s. The same applies to Morocco, Tunisia and Lebanon. In China, estimates suggest that retail sales will top $1.2 trillion thanks to government policies that are boosting consumer demand, such as changing the tax laws to increase consumers' spending ability.

It is now time for other Asian economies to adapt their policies, starting with the south Asian markets.

A GOOD DEAL FOR ALL

Just as the rush is on for companies to enter new markets, so too is the race for emerging markets to attract foreign retailers. Retailers must decide where to move, when and how to enter a new market, and, if necessary, when to pull up stakes. Policymakers in emerging markets can ensure these decisions work to their country's advantage. Ultimately, the results for companies and markets alike should be mutually beneficial because improving success rates will benefit all involved.

About the author :
