

The path to 2020  
Taking the long view of  
retail market entry



# Contents

---

Introduction	1
Short-term	2
Germany	2
Japan	5
Mexico	9
Medium-term	12
Brazil	12
France	16
Italy	19
UK	22
Spain	25
Long-term	29
Iran	29
Pakistan	33
Statistical appendix	36
Contacts	40

---

# The path to 2020: taking the long view of retail market entry

---

In the realm of retail globalization, retailers must make tough choices as to which markets to enter. In the past few years, through the “Hidden Heroes” series of reports, Deloitte and Planet Retail have attempted to highlight emerging markets of interest to retailers – both the obvious ones (China, India, Turkey, etc.) and the not-so-obvious (Nigeria, Algeria, Kazakhstan, etc.). The goal was to offer reasons why each of these markets was potentially of interest.

This report, however, focuses on a handful of markets from the perspective of timing rather than immediate attractiveness. As such, it looks at markets of short-, medium-, and long-term interest. The first group involves Germany, Japan, and Mexico – markets that have been problematic at times, but where there are reasons to expect a near-term improvement in retail prospects. The second group includes Brazil, France, Italy, Spain, and the UK. These are countries that, in the short term, appear to have weak growth prospects. Yet these are also countries where a scenario for medium-term success can well be imagined. Finally, the report considers two countries that are currently off the radar screen for most global retailers, largely for political reasons. The countries, Iran and Pakistan, have notable positive attributes which, in the very long-term, could turn out to be quite attractive for global retailers.

It is hoped that this exercise will provide retailers with a template for analyzing the timing of market entry. We also hope that it will offer some useful insights into these very interesting markets.

# Short-term Germany

Germany is the largest and most important economy in the European Union. Regardless of what happens in Europe, Germany is likely to remain a relatively better performing economy than the others, if only because the others are doing so poorly. Yet there is more to it than relative performance. Germany implemented significant labor market reforms a decade ago and is now experiencing the fruits of these reforms. With restrained compensation and rising productivity, Germany's manufacturers have become more globally competitive and are significant exporters to emerging markets.

On the other hand, the weakness of the rest of Europe, a critical export market for Germany, has been and will be a problem. Moreover, Germany's reliance on exports to emerging markets could be somewhat problematic. Germany exports vast quantities of capital goods to China, for example. Yet China, which has grown rapidly on the back of excessive investment in its capital stock, is likely to shift toward more consumer-driven growth in the future. That means that Germany's cash cow could be threatened. As such, Germany will need to switch toward more domestically driven growth if it is to have a sustainable economic base. Will this happen? It depends, in part, on what happens in the rest of Europe.

Germany, of course, will play a critical role in determining the future of the Eurozone. If the Eurozone survives, Germany will remain the leading player with the most influence. If it ultimately fails, Germany will pay a terrible cost and will need to significantly restructure its economy so as to boost domestic demand. On the other hand, if the Eurozone succeeds, it will partly be due to a boost in Germany's domestic demand which, in turn, will help stimulate exports from Europe's southern tier. That is to say, success in the Eurozone will require that the troubled countries increase their exports. This will require that Germany purchase more of what the southern countries sell. So either way, Germany is going to need a stronger domestic economic base. And that means consumer spending.

How will this come about? First, wages in Germany are likely to rise after a decade of wage restraint. With relatively low unemployment and a declining labor force, rising wages should come about naturally. Second, German consumers, unlike their counterparts in some other countries, are not highly leveraged. Because they save a good deal they are financially in a strong position to boost their spending. Finally, after a period of fiscal tightening, Germany's government finances are in excellent shape. There is very little need for further tightening. Indeed, the government will be in a good position to ease taxes in the coming years, thereby stimulating consumer spending.

The bottom line is that there is good reason to expect a modest boost to the growth of consumer spending in Germany during the remainder of this decade. That would be good news for Germany's retailers and for global retailers interested in investing in the German market.

---

**After all the price wars have been fought, those retailers left standing have finally found that sustainable growth in an aging and saturated market can only be generated through added value.**

## Retail overview

Spectacular growth has not been a specialty of the German retail market for decades – anything but, in fact. For the 20 years prior to 2013, retail sales have grown by only 9.9 percent in nominal terms, which means they have actually shrunk by a breathtaking 18.2 percent in real terms. Within the same couple of decades, the retail share of consumer spending has fallen by more than 10 percentage points to 27.3 percent, down from 39.4 percent.

The fact that margins have also been low traditionally used to intimidate foreign investors or, alternatively, forced a number of foreign players who had ventured into the market to eventually give up. The result was a competitive low-volatility environment mostly dominated by domestic, family-owned retail groups. These saw their sales foundation eroded slowly but continuously – not least as a result of Germany's transformation from a full-employment welfare state to a more liberal economy burdened by high reunification costs. In addition, sales were hurt by the rapid expansion of low-price retailers and private label.

For decades, full-range grocery retailers in particular suffered on account of the dominance of the discount sector. With Germany the home of international low-price retail giants Aldi and Lidl, discounters managed to build their grocery market share from zero in the 1960s to 33.1 percent in 2000 and to 43.1 percent today. The obsession with price – on the part of retailers and consumers alike – was clearly underestimated by several foreign market entrants. Market entries were made additionally difficult by a general oversaturation of retail outlets, as well as the private and co-operative ownership common to many retail operators, which is a constant obstacle to merger and acquisition activity.

However, being stable and unexciting proved to be a strength for Germany when many economies across Europe stumbled into sustained recession in 2008/09. Even more importantly, Western Europe's largest retail market now seems to be on the verge of an almost historic turnaround, with real growth expected to return from 2014. Between now and the end of this decade, German retailing should accumulate approximately 6.9 percent growth in real terms, corresponding to 21.2 percent nominal growth over the next seven years.

This development comes as the success of the last decade's economic reforms finally make themselves felt, with the lowest levels of unemployment in 20 years and real wage increases reaching large parts of the population. This, combined with the fact that retailing has lost at least some of its relentless price competitiveness, should now place Germany firmly back on the list of potentially interesting destinations for retail investment.

At the same time, the traditional German mindset – characterized by thrift, moderation and forethought (traditionally perceived as virtues to be proud of) – is slowly opening up to 'more internationally compatible' ways of thinking. Germany's younger generations in particular are adopting new habits and values. These are being nurtured by stronger international connections as well as the spread of the internet and social media. The proportion of internet users has grown from 30 percent to over 80 percent since 2000, and online retail already accounts for 7.8 percent of overall retail spending. While this is relatively low when compared to the 10.2 percent recorded in the trailblazing UK, it is a high percentage by international standards, and has heightened awareness of and stimulated demand for international brands.

In a major tectonic shift associated with these changing German values, after many years of trying to beat discounters at their own game, traditional supermarkets (as well as several non-food retailers) have chosen to focus on their own inherent strengths to win with shoppers. In doing so, they are attempting to reframe how Germans define and perceive value, investing in store refurbishments, new retailing initiatives and regional offers.

This activity has been bearing fruit. Delicatessen and other specialty food counters are being expanded. Serviced counters for fish, seafood and meat are being reinstated at supermarkets, after being purged in the 1990s. In-store bistros and convenience concepts are also being trialed, while a number of independent organic food chains have sprung up across the country. Also, grocers are cautiously testing selling food online (although this comes with massive profitability challenges), while non-food retailers are trying to close the gap on the global forerunners in e-commerce.

Nearly all of these initiatives center on creating new, added value shopping environments for German consumers. It is worth mentioning that these environments are increasingly being created in city centers and residential areas, as demographic change and the rise of online contribute to a steady decline of the hypermarket format. Retailers are also opening themselves up to category support from suppliers and no longer view them purely as adversaries to be bested in the annual range reviews and pricing negotiations.

The spectacular demise of the giant Schlecker, once the leading European drugstore operator with some 14,000 stores, plus the bankruptcy of discount DIY chain Praktiker, can be seen as indications that a low-price profile alone is no longer enough to excite German shoppers. This is where opportunities arise, not least for retailers from foreign countries with a more service-oriented approach and an operating model more pleasing to the eye. Aldi, with its launch of convenience stores in the western parts of Germany, has been an early mover to exploit such opportunities.

To avoid any misconceptions: it is not that low prices have suddenly become unimportant – something underlined by the huge success that Anglo-Irish clothing discounter Primark has enjoyed since its market entry. Rather, in Germany, low prices are simply taken for granted, at least in basic everyday ranges. They are a standard requirement a mass retailer cannot do without if it wants to operate effectively in Europe's largest economy. But after all the price wars have been fought and the smoke has cleared, those retailers left standing (including the discounters) have finally found that sustainable growth in an aging, saturated, and consolidated market can only be generated through added value.

# Short-term Japan

Japan's economy grew rapidly up until 1990. Then, in the wake of a financial crisis, growth became far slower. In addition, starting around 1992, prices stopped increasing. Indeed, consumer prices today are no higher than they were in 1992. This dramatic shift in economic performance can be attributed to the aftermath of the collapse of Japan's bubble economy of the 1980s. Moreover, when the bubble collapsed, leaving banks holding vast quantities of non-performing assets, the government did little to resolve these banks. The result was a decline in money supply, a constriction of credit markets, and the resulting modest economic growth combined with deflation.

In the roughly two decades since the collapse of the bubble economy, Japan has followed inconsistent policies. It periodically engaged in modest monetary and fiscal stimulus, only to change course rather quickly. The result was slow growth, rising government debt, and continued deflation. Moreover, poor demographics meant that future pension obligations have become frighteningly large. Government debt relative to GDP has risen rapidly, setting the stage for future problems. Increased competition from Korea, Taiwan, and China punctured Japan's legendary competitiveness in electronics and automobiles, thereby limiting export growth. As for domestic demand, it has remained weak as a combination of deflation and stagnant real wages led consumers to postpone purchases. The result of all this is that two lost decades of growth have rendered Japan's economy about 25 percent smaller than would otherwise have been the case.

Japan's new Prime Minister, Shinzo Abe, is in the process of implementing a new economic policy (known as Abenomics) that is meant to revive Japan's moribund economy. It has "three arrows." These are fiscal stimulus, a more aggressive monetary policy, and a combination of freer trade and deregulation. Let's consider each separately:

**Fiscal stimulus.** This simply means having the government borrow money to spend more. This has been tried before, but only on a modest scale and normally with a quick reversal of policy before the impact has been fully felt. The principal objection to fiscal stimulus is that the government already has an enormous level of debt. Yet the alarming debt/GDP ratio developed largely because nominal GDP declined while nominal debt increased.

The new view is that, if nominal GDP rises due to rising prices and real growth, and if debt increases only modestly, then the debt/GDP ratio will fall – at least in the short term. The new view also is that a temporary expansion in debt is needed to fuel growth. Longer term fiscal probity will require addressing demographic concerns by reforming Japan's pension system. Yet that can wait. Abe's plan is to take advantage of historically low interest rates, have the government borrow cheaply, and then spend the money on investments that will boost demand and improve the country's competitiveness.

**Monetary policy.** The second arrow involves more quantitative easing. This policy has been tried before, but infrequently on the scale currently being undertaken. Interestingly, the notion of QE originated in the 1990s when Japan suffered deflation and low growth. The famous economist Milton Friedman suggested that the existence of zombie banks in Japan was curtailing growth of the money supply, leading to deflation and high real interest rates. His solution was for the central bank to circumvent commercial banks and simply purchase assets in order to boost the money supply, provide the economy with liquidity, create a bit of inflation, and thereby lower real interest rates. This policy was tried on a modest scale but reversed before it could be effective. What is different today is that, under the new leadership appointed by Abe, the Bank of Japan is committed to achieving a particular inflation target through unlimited quantitative easing (QE).

**Freer trade and deregulation.** The third arrow is, in the long-run, probably the most important. It is also the one where the details are least known and the likelihood of significant action is most uncertain. Prime Minister Abe has committed Japan to participate in the TPP negotiations aimed at free trade in the Pacific Rim. Such an agreement would obligate Japan to deregulate key parts of its economy, something that is politically difficult. Indeed, Abe postponed providing details of his deregulation plans until after elections for the upper house of Parliament. Now that his party has won those elections, he will be in a better position to implement tough choices. Reforms can include liberalizing domestic markets including distribution, telecoms, finance, and energy. It can include liberalizing the labor market and improving corporate governance. It could also include eliminating or reducing protection for agricultural interests. Such protection currently means very high food prices, high land prices, and high government subsidies.

---

Japan's enduring retail crisis has produced numerous victims. Sales at department stores have nearly halved since their peak in 1991, while hypermarkets have also lost ground. However, convenience stores have become a fast-expanding and profitable channel.

With respect to Japan's consumer market, effective implementation of Abenomics could create a significant opportunity. The new economic policy is meant to increase the rate of economic growth, restore some inflation, boost exports, and boost real wages. All of this, in turn, should have a positive impact on asset prices (indeed this is already the case as of this writing). That should boost consumer perception of wealth and, therefore, willingness to spend. While there remains some uncertainty about the degree to which reforms will be implemented, the fact remains that there is now a far better probability of moderate consumer spending growth than was the case a year ago. As such, Japan is now a more interesting short-term bet.

#### Retail overview

The Japanese retail sector appears to be finally emerging from an almost 20-year period of gloom, which was clearly linked to wider economic circumstances and associated negative consumer expectations. In the six years from 1996 to 2002, retail sales slumped by a real 9.3 percent, and, despite a temporary recovery in the mid-2000s, sales are unlikely to climb back to 1996 levels before 2019. However, Japanese retailing might now be seeing the beginning of a slow but steady recovery.

This should happen amid modest economic growth, despite the problems coming from an ageing society – with the proportion of under 25s dropping from 27.2 percent to 22.8 percent between 2000 and 2015. Signs of improvement in the retail environment have actually been visible since 2009, when Japan's economy hit rock bottom in the face of collapsing exports. That slow recovery now increasingly appears sustainable, inviting businesses to invest in Japan's diverse retail sector.

In non-food, Japan's enduring retail crisis has produced numerous victims. For example, sales at department stores selling fashion and luxury items have nearly halved since their peak in 1991. Hypermarkets and superstores have also lost ground over the past couple of decades, while convenience stores have turned out to be a huge success story in food retailing. Coming from a significantly lower level than convenience stores, drugstores have also delivered remarkable growth – a response to an ageing population as well as mounting health concerns and healthcare reform. E-commerce has been on the rise as well, although as a share of retail sales it continues to trail behind levels achieved in markets such as the UK or Germany, hitting 6.15 percent in 2013. This is expected to increase to 12.0 percent by 2020 as broadband penetration in Japan surges from 0.7 percent to perhaps 35 percent in the 20 years to 2020. By that year, nearly all of Japan's population should be online, with an anticipated internet access rate above 90 percent - among the highest in the world.

Looking at the Japanese food retail sector, the market is highly-fragmented and, at least in some segments, characterized by intense competition and low margins. For example, the leading multi-format groups tend to operate on net profit margins between one and three percent. However, the situation is significantly more relaxed in the convenience segment, with Lawson and FamilyMart routinely hitting margins of five to eight percent over the past few years. Despite being less concentrated than the food retail markets of other key industrialized nations, market concentration continues at an outstanding pace in Japan. Thus, the top 5 players accounted for a combined 39.8 percent of food retail sales in 2008. This will grow to 44.2 percent in 2013, and to perhaps 48.3 percent by 2018.



The importance of Japan's convenience store channel is evident from a simple look at the figures. The network size of the top six operators combined stood at around 43,500 at the end of 2012, and this number is expected to grow to just under 59,000 by 2018 – mainly due to continuing fast growth at Seven & I (the owner of the 7-Eleven brand), FamilyMart, Lawson and Uny. The leading convenience store chains together capture almost one-quarter of the Japanese food retail sector. Thus, in importance they resemble the hypermarket and superstore channel, which accounted for 25.3 percent of the market in 2012. However, this share is expected to decrease slightly over the coming years as one of the symptoms of an ageing society is that it will tend to prefer shopping close to home going forward.

One demonstrated way for grocers to keep on top in Japan's competitive environment has been differentiation, mainly by pushing supplier product innovation, private label ranges and financial services. Private label has been on the march in recent years, with 72 percent of shoppers saying they were buying more house brand ranges in the recent economic downturn, according to Nielsen data. The value share of private label, in line with this, is expected to grow from 9-11 percent in the five years to 2015. It is worth mentioning, however, that these are fairly low percentages when compared with Western European markets such as the UK, Germany, France and Spain. But, driving the segment ahead, the market leader AEON has announced plans to grow its key TopValu economy range to ultimately account for 30 percent of sales, 40 percent of shelf space and 50 percent margin contribution. Second-placed Seven & I is also pushing private label development, but adopting a more co-operative approach with suppliers. Aiming for good value on high quality, the retailer has, among other things, been upgrading its Premium and Gold labels. Beyond food retail, Fast Retailing has risen to the top of Japan's clothing sector on the back of the vertically-integrated approach of its Uniqlo chain.

In terms of services, both market leader AEON and number two Seven & I have launched their own banking divisions, although Seven Bank has a more narrow focus, mainly limited to ATM services. At convenience stores, home delivery for elderly shoppers and ticketing services have become widespread. Japan's third-largest convenience store chain, Lawson, has been enhancing its online entertainment offer and pushing exclusive ticket offers through its acquisition of HMV Japan in late 2010. The list of further service examples includes nursing care services offered by drugstore chains, as well as 'smart house reform' services from home electronics retailers offering energy-efficient appliances combined with solar power systems with rechargeable batteries.

Looking ahead, Japan's population is expected to fall by 2.8 percent between 2008 (the beginning of the decrease) and 2020. This, along with the country's fast-aging citizens and the corresponding need for stronger income re-distribution, creates a long-term scenario of only modest retail growth. As a result, Japan's key players have set their sights on the rapidly-developing emerging markets of Southeast Asia. The format of choice has principally been the convenience store, and Japan's top players in the segment (Seven & I, Lawson, FamilyMart and AEON) launched as many as 17,000 outlets across foreign Asia by the end of 2012. This number is expected to grow to 24,000 by 2018. South Korea, Taiwan, China and Malaysia have so far been the main destinations for convenience store expansion. This international focus will only widen in the years ahead, given foreign Asia's more attractive growth opportunities based on expanding populations, swift urbanization and fast-rising incomes – as opposed to a Japanese market that will recover, but that will in all likelihood not come close to Southeast Asian growth rates.

Market leader AEON has announced plans to grow its key TopValu economy range to ultimately account for 30 percent of sales and 40 percent of shelf space. This comes in the wake of intensifying competition – the top six convenience store operators are to grow their store number from 43,500 to 59,000 by 2018.



Source: Planet Retail

# Short-term Mexico

Mexico also warrants attention because there is a good chance that economic growth in Mexico will pick up speed in the next few years. If so, Mexico could become a much bigger economy. This optimism follows a rather prolonged period in which Mexico was largely ignored in favor of bigger economies such as China and Brazil. Yet changes in Mexico's economic policies, combined with changes in China itself, are leading to a reevaluation of Mexico's prospects.

One reason for optimism is that Mexico's leadership is likely to implement significant reforms. The new President, Enrique Peña Nieto, has signed a pact with opposition parties agreeing to act on several fronts. These include allowing private investment in the energy sector, requiring competition in the telecoms and media sectors, deregulating labor markets, increasing private sector access to credit, improving the efficiency of government services, and fighting corruption.

Mexico's export-oriented manufacturing sector is reviving as the country attracts investment that, in the past, went to China. The cost differential with China has narrowed rapidly due to rising wages in China and a rising Chinese currency. In addition, Mexican manufacturers and electric utilities have access to relatively cheap natural gas imported via pipeline from the U.S. This, too, contributes to the relative improvement in Mexico's competitiveness versus China.

Finally, Mexico has relatively favorable demographics. Because of a youthful population, the working age population is expected to grow rapidly in the coming decade, far faster than in China, Russia, or Brazil, and comparable to that of India. This will allow labor costs to remain low and will contribute to positive growth.

Mexico still has significant risks and obstacles. First, the government's reform agenda has not yet been fully enacted by the Congress. Significant reform of the energy sector will require constitutional change and there remains considerable opposition. Until this happens, there will be inadequate investment in the energy sector and, consequently, inadequate production – especially given that the industry lacks access to leading technology.

Second, although the war against drug lords has abated somewhat since the election of Mr. Peña Nieto, violence continues (as highlighted by the recent arrest of an important drug lord). The violence has been an impediment to investment. Surprisingly, it has not had an onerous impact on the tourist trade, however, and Mexico's government has gone to considerable lengths to keep tourist areas safe.

For Mexico's consumer market, the improvement in economic growth prospects offers the promise of faster middle class growth and accelerated expansion of consumer purchasing power.

---

**With the political leadership likely to implement significant reforms and with its favorable demographics, Mexico could soon become a much bigger economy. For Mexico's consumer market, the improvement in economic growth prospects offers the promise of faster middle class growth.**

## Retail overview

Despite the present frailty of the Mexican consumer market, occasioning a succession of weak sales updates this year, the country's retail sector has consolidated rapidly since the early 2000s. This was fuelled not least by the growth of undisputed market leader Walmart, as well as domestic convenience store giant OXXO.

With most domestic grocers refusing to move out of their local home geographies for many years, the recent consolidation process has forced some to step outside of their traditional power centers and compete with each other on a supra-regional level. This has been encouraged by the better availability of modern retail property in Mexico's tier 2, 3 and 4 cities. Apart from domestic growth across regions, OXXO and Chedraui have also ventured abroad, moving into Colombia and the U.S., respectively.

Modern retailing is liable to keep expanding, powered by a favorable economic long-term outlook and a young population, with 45.5 percent of inhabitants aged under 25 (albeit with a slightly falling trend). Mexico's young and urban population also benefits from higher incomes and lead more consumption-driven lives than their parents. Thus, they largely prefer to shop at modern retail formats. According to the somewhat wide definition of middle class which is the consensus across Latin America, around 40 percent of Mexico's population now belongs to that social stratum. Meanwhile, in the aspirational lower-income population, participating in modern life – for example, by shopping at modern grocery outlets – carries with it a social cachet that is not to be underestimated.

Although fresh fruit and vegetables are among the few categories the rising middle class continue to shop in significant volumes at open markets, Planet Retail expects the share of modern trade within Mexico's grocery retail sector to rise to 63.2 percent by 2020, up from 47.5 percent in 2000. While in the big cities modern retail already dominates the landscape, street stalls, open markets and traditional stores are still very widespread in the provincial and rural areas. Interestingly, the modernization and market consolidation trend should be mainly driven by organic growth going forward, rather than large-scale merger and acquisition activity, due to the large proportion of family-controlled businesses among Mexico's leading operators, such as Soriana and Chedraui.

Looking at the leading players, Walmart is the only foreign business featuring among Mexico's top five grocers. It continues to dominate the rankings thanks to its roughly 2,500-strong portfolio of different formats, operated through its local Walmart de México division. These include hypermarkets, warehouse clubs, superstores, supermarkets and discount stores, as well as an online shop, restaurants and clothing stores. Although growth has slowed of late, as a result of this strong presence the market leader generates bigger sales than its four largest rivals put together.

Walmart's push into online retailing came in June 2013, as part of the Walmex 3.0 multichannel strategy, with the launch of Walmart.com.mx – a site offering more than 5,000 non-food and health and beauty items. However, food e-commerce remains untouched by Walmart in Mexico, at least until further notice, and due to the associated logistical challenges it remains a niche phenomenon among Mexican grocers in general. In a rare exception, a small online operation is run by Soriana.

Soriana, ranked as the number two in Mexico's grocery retail landscape, is generally regarded as one of the better-managed and most technologically advanced players among domestic Latin American supermarket groups. The company is mainly focused on big-box formats, with almost 400 hypermarkets and over 30 warehouse clubs – although in recent years it has pushed format diversification by adding supermarkets, convenience stores and discount stores to its portfolio to boost market share. In total, the group should close 2013 with just over 850 outlets.

The number three in Mexican grocery retailing is OXXO, whose approximately 11,000-strong domestic convenience store network is complemented by comparatively small discount and pharmacy arms. Serving more than eight million customers per day, OXXO has a strong focus on core food categories and is Mexico's largest vendor of beer, bread, soft drinks and snacks. OXXO has announced it is planning to grow to a network of 12,000 outlets by 2014, expanding into an undetermined number of markets throughout Latin America. Following entry into Bogota (Colombia) in 2009, and having established a network of close to 40 convenience stores there today, its next target could be Brazil.

Hypermarket and superstore operator Chedraui ranks fourth in the grocery retail sector. Its 200+ outlets in Mexico are complemented by an almost 50-strong network in the U.S., mainly targeting the Hispanic populations of California, Nevada and Arizona. In its Mexican home market, the family-run retailer boosted growth in 2005 when it acquired all 29 local hypermarkets from a departing Carrefour. Today, Chedraui's characteristic orange-colored outlets are mainly spread across central and southern Mexico.

Finally, Comercial Mexicana – operating an almost 300-strong multi-format portfolio of hypermarkets, superstores, supermarkets and fast-food restaurants – has recently improved its financial profile thanks to the 2012 sale of its 50 percent stake in a domestic warehouse club joint venture with U.S.-based Costco. This deal has given the retailer the required resources to pay off some of its debt and accelerate investment to shore up like-for-like sales which remain under pressure.

Walmart is the only foreign business among Mexico's top five grocers. Its roughly 2,500-strong portfolio of different formats means it generates bigger sales than its four largest rivals put together.



Source: Planet Retail

# Medium-term

## Brazil

For a while, Brazil was the envy of the emerging world. Growth was strong, fiscal and monetary policy was sensible, inflation was low, unemployment declined, capital costs were historically low, and foreign investment flowed into the country at a blistering pace. Yet beneath the surface lay problems. The external deficit continued to expand as rapid consumer spending growth was financed by foreign borrowing. Labor productivity lagged other emerging countries as onerous regulations dampened the ability to improve efficiency. Indeed, the overall business environment was and remains problematic. Excessive regulation, high taxes, poor infrastructure, and an overvalued currency driven by high commodity prices all restrained the ability of Brazil to experience sustainable growth.

The recession in Europe and the slowdown in China hit Brazil and economic growth slowed dramatically. After rising 7.5 percent in 2010, real GDP grew only 0.9 percent in 2012. In the first quarter of 2013, consumer spending was up only 0.1 percent from the previous quarter. Moreover, excessive inflation and recent downward pressure on the currency has meant that the central bank has had to tighten monetary policy at a time of weak growth. Thus the short term outlook is rather bleak. This fact has contributed to public frustration which manifested itself in massive street demonstrations. While such an environment hardly seems propitious for retail investment, there is still reason to consider the medium term.

Brazil has a number of positive factors. First, the country has relatively youthful demographics. This means that, over the next few years, the working age population will grow strongly. This should contribute to economic growth, wage restraint, and growth in the number of households. Second, Brazil continues to have a sensible monetary policy driven by an independent central bank. As such, there is little danger of a return to the days of hyperinflation. Consequently capital costs should remain sufficiently low to drive a moderate level of investment.

Third, fiscal policy is sensible as well. Despite concerns about wasteful government spending and onerous regulation, the fact remains that government borrowing requirements have been limited and debt as a share of GDP is actually declining. This, too, contributes to lower capital costs. Moreover, a healthy fiscal position means that the government is in a good position to engage in stimulus when necessary. It also bodes well for increases in public investment – something vital given the poor state of public infrastructure. Fourth, government policies of the past decade have been aimed at lifting the poor. The result is that, unlike almost every other major country, Brazil has seen an improvement in income distribution. This, in turn, has boosted the middle class, thus benefitting the evolution of modern retailing.

Finally, Brazil's economy has become far more integrated into the global economy, and not simply because of the importance of commodity exports. Manufacturing has developed rapidly and now accounts for nearly half of merchandise exports, shoring up economic stability. And, given the fact that China is becoming more expensive and is moving up the value chain, Brazil is fast becoming an attractive place to produce goods for export to the developed world. This bodes well for economic growth.

Thus, despite Brazil's many problems and challenges, there is some cause for optimism that in the medium term economic growth will be reasonably good, and that Brazil's already sophisticated consumer market will continue to expand. Of course much will depend on the direction of government policy. Failure to liberalize labor markets, fight corruption, and address infrastructure deficiencies would certainly lead to slower growth. And, given Brazil's increasing role in the global economy, the country will be at the mercy of events beyond its own control.

---

**At the top, the Brazilian grocery sector features remarkably high levels of internationalization, with multi-format operators ruling the roost. However, the market remains very fragmented below the top five, providing vast opportunities for consolidation.**

## Retail overview

The Brazilian grocery retail market is modernizing swiftly on the back of a young and mostly urban population, a minimum wage rising at double-digit growth rates, and a fast-expanding middle class. Yet, the market continues to be highly-fragmented. Apart from the largest five players, Brazil is home to myriads of small, mostly regional grocery chains. Alongside these, considerable proportions of food sales continue to be generated in independent mom and pop shops as well as through open markets and street vendors. While open markets and street vendors now have a lesser role than before in the largest cities, they continue to maintain a very visible presence. In provincial and rural areas, traditional formats continue to dominate the picture. Planet Retail estimates that more than half of Brazil's food retail sales still happen outside the modern market segment, although the balance is shifting dynamically.

In line with this, the most important channel in food retailing is supermarkets and neighborhood stores, capturing around two-thirds of the market. The larger hypermarkets and superstores now account for around 13 percent of Brazilian grocery retail, with the prospect of this share rising only moderately in the years ahead. This is partly due to the considerable numbers of strong supermarket operators recording fast growth, but also to the existence of import barriers that make life difficult for those trading through formats that rely on imported goods to a significant extent.

Interestingly, many of Brazil's hypermarkets are located in residential areas and can be reached on foot, making them more accessible in environments notorious for traffic chaos. Yet, they also benefit from enormous catchment areas, given Brazil's urbanization rate of almost 90 percent (the highest among key emerging markets worldwide).

Although Brazil's food discount sector is very small in terms of market share (capturing just around 1 percent of national grocery spending in 2013), it has seen a significant expansion over the last few years. The list of leading discount players includes Dia, Walmart (Todo Dia) and, the smallest of the three, regional operator Econ (with around 50 stores in the São Paulo area). Former discounter CompreBem no longer operates in the market, having been converted to the Extra supermarket banner by its owner, Casino/CBD, in 2010.

As for the major retailers, the Brazilian grocery sector features remarkably high levels of internationalization, with multi-format operators ruling the roost. In fact, four of the players appearing in the country's top five are part of international retail groups - keeping in mind that market leader Pão de Açúcar (CBD) can no longer be considered a local player since its full acquisition by French multinational Casino in June 2012.

Via its takeover of local wholesaler Atacadão in April 2007, Carrefour not only consolidated its place in the higher echelons of Brazilian retail, but temporarily assumed market leadership as well (it has fallen back to second place since). The strong positions of Carrefour and Casino/CBD are primarily due to their being the only businesses boasting a country-wide presence in their specific segment, despite both continuing to derive a large proportion of sales from the São Paulo region. Beyond grocery retail, SHV Makro with its wholesale outlets and Lojas Americanas with its non-food discount stores can also lay claim to nationwide networks, while Casino/CBD will try to boost its market share further through front-running consumer electronics market leader Casas Bahia, which it acquired in 2010.



Having maintained a low profile between its market entry in 1994 and 2004, Walmart – number three in the food retail market – accelerated expansion but has most recently been in a phase of consolidation again, in order to solidify like-for-like sales, roll out a wider EDLP strategy and improve profitability. Nonetheless, it has repeatedly highlighted the country as being a top priority for future growth. Fourth-placed Chile-based Cencosud trades on a mixed food/non-food portfolio with its principal focus being its hypermarkets, superstores and supermarkets. Finally, number five in the market is now Dia, the Spanish-based discounter that gained independence from Carrefour in 2011 – obviously a further reason why Carrefour is no longer the market leader.

In 2012, private label sales accounted for an estimated five percent of consumer spending on food, drink and tobacco in Brazil, according to Nielsen research. Within the smaller modern grocery trade segment, private label should, therefore, account for around 11 percent of food sales now, with an outlook of rising to 13 percent by 2015. Clearly, these are low numbers compared to Western European levels. However, due to the still-fragmented (and comparatively high-priced) nature of the Brazilian grocery market there is little pressure to force a rapid expansion of private label ranges. Price differentials with branded lines are usually quite small as well, unlike as in the mature private label markets of Europe and North America. Initial quality problems in the early 1990s temporarily hurt the reputation of private label in general. However, this has changed. In recent times, the main protagonists of multi-tier private label development have been Casino/CBD, Walmart and Carrefour.

While private label is beginning to establish itself on a significant scale, e-commerce is still a nascent phenomenon in Brazil, accounting for as little as 2.1 percent of retail sales in 2013. However, its share can be expected to almost quadruple to 7.9 percent by 2020. The fast spread of online retailing is certainly favored by Brazil's young and highly urbanized population, along with the quick expansion of the middle class (which facilitates take-up of and access to credit cards) as well as the fast adoption of and enthusiasm for new technologies. For example, the proportion of Brazilian internet users will shoot up from 2.9 percent to 57.9 percent between 2000 and 2015, according to forecasts from the Economist Intelligence Unit (EIU), while broadband penetration is set to rise from 0.1 percent to 13.5 percent over the same period. In August 2012, Casino/CBD became the first hypermarket operator in Brazil to set up an online grocery store.



Brazilian market leader CBD can no longer be considered a local player since its full acquisition by French Casino in June 2012. Its Pão de Açúcar banner mainly targets urban high-income households. Meanwhile, traditional traders continue to capture a significant share of the market.



Source: Planet Retail

# Medium-term France

France has the second-largest economy in the Eurozone and it is currently facing challenges. Businesses confidence has been hurt by the economic environment, which includes a government decision to raise taxes. Moreover, expected labor market reforms have not yet been implemented. Consumer spending has been restrained by high unemployment and the economic impact of fiscal austerity. France has also been hit hard by the collateral damage from the recession in the rest of Europe. This is important, as the lion's share of France's exports (61 percent) go to the rest of Europe – which experienced a recession for the past two years. The result is that, in 2012, the economy did not grow. It is expected to contract in 2013 and then to resume modest growth in 2014.

---

**The most onerous austerity is now behind France. With French businesses well positioned to benefit from international growth, domestic labor reforms could unlock further growth potential. For the consumer market in France, that is good news.**

There are, however, some positive signs. Financial markets evidently retain some confidence in France, owing to both the government's commitment to austerity – itself the source of weak growth – and to the surprising strength of France's banking system. The result is that France, unlike its neighbors to the south, has relatively low interest rates. In addition, as of this writing, there are indications that the recession in Europe is coming to an end. Measures of manufacturing activity have improved, even in France, and portend a rebound of economic growth in 2014 at the latest. Still, in the short term, most analysts expect relatively weak growth.

So why should retailers look to France as a potentially good bet in the medium term? There are a number of reasons. First, France has better demographics than much of Europe. The working age population is expected to stabilize and, with an anticipated increase in labor force participation, employment is expected to grow. This will be especially true if the government implements significant labor market reforms which it says it intends to do. This will include increasing the average age of retirement. It will also include reducing the costs of hiring and dismissing workers.

Second, the most onerous austerity is now behind France. It is likely that, in the coming years, fiscal policy will be more neutral, thereby reducing the negative impact of government policy on economic growth. Finally, in a global business environment in which successful companies are those that have strong brands and global presence, France's companies are especially well positioned. Despite the problems they now face, they are among the world's best placed players. In industries as diverse as fashion, food, automobiles, hospitality, and of course retailing, French companies stand to benefit from the global trends that will characterize the world in the coming decade. As such, France's growth prospects are, at the least, moderately good. For the consumer market in France, that is good news.

## Retail overview

French grocery retail faces multiple challenges, enduring what could well be described as the most radical period of structural change since the 1960s. The *hypermarché* – emblematic of late 20th century French modern trade – has been in steady decline since the early 2000s. Recently, this negative trend has been further exacerbated by pressure resulting from domestic and European economic woes, a retail market stagnant since 2008 and, this year, consumer confidence reaching its lowest ebb since 1972. To add to its troubles, the format is also under fire from e-commerce eating into non-food sales, increased price transparency for consumers and demographic change.

Demographic trends, in particular, will mean that smaller households – as part of a very long-term trend – will have less disposable income, live in smaller homes and have lower car ownership rates. One consequence will be that they will see less need to visit big-box stores for large weekly shopping trips. And as the sector shifts inexorably towards more convenient ways of shopping, retailers have been making strenuous efforts to reinvent themselves through launching new formats and sub-formats – often on a trial-and-error basis, and with varying degrees of success.

The need for investment, the task of finding new profitable ways of retailing which meet changing customer demand, is clearly a big challenge that will load an enormous financial burden on France's leading retailers. In some cases, the burden is such that global expansion has been cut back drastically – even resulting in some market exits in favor of renewed focus on France and a small number of strategic key markets abroad (Carrefour).

However, it is worth highlighting that there are other companies still in growth mode internationally, with Auchan's acquisition of Metro Group's Real hypermarkets in Central and Eastern Europe as a very recent example. Along with all the risks and problems, this period of change also affords considerable opportunities for fresh non-food retailer names to assume leading market positions – for example, in e-commerce and consumer electronics.

The French grocery market is highly consolidated, with the top five players taking a combined market share of 68 percent, and the top 10 capturing 86 percent of food retail sales. Double-digit market shares are achieved by all of the top five players, including hypermarket-heavy multi-format giants Carrefour (market leader) and Auchan (number five), as well as independent groups Leclerc (expected to become market leader by late 2013 or early 2014), Intermarché and Système U. This top five mixture is also reflected in the channel structure of the French grocery market, with hypermarkets and superstores capturing a 43.1 percent share this year, while supermarkets control a similarly sizeable 40.3 percent. Discounters trail behind as a format, now accounting for 8.5 percent of food retail sales with a more or less stable outlook, hurt by fierce price competition from full-range grocers and the new convenient drive format. The cash and carry wholesale segment has, meanwhile, been suffering from the economic pressure via reduced turnover from restaurant operators, with consumers cutting back on dining out.

Economic, demographic and competitive forces aside, the development of the French retail landscape has long been closely linked to market regulation. To detail just a few examples, hypermarket growth was curbed by legislation in the late 1990s, requiring regulatory approval for grocery outlets larger than 1,000 square meters (around 11,000 square feet). This favored the expansion of discount outlets at the expense of big-box stores. A 2008 law (the Loi de Modernisation de l'Économie) polices negotiations between retailers and suppliers. Sunday openings are possible only on an exceptional basis; even time frames for end-of-season sales are limited by law. Finally, the growth of Drive (click and collect) outlets, which of late have mushroomed across France, will most likely be subject to regulatory oversight in the near future to "find a balance" between different store formats, as the government has put it.

France has been the pioneering market for the relatively young Drive format, with outlet numbers rising to around 2,500 since the debut of Auchan's first Chronodrive location in Lille in 2004. Since then, Leclerc, Système U, Intermarché, Carrefour, Casino and Cora have all followed in Auchan's footsteps, meaning Drive expansion has become a major trend. New openings will likely continue at least until the end of 2013 before any restrictive regulation is expected to come into force. However, despite the Drive boom, e-commerce in general has not taken off as fast in France as in other European markets such as the UK or Germany. Online transactions accounted for only 5.9 percent of retail sales in 2012 and are unlikely to break the 10 percent barrier until 2017.

In the wake of ongoing economic difficulties and dented consumer confidence, private label sales have been on the march, accounting for 28 percent of FMCG sales in 2012 (Nielsen). In volumes terms, these products constituted more than a third of the market, at 36 percent (up from 22 percent in 1999). The French private label landscape has traditionally featured lavish varieties of organic, regional and fair trade ranges, among others. At long last, larger numbers of discount private labels, such as Carrefour Discount, have also appeared on the shelves after cash-strapped consumers began defecting to discounters in the late 2000s. However, looking forward, the private label segment now seems to be approaching saturation point.

With so much change happening now and with more to follow in the years to come, investment opportunities will continue to open up for existing market participants and new entrants alike. Chances of such investments eventually paying off handsomely look good – however, these rewards will come primarily as maturation of long-term strategies, due to the present depth of France's continuing consumption crisis.

# Medium-term Italy

Italy gets a lot of bad press. It has a very high level of sovereign debt relative to GDP; it was one of the world's slowest-growing economies in the past decade (with real GDP declining between 2003 and 2012); and it has faced considerable political instability lately, even by its own historical standards. As of this writing, the country remains in a prolonged recession. Looking forward, Italy also has some of the most problematic demographics in Europe. And yet, it could surprise us. In the not-too-distant past, it was a fast-growing economy, channeling massive savings into profitable investment. The savings remain. And although sovereign debt is high, the high level of savings means that the servicing of debt has usually not been a problem. Moreover, the budget deficit today is quite low and, after excluding interest payments, the budget is actually in surplus. Northern Italy has always been a center of entrepreneurship in industry and fashion. Italian brands still have substantial global appeal. And in a world in which brand is critical to competitiveness, Italy is surprisingly well positioned. Therefore, Italy should not be written off.

Still, Italy is a medium-rather than a short-term bet. In 2012, real GDP fell 2.4 percent and is expected to decline again by about 2.0 percent in 2013. Even in 2014, few analysts expect Italy to do much better than simply break even. The return to healthy growth will be a long slog.

---

**In a reflection of Italy's fragmented retail landscape, Planet Retail estimates that a remarkable 17 percent of food retail sales are still in the hands of traditional traders. This compares with around 7 percent in the UK.**

Poor economic performance has much to do with weakness in domestic demand. Stagnant wage growth, high unemployment, and increased taxes (the result of the policy of austerity) have all hurt consumer demand. Poor credit market conditions and high risk spreads have hurt business investment. These factors will not change quickly. Nor will the country's poor demographics which involves continual decline in the working age population.

On the other hand, the major positive factor is likely to be exports. This may seem surprising to anyone who has looked at Italy's modest experience with exports in the past decade. The country lost competitiveness and, as a result, global market share. In 2009, real exports declined by 17.7 percent. Yet with a relatively cheap euro, and with wage restraint and productivity improvement in the past few years, Italy's exports have become more competitive. This bodes well for export growth in the coming years. This, in turn, will be helpful to reducing severe unemployment.

There are other positive factors in the medium term. First, fiscal austerity is largely over. Going forward, Italy is unlikely to engage in a fiscal policy that has a negative impact on growth. Indeed the IMF estimates that, in the long-run, Italy already has a structural budget surplus. This means that it can actually engage in some fiscal stimulus in the medium term should the need arise. Second, although there is considerable difficulty in passing significant legislation, the probability of enacting economic reforms is probably better than at any time in the recent past. Such reforms will entail liberalizing the labor market as well as key product and service markets. The idea is to boost employment and efficiency, thereby setting the stage for faster economic growth. Third, Italy's biggest export market is the rest of Europe, which should soon recover from its long recession. This, too, will be helpful to Italy's recovery.

While prospects for the Italian consumer market are not great, they are not as bad as many think. Unemployment will come down as the economy recovers. The tapering off of austerity will mean the end of rising taxes, and an improvement in productivity growth will set the stage for real wage gains. Thus, the consumer market should grow in the coming decade.

## Retail overview

With weak consumer confidence continuing to underpin Italy's ongoing recession, retailing has taken its share of punishment. Retail sales are set to contract again in 2013, by perhaps two percent in real terms, and this is being felt most strongly in numerous non-essential product categories, such as consumer electronics and entertainment. Hypermarket operators have come under considerable pressure with their large non-food departments as consumers keep a close eye on expenditure. But the sharp drop in non-food sales has also triggered a shakeup in Italy's specialist store segment through insolvencies among independent shop owners.

Sales of food as an essential category have, as usual, been less affected by the recession. In fact, Italy's retail landscape continues to be shaped by large numbers of independent food shops. This is mainly true in the mezzogiorno, the economically less-developed southern half of Italy, but even in the north small food shops can still be found almost everywhere, particularly in smaller towns and rural areas. Planet Retail estimates that a remarkable 17 percent of Italy's food retail sales are still in the hands of traditional traders. This compares with, for instance, a much lower nine percent in Germany and around seven percent in the UK.

Hypermarkets and superstores do play an important role in Italy's grocery retail sector, but it is a lesser role than in other key European markets. This is a reflection of both the Italian market's fragmented nature and of restrictive legislation that protects small independent traders. Thus, in 2012, the hypermarket and superstore channel – dominated by Esselunga, Coop Italia, Auchan, Carrefour and Finiper – accounted for 24.8 percent of national food retail sales, and this is likely to increase just marginally to 26.3 percent by 2020.

At the same time, the small discount sector continues to blossom, with the likes of Lidl, Eurospin and Penny (as well as a number of smaller regional players) already capturing 6.8 percent of food retail sales. However, the bulk of the market continues to be dominated by supermarkets and neighborhood stores, both company-owned and independent, with Conad and Coop Italia the national leaders in this segment. In the southern half of Italy in particular, this market fragmentation will recede very slowly as economic development makes only moderate progress. Meanwhile, convenience store retailing continues to be a small market segment in Italy, in line with other southern European countries.

The share of private label FMCG ranges of total grocery sales has more than doubled to slightly above 20 percent in Italy in the decade to 2012 (Nielsen), with visible acceleration occurring since the advent of the economic crisis. Still, owing to its disjointed retail landscape, Italy's private label penetration is not especially high when compared with other key European markets such as Spain (51 percent) and France (36 percent).

Yet the advance of private label has been remarkable, and information divulged by Italy's leading retailers has confirmed the trend. Market leader Coop Italia, as a key driver of private label, reported house brand sales up 12.6 percent in 2012 alone, with the ranges now accounting for 27 percent of group sales. Auchan already generates 17 percent of sales at Simply Market through private label and has announced an intention to increase this to 25 percent. Conad, number three in the market, has reached this point already, generating 25.5 percent of sales through private label in 2012 after growing the ranges by 17 percent in 2012.



E-commerce in Italy is lagging other key European nations, accounting for an estimated 3.4 percent of retail sales in 2013 (which compares with a 10.2 percent share in the UK). However, the technical infrastructure is being swiftly rolled out. The proportion of internet users, for example, will rise from only 23 percent in 2000 to 62 percent in 2015, according to forecasts from the Economist Intelligence Unit (EIU). Broadband penetration is to climb from 0.2 percent to 26.0 percent in the same period. The take-up rate of e-commerce will, therefore, only accelerate going forward, certainly helped by Amazon's launch of a local website in 2010.

Looking ahead, food retail investment opportunities in Italy will exist mainly in residential areas. This is not only because of the still-diverse nature of the country's grocery sector, but also as a result of demographic change. In common with most Western European markets, Italy is characterized by an ageing society that will see its standard of living decline over the coming decades. This will eventually lead to a smaller workforce with a higher tax burden and a larger population of pensioners with less money to spend. This, coupled with smaller household sizes, along with falling car ownership rates, will structurally favor frequent small shopping trips closer to the home, at the expense of out-of-town hypermarkets.

Market leader Coop Italia has been feeling the hardship among its customers. The retailer reported house brand sales up 12.6 percent in 2012 alone, with the ranges now accounting for 27 percent of group sales.



Source: Planet Retail

# Medium-term UK

The UK economy has been performing poorly and remains at risk of having relatively slow economic growth in the next several years. The problems faced by Britain include continued fiscal contraction, weakness in neighboring Eurozone countries, and continued banking woes. The latter problem is exacerbated by the possibility of the EU imposing further rules limiting the competitiveness of the UK's financial services sector. The shrinking of the financial services sector needs to be offset by growth somewhere else, but it is not yet clear what this will be. Another problem is the possibility of the UK exiting the EU and the impact this could have on business confidence. That is a long-term issue, but in the short term the Eurozone's problems will continue to have a contagious impact on the UK economy.

On the other hand, the UK economy has many positive attributes. These include a strong world-class financial services industry as well as strength in media, professional services, and tourism. The labor force is highly educated and London is likely to remain a global center. Economic success can come when the Eurozone recovers, the austerity policy is unwound, and the Bank of England implements a more aggressive monetary policy. These things can happen, although they do not seem likely in the near term. Still, even when growth resumes, it is likely that it will be centered in London and that other parts of the UK will continue to fall behind.

Consumer spending accounts for over 60 percent of GDP and has been hard hit by the financial crisis and falling real incomes. A turnaround in this sector would make a significant contribution to economic growth and the latest news suggests that the worst is behind Britain. Consumer spending has picked up in recent quarters and car sales are on an upward path, one of the few bright spots in an otherwise contracting European car market. UK unemployment has edged lower in the last two years and private sector job creation is outpacing job losses in the public sector. While the outlook is far from rosy for UK consumers, as credit conditions begin to normalise and real wages start to recover, the hope is that consumer spending could prove to be a driver of growth going forward.

---

**Despite the declining importance of hypermarkets and superstores, they will remain by far the most important channel in the UK.**

A period of sharply higher taxes and high inflation is coming to an end. About 70 percent of the government's planned tax increases have already taken effect. Inflation has more than halved since its peak in 2011. With average earnings forecast to pick up, the scene looks set for a modest rise in consumer spending power.

In addition, rising equity markets have boosted consumer wealth. A comparison of consumer debt to financial assets shows that balance sheets are in better shape than at any time in the last ten years. Falling levels of mortgage arrears and write-offs of consumer credit fit with a picture of a healthier consumer sector.

There are signs, too, that the long credit freeze may be starting to thaw. The Bank of England's Q2 2013 Credit Conditions Survey found that mortgage availability in the fourth quarter improved at the fastest rate since early 2008. Meanwhile the government has introduced a series of schemes to improve the flow of mortgage finance to households and these appear to be having some effect.

Overall, then, it appears that the medium term outlook for the consumer sector of Britain's economy is not bad. While significant structural changes in the UK economy are still needed for long-term success, retailers can look to the remainder of this decade as offering a better environment than they have experienced in the past few years.

---

**Consumer spending in the UK has picked up in recent quarters and private sector job creation is outpacing job losses in the public sector. While the outlook is far from rosy, the hope is that consumers could prove to be drivers of growth.**



## Retail overview

The UK market is the ninth-largest in the world in terms of retail sales, and the eighth-largest in terms of food retail. In Europe, it ranks third or fourth, occasionally trading places with France depending on the respective currency exchange rate. The UK market is characterized by high levels of concentration, with the top five players accounting for 68.8 percent of national food retail sales in 2012.

In terms of growth opportunities, the saturated nature of the market along with rigorous scrutiny from the competition authorities now leave little room for any large-scale mergers and acquisitions. Retailers, therefore, have increasingly been looking to diversify, with pushes into convenience stores, e-commerce, and financial services among the most important trends during the past decade.

The trend towards convenience especially leaves room for further growth, given the fragmented nature of this market segment and the gradual shift of customer demand from big-box out-of-town destinations to more convenient locations. This slow but steady shift away from large stores comes in the face of both growing online sales (accounting for an extraordinarily high 10.2 percent of retail sales in 2013) and changing demographics that will favor residential shopping patterns.

The trend of rapid growth of smaller formats and a tailing off in the growth of big-box stores was also reflected in UK market leader Tesco's declaration of an end to the large-store space race. The statement represented the first time a global retailing giant openly accepted the impact of e-commerce on non-food sales in big stores. As a result, Tesco has written off 100 sites – acquired five to 10 years ago and worth GBP802 million (USD1.24 billion) – which it now no longer plans to develop. Although the retailer does not plan to close any of its existing Tesco Extra hypermarkets, it is looking at ways to re-invigorate the format by turning these outlets into compelling retail and entertainment destinations.

To this end, Tesco has acquired coffee chain Harris + Hoole and restaurant chain Giraffe. By also integrating the element of customer entertainment, a concept partly based on the experience in its foreign Asian markets, Tesco is pro-actively repositioning its portfolio and setting an interesting example for markets that will face similar problems in the years ahead, such as France, Germany, and Spain. Obviously, the rise of the internet will mainly hit grocers that have high proportions of non-food sales, meaning that Tesco and Walmart-owned Asda are facing a bigger challenge in this respect than, say, Sainsbury's and Morrisons.

Despite the declining importance of hypermarkets and superstores – Planet Retail estimates their share of grocery retail sales to fall from 66.1 percent in 2007 to 54.3 percent by 2020 – they will remain by far the most important channel in the UK. Their share, by the end of the decade, should compare to around 13 percent of supermarkets and neighborhood stores, as well as eight percent for discounters.

In retrospect, it is fair to say that Britain's leading grocers have managed to keep the discounters well in check through their early introduction of economy private labels. And although discounters have gained market share as a channel since the outbreak of the crisis – and even overcome a social stigma to achieve mass-market acceptability – these dynamics are coming from a very low level compared to the big-box channel.

Even so, the convenience channel, along with the discounters, can be expected to eat into sales of hypermarkets and superstores in the long-run – with growth in both channels far outstripping their larger counterparts at compound annual growth rates of approximately 6.0 percent and 8.3 percent respectively in the five years to 2018. With Tesco and Sainsbury's pushing the convenience channel for many years, the sector's opportunities have also attracted new entrants, such as Morrisons.

Morrisons has also been the latest high-profile entrant into the UK's well-developed online grocery segment, teaming up with pure-play operator Ocado and potentially ahead of the Co-operative Group, which is now considering a similar move. Profitability remains a challenge in online grocery retail, however. This is even true in the UK, which – by Western European standards – combines a relatively high-margin environment with high levels of delivery fee acceptance among consumers.

Inspired by experience in its Asian markets, Tesco is searching for the hypermarket of the future with a stronger focus on leisure and entertainment, as demonstrated in this newly-revamped outlet near London.



Source: Planet Retail

# Medium-term

## Spain

It is hard to see what will make the Spanish economy grow again at a decent pace in the near term. A combination of fiscal austerity, weak banks, low confidence, and seized up credit markets have left Spain in a serious recession. In 2012, real GDP declined 1.4 percent while real consumer spending declined 2.2 percent. In 2013, it is anticipated that real GDP will decline by 1.7 percent with consumer spending falling by 2.7 percent. While competitiveness has improved and exports have increased, these are not sufficient to return Spain to steady growth. And while economic reforms such as liberalizing labor markets will have a positive long-term impact, in the short term they will hurt growth and increase social instability. Add to this increased secessionist sentiment in Catalonia and it appears that Spain has several rough years ahead. Indeed it is expected that real GDP will, at best, break even in 2014. Meaningful growth is not likely to return until at least 2015. That will be eight years after the last phase of meaningful growth ended.

On the other hand, Spain continues to have a very sophisticated economy with world class companies, a highly educated and skilled population, and it is a mecca for tourists. If the government manages to enact significant labor market reforms, and if the Eurozone economy itself becomes healthier, Spain could eventually prosper. There are, in fact, some positive signs. Austerity has been eased, which will remove one of the most negative effects on economic growth. In addition, there has indeed been a substantial improvement in competitiveness due to wage restraint and productivity gains. Spanish exports should do well in the coming years, having a much bigger impact on growth than in the past decade.

On the other hand, it will be necessary to do far more to reverse the imbalances in the financial system stemming from the collapse of Spain's housing bubble. The financial market troubles are far from over, especially for Spain's smaller banks.

---

**In the five years to 2012, the Spanish retail market shrunk by 21 percent in real terms. Apart from Mercadona most leading players closed 2012 with sales below pre-crisis level.**

What about Spain's consumer market? For the next few years, the outlook is poor. The economy will grow slowly, disproportionately from exports. The working age population and the labor force will shrink, and unemployment (now at 27 percent) is likely to remain high – thereby hurting confidence and the willingness of consumers to spend. However, near the end of this decade, if all goes well, the labor force will start to grow again. Consumer de-leveraging will largely be over. Unemployment will have come down. There will be considerable pent-up demand. At that point it will be reasonable to expect a revival of consumer spending.

## Retail overview

Spain's retail sector continues to suffer the effects of a depressed economy. In the five years to 2012, the Spanish retail market shrunk by 11.8 percent in nominal terms, and by an estimated 21.2 percent in real terms. And even though the food business is more stable in a recession, as people will continue to eat, the blows to non-food business suffered by hypermarket operators and the rapid growth of private label mean that grocery retail sales have fallen 5.1 percent in the five crisis years to 2012, or by 15.2 percent in real terms. The seriousness of the Spanish crisis is, therefore, not easy to overstate.

The medium-term outlook will likely remain very difficult in the face of youth unemployment rates above 55 percent, with a significant proportion of well-educated people aged 20-30 close to completing their sixth year of unemployment. With the outlook problematic in the short and medium term, the market shakeout continuing and the independent sector under pressure, Planet Retail estimates the market share of traditional grocers will drop from around 21.8 percent at the beginning of the crisis in 2007, to 15.7 percent by the end of this decade.

On the company level, heavyweight operations such as El Corte Inglés, Carrefour, Eroski and Metro Group have closed 2012 with sales below pre-crisis level. In this dire context, the most remarkable success story has been that of price-led supermarket operator and market leader Mercadona, which has pushed its grocery market share from 16.2 percent in 2007 to 22.5 percent in 2012. Discounters such as Dia (spun off from Carrefour in 2011), Lidl and Aldi have also been among the winners, as cash-strapped shoppers have appreciated their low-price private label ranges featuring enhanced quality, as well as their convenient locations, saving shoppers the gasoline expenditures usually associated with hypermarket shopping trips. It is particularly worth noting that the Spanish discount segment is increasingly dominated by Dia, which already owns 77 percent of the national discount store base.

In the wake of the crisis, the share of private label in grocery is now thought to have reached around 40 percent of sales, and around 50 percent of volumes. However, recent market analysis now points to a certain saturation effect, with growth showing signs of falling to lower levels. Pushing private label – along with investment in overall price positioning, service levels and logistics – has been the obvious priority of retailers in recent years, although a degree of store expansion is still taking place. Once again, Mercadona, Dia and Lidl count among the most successful businesses in terms of network expansion.

In 2012, supermarkets and neighborhood stores accounted for 52.8 percent of Spanish grocery retail sales, with the segment heavily dominated by domestic players (chief among these being Mercadona). Discount stores represented a more modest 10.9 percent. But while both supermarkets and discounters are set to gain further market share in the years ahead, hypermarkets should continue to be under pressure in the very long term. This is because the effects of the economic crisis will be exacerbated by the ageing of Spain's population, as well as the continued rise of non-food online competition (with internet penetration to shoot up from 13.6 percent to 71.3 percent between 2000 and 2015, according to forecasts from the Economist Intelligence Unit).

Looking at Spain's key retailers in more detail, market-leading supermarket operator Mercadona will likely continue to open at least 50 stores per year, heading towards a network size of over 1,800 by 2018. The chain closed 2012 with banner sales of around EUR19 billion (USD25 billion) and a formidable grocery market share of 22.5 percent. Its comprehensive EDLP strategy is reinforced by a highly successful private label range, which has allowed the company to effectively occupy the gap opening up between hypermarkets and discount stores for shopping trips that are perceived as competitively-priced, convenient and atmospherically pleasant.

Ranking as the number two in terms of total sales (albeit only the number six in the food, drink and tobacco category) is El Corte Inglés. Even before the crisis, the department store group began to diversify into hypermarkets, supermarkets and convenience stores as well as non-food operations and services. In the face of the crisis now, the group is making strenuous efforts to improve its price stance without compromising its traditional quality and service focus. In the hypermarket and superstores channel, El Corte Inglés now ranks as Spain's number three behind segment-leading Carrefour and Auchan. The latter has been increasing its market share in the crisis, in line with its strong performance elsewhere in Europe.

Basque player Eroski ranks fourth in Spanish grocery retail, behind number three Carrefour. The Eroski umbrella covers a wide range of food, non-food and wholesale formats, with Eroski and Caprabo featuring as its most well-known banner names. The crisis has taken its toll on this retailer, however, as it has seen sales fall without interruption since 2009. As a result, the company has been forced to embark on a sale-and-leaseback program in order to corral debt.

Finally, discounter Dia operates the largest chain in Spain in terms of store numbers, with more than 4,000 outlets. Around a quarter of these were acquired from insolvent German drugstore chain Schlecker in late 2012. Dia continues to invest in Spain despite the gloomy economic prospects, proving that it is well positioned as a discounter to withstand and, very likely, benefit from this unusually deep economic crisis.

Market-leading supermarket operator Mercadona will continue to open at least 50 stores per year, heading towards a network size of over 1,800 by 2018. The chain closed 2012 with a formidable market share of 22.5 percent, not least thanks to its highly successful private label range.



Source: Planet Retail



# Long-term Iran

Iran is considered a rogue nation by many Western politicians and business leaders. It is diplomatically isolated, intent on developing nuclear weapons and supporting terrorists, and suffering through draconian sanctions. Its economy is in recession, oil production is down and investment is significantly hampered, while inflation is running amok. These are clearly attributes that global retailers seek to avoid.

---

**In the medium term, investment opportunities in Iran will mainly be available for fashion and cosmetics brands renting space in Iran's modern shopping centers. Once the political tensions have eased and infrastructure has improved further, opportunities should also arise for international hypermarket groups.**

Yet Iran was a relatively affluent country before the 1978 revolution. Even today, per capita GDP is fairly high by global standards, making Iran a middle income country. There is a rich and educated Iranian diaspora, the largest concentration of which is in Los Angeles that is eager to someday invest in its home country. Notably, to the degree that public opinion can be known, it is believed that Iranians are unhappy with their regime and are surprisingly pro-Western in their attitudes.

If the regime were to be changed, it is possible that Iran would revert to a pro-Western stance and would be welcomed into the international community. This would mean strong growth, rapid investment in energy, an infusion of diaspora wealth, and a vast market of 77 million for global companies. The transition would not take very long as there is already a good business infrastructure supported by an active stock exchange. Still, this is not likely to happen anytime soon. Moreover, if significant regime change comes to Iran, it is more likely to be a gradual process than an abrupt revolution. Is there precedent for such change? The answer is yes. There are a number of important countries that, over the past few decades, have gone through significant shifts in economic policy, interaction with the rest of the world, and political freedom – all without undergoing a disruptive revolution. These include China, South Korea, Brazil, Mexico, and South Africa to name a few. So change in Iran should not be considered out of the question.

## Retail overview

Iran seems to be one of the retail markets most underestimated by analysts in the Western hemisphere, probably due to a general scarcity of economic news from the country. And while, admittedly, the modernization of Iranian retail might be in an early stage, it is advancing dynamically, propelled by a young population, high urbanization, swift development of retail property and the fast spread of modern technologies.

With its population of 77 million inhabitants, Iran already features a standard of living roughly comparable with South Africa. However, the retail sector has recently been struck by currency devaluation. U.S. and EU banking and oil sanctions have hit the Iranian economy, causing the rial to shed over 80 percent of its value since 2011, meaning import prices have risen sharply. And while international sanctions do not apply to clothing and food, the latest inflationary spike effectively means consumers' purchasing power has been reduced drastically, with many foreign products effectively out of reach for large swathes of the population. The situation is exacerbated through money transfer restrictions making imports technically difficult even for goods that can be legally imported. Local Inflation has, in fact, reached a level that triggered a government call to retailers in early 2013 to "take less profits for God's sake". However, retailers are currently struggling just as much as shoppers. At least, production of foreign-branded consumer goods under license has recently helped alleviate the situation.

Looking beyond the current difficulties, the long-term outlook appears promising, should internal and external political stability be achieved. As mentioned above, the retail modernization of Iran may be at a relatively early point in the cycle, but it is actually happening. Starting with the construction of modern shopping centers in Tehran and other large cities, which are already well accepted by the urban middle class, Iran's first modern grocery chains have sprung up since market liberalization in the early 1990s. Even so, superstores only account for an estimated 4.2 percent of Iranian grocery retail, while open markets and street traders probably capture as much as 29 percent of the market. The latter are supplied through several tiers of wholesalers.

At the same time, the share of modern trade within Iran's grocery retail sector keeps expanding at a moderate pace, accounting for an estimated 18 percent today. But as virtually all retail modernization takes place in the biggest cities, the spread of modern trade within these has actually achieved remarkable momentum. Meanwhile, the traditional sector continues to be dominated by government-backed co-operatives, independent mom and pop stores, street markets and bazaars, with an estimated 440,000 independent grocers active in the market.

It would clearly be too soon to speak of an e-commerce boom at this point in time, but the infrastructure is now being created at high speed. With 46 percent of the population aged under 25 and a fast-rising urbanization rate that will go from 64 percent to 72 percent in the 15 years to 2015, there is appreciable enthusiasm for modern lifestyles and every chance of this enthusiasm increasing in the years ahead. The proportion of internet users will shoot up from 1 percent to 33 percent between 2000 and 2015, according to forecasts from the Economist Intelligence Unit (EIU), while the rate of broadband access will go from zero to 10.4 percent. Like the internet, mobile phones were also barely available in Iran in 2000, with just 1.5 subscription per 100 people, but this went up to 89.2 by 2010 and will reach 133 by 2015 (EIU) – roughly the numbers achieved by Germany five years earlier.



Looking at the market-leading retail groups, Tehran-based Refah, founded in 1995, is a superstore and supermarket group operating 160 outlets across Iran plus a small online shop, with stores carrying decent ranges of grocery as well as non-food. Refah's services include accepting bank cards issued by domestic banks (acceptance of foreign bank cards is restricted by law), as well as a loyalty card program. Shahrvand, owned by the municipality of Tehran and a foundation of the early 1990s, today operates 23 superstores across the greater metropolitan area, selling 30,000-50,000 items, depending on the size of the individual location. As at Refah, a transactional website is available.

Meanwhile, foreign retailers aren't completely unfamiliar to Iranian shoppers. Carrefour entered the market through its former Middle East joint venture partner Majid Al Futtaim (MAF) to launch a Hyperstar hypermarket in 2009. Although the banner's logo continues to resemble Carrefour's to this day, Carrefour apparently withdrew from the project even before pulling out of its MAF joint venture. Further examples of a foreign presence in Iran include UK-based department store chain Debenhams (since 2009, via a franchise agreement) as well as Yves Rocher perfumery stores. Apart from the presence of international brands, Iran's largest cities have also seen a rise in foodservice chains copying the concepts and looks of leading global operations – a strategy well-familiar from many other emerging markets.

Looking ahead, investment opportunities for international retail groups will, in the medium term, mainly be available for fashion and cosmetics brands renting space in Iran's growing numbers of modern shopping centers. Franchise agreements and local manufacturing deals will help make brands affordable in the current economic climate, both in grocery and non-food. Once the political tensions have eased and the food manufacturing base, as well as the national infrastructure, has improved further, investment opportunities will also appear for international hypermarket groups.

However, whether or not this potential will be exploited by the likes of Walmart, Carrefour and Tesco in the medium term is another matter. It is fair to say that a number of theoretically attractive entries into emerging markets around the world will not happen in the future, but this will not be because the market is not ready for it, but due to difficulties on the retailers' side. The extent to which Iran becomes a target of Western hypermarket groups will, not least, depend on how successful these groups manage to restructure in the face of the current economic crises hitting their home markets, as well as their response to the demographic change that is beginning to be felt in their vital domestic territories.

In the medium term, investment opportunities in Iran will mainly be available for fashion and cosmetics brands renting space in Iran's modern shopping centers. Once the political tensions have eased and infrastructure has improved further, opportunities should also arise for international hypermarket groups.

Shahrvand is a 23-strong superstore operator trading across Tehran. Founded in the early 1990s, it continues to be owned by the municipality of Tehran to this day.



Source: Shahrvand

# Long-term Pakistan

---

Even a moderate level of economic growth would render a significant increase in the number of middle class consumers. This would help to fuel strong growth of modern retailing.

Pakistan is a desperately poor country with a population of about 180 million that is growing rapidly. Per capita GDP is roughly comparable to that of Sudan and about 25 percent lower than that of neighboring India. Growth of the economy has been relatively slow compared to other Asia countries, averaging below four percent in the last five years. Growth temporarily accelerated in the period 2004 to 2007, exceeding 5.8 percent in each of those years. But that was very much an exception. The country's economic indicators are troubling. There is a perpetual current account deficit, dwindling foreign currency reserves, a declining currency, and relatively high inflation. The current fiscal deficit is more than six percent of GDP. Leading analysts expect economic growth to average about 3.5 percent per year in the next five years. With the population growing about 1.6 percent per year, that means a very frustrating expansion in living standards. Moreover, there are considerable obstacles to growth. These include global aversion to foreign direct investment into Pakistan, uncertain electricity generation, frequent water shortages, weak human capital development, and weak domestic investment (which has declined in each of the last five years). Pakistan is also dependent on imports for most of its energy needs.

Not only is Pakistan problematic from an economic perspective, it is seen as especially troublesome from a political perspective. Pakistan is often viewed as a failed state, unable to control vast swathes of territory, prone to military coups, unable to control extremists

and terrorists, and perpetually on the edge of nuclear war with neighboring India. Consequently, this vast and interesting country has certainly been far off the radar screen of global investors in the retail industry. Yet could perceptions of Pakistan change by the next decade? And if so, what will drive such change?

There are reasons that, in the longer term, Pakistan could become of interest. Indeed Pakistan has many of the virtues that have made India an attractive place. While poorer than India, Pakistan does have educated, English speaking citizens who are supportive of market oriented policies. While there are parts of Pakistan that are desperately poor, urban areas such as Karachi and Punjab have richer, diverse, industrialized economies with particular strength in textiles. Pakistan has relatively favorable demographics and a sizable English-speaking middle class. Exports are led by cotton and textiles. The principal export markets are the U.S. and EU. The World Bank's index of "ease of doing business" actually ranks Pakistan better than India, Russia, or China. Government policy lately has included tax reform, privatization of utilities, and freer trade. Interestingly, Goldman Sachs lists Pakistan as one of the "next 11" countries of interest after the top 10 emerging markets. Given that Pakistan has almost 190 million people, any serious level of economic growth in the future is bound to make this an important economy. For now, of course, Pakistan remains a worry.

As for the consumer market in Pakistan, even a moderate level of economic growth in the future would render a significant increase in the number of middle class consumers, especially in the major urban centers. This would help to fuel strong growth of modern retailing. As has been the case in other emerging markets, as the middle class develops, the modern retail sector would likely grow significantly faster than overall retail spending as consumers shift from street merchants to modern, destination oriented stores. Foreign retailers would naturally be attracted to such low-hanging fruit. The political uncertainty would be the main impediment to this taking place. Political and social stabilization, therefore, would go a very long way toward making Pakistan a good place to conduct business.

---

Foreign retail investment in Pakistan will most likely focus on non-food in the medium term, centered on the international clothing, jewelry and health and beauty categories which are so keenly sought after by the country's young and rising middle class.

## Retail overview

Pakistan's retail scene faces the longest haul towards modernization. Planet Retail estimates that only around 8.4 percent of the country's grocery retail sales are generated by modern businesses. This should grow to just 9.0 percent by 2020 – dynamics that lag well behind the modernization rate seen in India, which should rise from 10.7 percent to 14.7 percent in the same period.

Modern retail infrastructure in Pakistan is, thus, limited to the largest cities such as Karachi (11.1 million inhabitants), Lahore (6.7 million), Rawalpindi/Islamabad (2.9 million) and Faisalabad (2.6 million). On a national level hypermarkets and superstores account for far less than two percent of national food retail sales. However, the fact that there is already a significantly-sized consumer market available for retail investors is shown by the 30 million people who live in Pakistan's 10 largest cities alone. These consumers already benefit from a decent choice of state-of-the-art shopping centers, which offer plenty of opportunities not least for international fashion, health and beauty and foodservice chains.

In the grocery arena, key players include neighborhood store giant Utility Stores at the retail end and Metro Group at the wholesale end of the spectrum. In convenience store retailing, decent petrol station networks are already operated by Western giants Shell and Chevron (Caltex), as well as domestic operator Pakistan State Oil.

Utility Stores, Pakistan's undisputed grocery market leader, concentrates on neighborhood stores. The Islamabad-based company – founded in 1971 to guarantee the supply of the population with affordable staple foods – continues to be fully-owned by the government and now operates just over 6,000 outlets, having added 312 stores in the previous financial year. But while a strong focus on food staples is apparent to this day, it is worth mentioning that the product range is complemented by decent choices of national and international branded items across the dry grocery, soft drinks and drugstore categories.

Germany-based Metro Group, as a classical early mover in global cash and carry, opened its first Pakistan store in late 2007 and has since expanded its network to nine outlets. The company has announced plans to build a network of 20 outlets in the medium term. However, while the customers are clearly there in the market in the shape of urban independent grocers and restaurants, much of its growth dynamics will depend on the room for maneuver afforded by Metro Group's ongoing restructuring efforts at home.

In addition, there are several specialist chains available, including Karachi-based chicken producer and chicken store operator K&N. The group operates close to 100 outlets in 24 cities, with its biggest presence in Karachi and Lahore. In addition, consumers in Pakistan enjoy the services of a good number of global foodservice operators, such as McDonald's, Domino's Pizza, Dunkin' Brands, Nando's, Subway and Yum! Brands. The latter is present via its KFC and Pizza Hut brands. The KFC outlets were temporarily closed in 2012 in the wake of anti-American demonstrations.

In the medium term, retail investment in Pakistan is likely to focus on non-food and foodservice, with the former centered on the international clothing, jewelry and health and beauty categories which are so keenly sought after by the country's young population and rising middle class. As for food retail investment, this should emerge on a larger scale once the national food manufacturing base has improved along with the quality of infrastructure (roads, electricity, cool chain, education). Foreign food retail investment will additionally depend on availability of investment capacities from the global multiples, many of which are currently channeling resources towards troubled home markets in the Western hemisphere. However, as in Iran, this short-term lack of foreign competition in food retailing should enable a protected space for domestic supermarket chains to grow, who will accordingly make interesting partners for international FMCG brands.

Utility Stores operates over 6,000 neighborhood stores. Founded in 1971 to supply the population with affordable staple foods, the product range is now complemented by national and international branded groceries.



Source: Planet Retail

# Statistical appendix

Inhabitants (mn)	2013	2014	2015	2016	2017	2018
Germany	81.8	81.6	81.4	81.3	81.1	80.9
Japan	127.3	127.1	126.7	126.3	125.9	125.4
Mexico	116.0	117.2	118.4	119.5	120.7	121.9
Brazil	199.9	201.4	203.0	204.2	205.5	206.8
France	63.7	64.0	64.3	64.6	64.9	65.2
Italy	61.0	61.2	61.3	61.4	61.5	61.6
United Kingdom	63.8	64.3	64.8	65.3	65.8	66.2
Spain	46.1	46.0	45.9	45.8	45.7	45.6
Iran	77.1	78.1	79.1	80.1	81.1	82.2
Pakistan	182.6	186.3	190.0	193.7	197.5	201.2

Source: International Monetary Fund

GDP (USD mn)	2013	2014	2015	2016	2017	2018
Germany	3,567,299	3,658,709	3,754,348	3,858,348	3,963,359	4,072,032
Japan	4,922,045	5,082,319	5,205,924	5,331,258	5,461,709	5,595,473
Mexico	1,292,799	1,378,328	1,467,211	1,562,812	1,663,319	1,773,642
Brazil	2,216,038	2,420,694	2,646,049	2,893,207	3,163,452	3,458,939
France	2,715,927	2,787,334	2,871,894	2,969,874	3,077,594	3,194,076
Italy	2,058,312	2,095,839	2,148,634	2,209,217	2,273,766	2,335,567
United Kingdom	2,438,811	2,531,032	2,637,034	2,750,504	2,871,591	3,010,668
Spain	1,376,042	1,402,689	1,439,883	1,479,764	1,522,541	1,567,765
Iran	732,555	769,333	766,479	767,123	774,006	780,288
Pakistan	237,495	268,680	306,094	350,636	403,561	464,474

Source: International Monetary Fund, Planet Retail

GDP/capita (USD)	2013	2014	2015	2016	2017	2018
Germany	43,635	44,843	46,107	47,480	48,869	50,311
Japan	38,652	39,999	41,079	42,196	43,378	44,612
Mexico	11,143	11,762	12,397	13,074	13,777	14,545
Brazil	11,087	12,019	13,038	14,166	15,391	16,723
France	42,634	43,555	44,672	45,985	47,436	49,007
Italy	33,744	34,270	35,053	35,969	36,957	37,908
United Kingdom	38,251	39,381	40,710	42,140	43,671	45,456
Spain	29,851	30,497	31,376	32,321	33,337	34,415
Iran	9,502	9,852	9,691	9,576	9,539	9,494
Pakistan	1,301	1,442	1,611	1,810	2,044	2,308

Source: International Monetary Fund, Planet Retail



GDP, real growth (%)	2013	2014	2015	2016	2017	2018
Germany	0.30	1.30	1.32	1.32	1.28	1.24
Japan	1.58	1.41	1.05	1.22	1.19	1.13
Mexico	3.39	3.40	3.35	3.30	3.30	3.30
Brazil	3.02	4.04	4.13	4.16	4.16	4.16
France	-0.07	0.88	1.46	1.75	1.85	1.90
Italy	-1.47	0.52	1.20	1.40	1.40	1.20
United Kingdom	0.69	1.54	1.84	1.94	2.08	2.47
Spain	-1.56	0.74	1.35	1.46	1.51	1.57
Iran	-1.25	1.09	1.98	2.19	2.22	2.39
Pakistan	3.51	3.31	3.10	2.97	2.99	2.99

Source: International Monetary Fund

GDP, consumer price inflation (%)	2013	2014	2015	2016	2017	2018
Germany	1.61	1.70	1.70	1.80	1.90	1.90
Japan	0.06	2.97	2.29	1.98	1.95	1.98
Mexico	3.69	3.25	3.02	3.02	3.02	3.01
Brazil	6.13	4.73	4.50	4.50	4.50	4.50
France	1.57	1.46	1.47	1.60	1.73	1.83
Italy	1.99	1.43	1.15	1.30	1.41	1.51
United Kingdom	2.65	2.50	2.25	2.08	1.93	1.98
Spain	1.94	1.50	1.50	1.39	1.49	1.49
Iran	27.20	21.10	20.60	20.60	20.60	20.60
Pakistan	8.16	9.51	10.50	11.25	11.75	11.75

Source: International Monetary Fund

Consumer spending (USD mn)	2013	2014	2015	2016	2017	2018
Germany	2,050,922	2,110,192	2,171,541	2,236,831	2,305,568	2,375,530
Japan	2,992,424	3,120,365	3,222,004	3,321,825	3,422,908	3,526,078
Mexico	807,028	858,712	911,301	966,740	1,025,523	1,087,763
Brazil	1,337,506	1,451,740	1,573,444	1,705,794	1,849,278	2,004,831
France	1,569,760	1,605,258	1,650,230	1,703,014	1,761,308	1,824,278
Italy	1,299,267	1,324,005	1,353,731	1,388,608	1,425,944	1,463,108
United Kingdom	1,591,561	1,653,946	1,719,150	1,785,430	1,853,866	1,932,539
Spain	837,101	855,335	878,711	902,605	928,452	955,635
Iran	332,133	338,335	347,331	357,228	367,488	378,619
Pakistan	181,758	203,238	228,708	258,662	293,799	333,711

Source: International Monetary Fund, Planet Retail. Forecasts made on assumption of stable exchange rates.

Consumer spending/capita (USD)	2013	2014	2015	2016	2017	2018
Germany	25,087	25,864	26,669	27,526	28,428	29,350
Japan	23,499	24,558	25,424	26,292	27,186	28,113
Mexico	6,956	7,328	7,700	8,087	8,494	8,921
Brazil	6,692	7,208	7,753	8,352	8,997	9,693
France	24,641	25,084	25,669	26,369	27,148	27,990
Italy	21,300	21,650	22,085	22,608	23,177	23,748
United Kingdom	24,963	25,734	26,540	27,354	28,194	29,178
Spain	18,160	18,596	19,148	19,715	20,329	20,978
Iran	4,308	4,333	4,391	4,459	4,529	4,607
Pakistan	995	1,091	1,204	1,335	1,488	1,658

Source: International Monetary Fund, Planet Retail. Forecasts made on assumption of stable exchange rates.

Retail sales (USD mn)	2013	2014	2015	2016	2017	2018
Germany	560,913	574,691	590,563	607,432	625,165	643,186
Japan	1,419,086	1,473,692	1,516,894	1,559,189	1,601,891	1,645,345
Mexico	395,011	417,779	440,806	464,941	490,385	517,171
Brazil	761,991	821,865	885,252	953,759	1,027,566	1,107,086
France	501,546	511,753	524,657	539,760	556,389	574,291
Italy	485,295	493,888	504,201	516,282	529,191	542,018
United Kingdom	495,152	512,620	530,808	549,227	568,173	589,874
Spain	250,784	248,276	254,587	261,025	267,977	275,273
Iran	197,117	199,334	203,117	207,343	211,703	216,473
Pakistan	115,847	129,264	145,140	163,768	185,570	210,275

Source: National statistics offices, Planet Retail estimates. Forecasts made on assumption of stable exchange rates.

Retail sales / capita (USD)	2013	2014	2015	2016	2017	2018
Germany	6,861	7,044	7,253	7,475	7,708	7,947
Japan	11,144	11,598	11,970	12,341	12,723	13,118
Mexico	3,405	3,565	3,725	3,890	4,062	4,241
Brazil	3,812	4,080	4,362	4,670	4,999	5,352
France	7,873	7,997	8,161	8,358	8,576	8,811
Italy	7,956	8,076	8,226	8,406	8,601	8,797
United Kingdom	7,766	7,976	8,195	8,415	8,641	8,906
Spain	5,440	5,398	5,548	5,701	5,868	6,043
Iran	2,557	2,553	2,568	2,588	2,609	2,634
Pakistan	634	694	764	845	940	1,045

Source: National statistics offices, Planet Retail estimates. Forecasts made on assumption of stable exchange rates.



## Grocery retail sales, modern vs traditional

Brazil	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	32.86	33.72	36.64	42.28	47.42
Grocery retail sales, traditional (%)	67.14	66.28	63.36	57.72	52.58

Source: Planet Retail

France	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	81.39	83.51	85.75	87.92	89.76
Grocery retail sales, traditional (%)	18.61	16.49	14.25	12.08	10.24

Source: Planet Retail

Iran	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	15.83	16.25	17.00	18.26	19.49
Grocery retail sales, traditional (%)	84.17	83.75	83.00	81.74	80.51

Source: Planet Retail

Italy	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	77.40	79.41	81.73	84.22	86.38
Grocery retail sales, traditional (%)	22.60	20.59	18.27	15.78	13.62

Source: Planet Retail

Japan	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	76.60	78.59	80.92	83.47	85.68
Grocery retail sales, traditional (%)	23.40	21.41	19.08	16.53	14.32

Source: Planet Retail

Pakistan	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	7.72	7.92	8.20	8.59	8.98
Grocery retail sales, traditional (%)	92.28	92.08	91.80	91.41	91.02

Source: Planet Retail

Mexico	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	47.45	50.75	54.66	59.17	63.22
Grocery retail sales, traditional (%)	52.55	49.25	45.34	40.83	36.78

Source: Planet Retail

Spain	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	75.46	77.42	79.68	82.14	84.30
Grocery retail sales, traditional (%)	24.54	22.58	20.32	17.86	15.70

Source: Planet Retail

United Kingdom	2000	2005	2010	2015	2020
Grocery retail sales, modern (%)	87.58	89.86	91.83	93.15	94.26
Grocery retail sales, traditional (%)	12.42	10.14	8.17	6.85	5.74

Source: Planet Retail

# Contacts

## Authors

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

**Boris Planer**  
Planet Retail  
Boris.Planer@4C.planetretail.net

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

**DTTL Global Consumer Business**    **Retail Leader**  
**Industry Leader**

**Antoine de Riedmatten**  
Deloitte Touche Tohmatsu  
Limited  
aderiedmatten@deloitte.fr

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

## North America

**Canada**  
Ryan Brain  
rbrain@deloitte.ca

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

## Europe, Middle East and Africa (EMEA)

**Belgium**  
Koen De Staercke  
kdestaercke@deloitte.com

**Czech Republic/Eastern Europe**  
Aaron Martin  
aamartin@deloittece.com

**Denmark**  
Jesper Povlsen  
jepovlsen@deloitte.dk

**East Africa**  
John Kiarie  
jkiarie@deloitte.co.ke

**Finland**  
Kari Ekholm  
kari.ekholm@deloitte.fi

**France**  
Stephane Rimbeuf  
srimbeuf@deloitte.fr

**Germany**  
Karsten Hollasch  
khollasch@deloitte.de

**Greece**  
Dimitris Koutsopoulos  
dkoutsopoulos@deloitte.gr

**Ireland**  
Kevin Sheehan  
kesheehan@deloitte.ie

**Israel**  
Israel Nakel  
inakel@deloitte.co.il

**Italy**  
Dario Righetti  
drighetti@deloitte.it

**Netherlands**  
Erik Nanninga  
enanninga@deloitte.nl

**Poland**  
Dariusz Kraszewski  
dkraszewski@deloittece.com

**Portugal**  
Luís Belo  
lbelo@deloitte.pt

**Russia/CIS**  
Alexander Dorofeyev  
adorofeyev@deloitte.ru

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

**Spain**  
Juan Jose Roque  
jroque@deloitte.es

**Sweden**  
Lars Egenaes  
legenaes@deloitte.se

**Switzerland**  
Howard Da Silva  
hdasilva@deloitte.ch

**Turkey**  
Ozgur Yalta  
oyalta@deloitte.com

**Ukraine**  
Andriy Bulakh  
abulakh@deloitte.ua

**United Kingdom**  
Nigel Wixcey  
nigelwixcey@deloitte.co.uk

**West Africa**  
Alain Penanguer  
apenanguer@deloitte.fr

## **Latin America**

### ***Latin America Consumer Business Leader***

Reynaldo Saad  
Deloitte Brazil  
rsaad@deloitte.com

### ***Argentina/LATCO***

Daniel Varde  
dvarde@deloitte.com

### ***Brazil***

Reynaldo Saad  
rsaad@deloitte.com

### ***Chile***

Cristian Alvarez  
cralvarez@deloitte.com

### ***Mexico***

Pedro Luis Castañeda  
lcastaneda@deloittemx.com

## **Asia Pacific**

### ***Asia Pacific Consumer Business Leader***

Haruhiko Yahagi  
Deloitte Japan  
hyahagi@tohatsu.co.jp

### ***Australia***

Simon Cook  
scook@deloitte.com.au

### ***China***

David Lung  
dalung@deloitte.com.cn

### ***India***

Shyamak Tata  
shyamaktata@deloitte.com

### ***Japan***

Yoshio Matsushita  
yomatsushita@tohatsu.co.jp

### ***Korea***

Jae Hoon Lee  
jaehoolee@DELOITTE.com

### ***Malaysia***

Jeffrey Soo  
jefsoo@deloitte.com

### ***New Zealand***

Lisa Cruickshank  
lcruickshank@deloitte.co.nz

### ***Singapore***

Eugene Ho  
eugeneho@deloitte.com

### ***Taiwan***

Jason Ke  
jasonke@deloitte.com.tw

### ***Thailand***

Manoon Manusook  
mmanusook@deloitte.com

### **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 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, New York and Hong Kong.

### **For more information**

+44 (0) 20 7715 6000

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

[planetretail.net](http://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.

© 2013 Deloitte Global Services Limited

Designed and produced by The Creative Studio at Deloitte, London. 29453A