

Africa emerging as next big retail hotspot - Kearney report

The bi-annual [Global Retail Development Index](#) (GRDI), which is a study of the global retailing landscape, reveals that Africa is poised to move away from traditional retail models and become the fastest-growing, richest, and most sophisticated market in the world.



Source: Supplied

Prashaen Reddy, a partner at management consulting firm Kearney says that this is thanks to the explosive growth of young, urban, and digitally savvy consumers; increasing mobile phone penetration; the creation of digital payment and shopping networks; favourable governmental regulations and spending initiatives; and significant investment by both foreign and domestic companies.

In the most stable times, retailers expanding their global footprint face a series of difficult decisions. Yet in the wake of Covid-19, together, these forces are transforming the face of African retailing and providing a blueprint for the development of other emerging markets, seeing Morocco, Egypt and Ghana making the top 10.

2021 Global Retail Development Index

2021 Rank	Country	Population (millions)	GDP PPP per capita (US\$)	National retail sales (US\$ billions)	Market attractiveness	Country risk	Market saturation	Time pressure	Retail 2019 score	Rank ch.
1	China	1,432	17,982	4,072	95.8	18.1	7.1	95.0	12.8	0
2	India	1,400	8,481	1,043	78.1	16.1	6.2	74.1	18.4	0
3	Indonesia	275	12,222	407	71.9	15.9	7.7	80.7	13.8	0
4	Brazil	212	9,207	124	64.1	14.2	7.1	74.1	15.0	New
5	Mexico	126	12,520	42	59.1	13.1	7.1	74.1	12.1	0
6	Egypt	101	10,760	200	24.2	12.1	7.1	74.1	12.1	0
7	China	31	5,893	24	13.1	12.1	7.1	74.1	12.1	0
8	Vietnam	98	10,869	105	17.1	11.1	7.1	74.1	12.1	0
9	Dominican Republic	11	11,818	29	14.1	11.1	7.1	74.1	12.1	0
10	Brazil	7	10,748	21	14.1	11.1	7.1	74.1	12.1	0
11	South Africa	60	6,884	108	17.1	10.1	7.1	74.1	12.1	0
12	Kuwait	3	26,545	26	17.1	10.1	7.1	74.1	12.1	0
13	United Arab Emirates	5	38,753	71	16.1	10.1	7.1	74.1	12.1	0
14	Russia	147	17,919	428	15.1	10.1	7.1	74.1	12.1	0
15	Costa Rica	5	5,300	18	11.1	10.1	7.1	74.1	12.1	0
16	India	11	10,208	16	10.1	10.1	7.1	74.1	12.1	0
17	Spain	47	21,876	9	10.1	10.1	7.1	74.1	12.1	0
18	Poland	37	23,817	23	10.1	10.1	7.1	74.1	12.1	0
19	Australia	25	54,410	15	10.1	10.1	7.1	74.1	12.1	0
20	Turkey	84	10,213	181	10.1	10.1	7.1	74.1	12.1	0
21	Romania	21	20,528	12	10.1	10.1	7.1	74.1	12.1	0
22	Brazil	10	8,244	17	10.1	10.1	7.1	74.1	12.1	0
23	Spain	34	21,828	20	10.1	10.1	7.1	74.1	12.1	0
24	Guatemala	17	17,281	42	10.1	10.1	7.1	74.1	12.1	0
25	Colombia	50	10,170	32	10.1	10.1	7.1	74.1	12.1	0
26	Peru	33	10,870	18	10.1	10.1	7.1	74.1	12.1	0
27	Colombia	49	10,224	19	10.1	10.1	7.1	74.1	12.1	0
28	Tunisia	12	10,100	16	10.1	10.1	7.1	74.1	12.1	0
29	Paraguay	7	10,881	11	10.1	10.1	7.1	74.1	12.1	0
30	Spain	46	21,828	16	10.1	10.1	7.1	74.1	12.1	0
31	Cameroon	27	24,848	20	10.1	10.1	7.1	74.1	12.1	0
32	China	42	10,100	45	10.1	10.1	7.1	74.1	12.1	0
33	Nigeria	204	5,187	108	10.1	10.1	7.1	74.1	12.1	0
34	Philippines	101	8,432	110	10.1	10.1	7.1	74.1	12.1	0

Source: Supplied

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Determining which markets are growing, attractive, and relatively risk-free is one of the goals of Kearney's GRDI which ranks 35 emerging countries based on a set of 26 factors, including four key variables: country risk, market attractiveness, market saturation, and sales growth.

Questions GRDI asked were, should retail enter new markets? Expand their operations in emerging nation that may or may not be yielding returns, or cut their losses?

How to evaluate the comparative potential of modern retailing in nations still dominated by informal or traditional vendors?

These are some of the questions the Global Retail Development Index (GRDI), which tracks selected emerging retail markets, was created to answer. (See graph to the left.)

Population, disposable income growth

Reddy adds, "The global population is expected to increase by 2 billion by 2050, and Africa will be home to the majority of these new lives. The population of sub-Saharan Africa (SSA) alone is expected to double by 2050, with Nigeria expected to be the third-largest country in the world."

This is one of the reasons we will see the growth in Asia begin to slow down and Africa emerge as the next big retail hotspot. It's also predicted SSA will enjoy the highest rate of disposable income growth on Earth about 9% CAGR.

There are four classes of SSA retail – informal, traditional, modern, and illicit – with modern retailing dominated by regional players, primarily South African operators, such as Shoprite, Mr Price, and Pick n Pay and a few international players.

With South Africa not making the top 30, we need to look at the where and why South Africa fits into the closing bracket within the GRDI property scale of window of opportunities. This means consumers are used to more modern retail, the discretionary spending is higher and there is a fierce competition from both local and foreign retailers. This closing segment is where investments are ripe for acquisitions.

Focus for African retailers

In the face of increasing competition and margin pressures, Africa's retailers are focusing on ROI; adopting franchising and other new business models; and rationalising store footprints following the lead of Massmart which recently announced it would be closing the 8% of its stores that were underperforming which include plans to double down on African countries, focusing on price, private label, and building customer loyalty.

"The main challenges are corruption, widespread poverty, security concerns, supply chain issues, lack of infrastructure, active conflicts, archaic governmental retail policies and practices, and isolation, which are as real as the potential. At 18%, for example, SSA has the lowest rate of intra-regional trade on the planet," says Reddy.

Retailers and central banks in various countries are working toward developing and facilitating digital ecosystems by reducing transaction costs on electronic payments, but gaps in e-payment infrastructure supply, logistical inefficiencies, and trust issues are slowing down both existing and future growth opportunities, with Africa accounting for about 50% in mobile money transactions globally.



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In crucial markets like Latin America, the Middle East, and Africa who are fossil fuel-dependent governments are increasingly turning to retail to diversify their economies and wean them away from oil dependency.

It's vital to remember that emerging nations can simultaneously occupy multiple positions on the window of opportunity chart (as seen [in the report](#)). There is a significant difference between urban and rural China and India, so much so that we are well-advised to think of them as not one market but two or three.

Figure 2

The GRDI window of opportunity

Non-exhaustive

	Opening	Peaking	Maturing	Closing
<p>Higher</p> <p>↑</p> <p>GRDI priority</p> <p>↓</p> <p>Lower</p>				
Definition	Middle class is growing; consumers are willing to explore organized formats; government is relaxing restrictions.	Consumers seek organized formats and greater exposure to global brands; retail shopping districts are being developed; real estate is affordable and available.	Consumer spending has expanded significantly; desirable real estate is more difficult to secure; local competition has become more sophisticated.	Consumers are more used to modern retail; discretionary spending is higher; competition is fierce both from local and foreign retailers; real estate is expensive and not readily available.
Mode of entry	Minority investment in local retailer	Organic, such as through directly operated stores	Typically organic, but focused on tier 2 and 3 cities	Acquisitions
Labor strategy	Identify local skilled labor for management positions	Hire and train local talent with a balance of expatriate	Change balance from expatriate to local	Use mostly local staff

Source: Kearney analysis

Source: Supplied

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Understanding consumer attitudes, situations, and dynamics is the basis of all retail success and the world

consumer spending centre of gravity is slowly shifting from the US and developed European markets to emerging markets in Asia, Africa, and the Middle East. This won't happen overnight but at least that seems to be where the arc of commercial history seems to be bending.

The pace of this development is directly linked to the innovation, penetration, and acceptance of consume and retail technologies, from simple mobile phone connectivity to sophisticated and secure electronic payment systems.

Reddy concludes by saying “that the real lesson is that all things, especially markets, change – often, as in the case of Covid-19, with little or no warning. So, there is no effective substitute for contemporaneous in-market knowledge.”

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