

# AFRICA: NEW RETAIL FRONTIER?

By Andrew Jobling, WGSN, 24 October 2011

**The search for new avenues for retail growth is broadening out from the traditional BRICs and into new frontiers, with Africa the latest to be tipped as having the potential to succeed.**

The search for the next big growth market for retail is an arduous one, but for the past few years the topic has been dominated by the BRIC countries (Brazil, Russia, India and China). However these have seen varying levels of success and, while their potential is still undoubted, new markets are also beginning to come into view.



Nairobi, Kenya



Shopping mall in Cape Town, South Africa

At this year's World Retail Congress in Berlin, Deloitte and Planet Retail unveiled their second Hidden Heroes report, looking at the next generation of retail markets. It looks beyond the BRICs to identify potential elsewhere, and Africa features strongly.

In fact, five out of the 10 countries featured are African, with much of the attention sparked by Walmart's acquisition of South African retailer Massmart – the report states that “with the world's largest retailer now active on the continent it seems likely that other leading global retailers will investigate opportunities in the region for themselves”.

The African countries highlighted are Algeria, Kenya, Morocco, Nigeria and South Africa, and while they vary in size and development there is potential for growth.

“All have fast-growing economies, young and growing populations and fragmented retail sectors,” the report says. “Moreover, although traditional forms of retailing are still dominant, a growing middle class is increasingly demanding branded products and the opportunity to shop in modern retail formats”.

Below we highlight some of the country-specific points identified in the Hidden Heroes report.

## Algeria

### WGSN FACT FILE

- *The African retail scene has had the spotlight shone upon it due to Walmart's acquisition of South African retailer Massmart*
- *The highlighted countries are attracting attention due to a variety of factors, including fast-growing economies, young populations and fragmented retail sectors*
- *As well as the African countries there are a further five nations mentioned in the Hidden Heroes report as being emerging markets to look out for: Kazakhstan, Pakistan, Peru, Serbia and Vietnam*
- *The traditional BRICs should not be discounted, however. Their potential is still strong*

## ABOUT THE REPORT

The **Hidden Heroes: the next generation of retail markets** report by Deloitte and Planet Retail was published in September.

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The report says that GDP growth is expected to come in at 3-3.5% in 2011-15, with real consumer spending also set to increase on the back of an expanding civil service, higher public sector wages and huge infrastructure projects.

The fragmented retail sector has been growing (non-grocery expected to rise 15% this year, grocery forecast to rise 13%) and those trends are expected to continue until 2016. Positive signs are coming from a young population, rising incomes and benefits from higher oil prices (the country is heavily dependent on the sector), but a negative is high import prices that are limiting spending power.

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## Kenya

Kenya's GDP growth is forecast to be 6.5% in the coming years, although almost half of the country is living in poverty. The middle class is growing, however, although from a small base, and the report describes the retail sector as one of the most developed in the Sub-Saharan African region but dominated by a huge informal sector.

The sector is largely fragmented and the modern sector mainly targets the upper and upper middle classes. There are no restrictions on foreign investment and repatriation of profits or capital, while most imports of retail goods are also allowed without major restriction.

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## Morocco

Morocco is a relatively high-growth economy that is already attracting retailer interest from the US, Europe and Turkey. The next few years are also expected to see GDP growth in excess of 6%, while inflation is expected to remain low due to the government pledging to use subsidies to control domestic prices.

At retail, there is a trend for urban shoppers to use hypermarkets and the country's retail sector is poised to undergo a major shift in coming years, with more large-scale, purpose-built retail areas. Tourism is also expected to continue to grow rapidly, while the young and growing population will also attract the attention of global retailers.

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## Nigeria

Nigeria has a population of 160m and a growing economy, but it is also blighted by political instability, poor infrastructure, an unreliable power supply and high inflation. GDP growth is expected to be 6-7% over the next few years, however, and the retail sector is Africa's second-largest, although approximately two-thirds of income is spent on food.

The sector is dominated by small stores, with most consumer goods sold in those or at markets, but the retail sector is expected to become more consolidated as shoppers switch to more formal retail stores, fuelled by a growing middle class and a rising population.

The report says that European and South African retailers are actively investing in the market currently, and there are a rising number of modern shopping mall developments. Market modernisation is expected to take decades rather than years, however.



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## South Africa

South Africa's GDP is expected to grow by 3-4% in the coming years and consumer spending – 61% of GDP – is likely to remain high for many years. Supermarkets dominate the retail sector with the hypermarket model underdeveloped, while nationally grocery retailing is split into fairly modern stores for those with higher incomes, and a largely traditional, informal sector for the majority of people.

However, South Africa's modern grocers have prioritised expansion into lower-income levels as a priority over international expansion, which is likely to encourage the move away from traditional retailing, although such a shift is expected to take decades.