



UNDERSTANDING SHOPPER LOYALTY WITHIN DIFFERENT RETAIL FORMATS IN EURASIA & AFRICA



A STUDY CONDUCTED FOR
THE EURASIA & AFRICA COCA-COLA
RETAILING RESEARCH COUNCIL
BY SHIRLAND VENTURES LTD.
AUGUST 2012

“

*A CUSTOMER IS THE MOST IMPORTANT VISITOR ON OUR PREMISES;
HE IS NOT DEPENDENT ON US.
WE ARE DEPENDENT ON HIM.
HE IS NOT AN INTERRUPTION IN OUR WORK.
HE IS THE PURPOSE OF IT.
HE IS NOT AN OUTSIDER IN OUR BUSINESS.
HE IS PART OF IT.
WE ARE NOT DOING HIM A FAVOUR BY SERVING HIM.
HE IS DOING US A FAVOUR BY GIVING US AN OPPORTUNITY TO DO SO.*

”

Quote attributed to M.K. Gandhi when working in South Africa during the 1890s as a solicitor, on behalf of traders and merchants.

EXECUTIVE SUMMARY

A RETAIL LAND OF PLENTY

The Eurasia and Africa region is home to 92 countries, and almost half of the world's population. Every month, an estimated one billion grocery shopping trips are made with retailers across the region competing for each and every one.

Whilst the average household in the Eurasia and Africa region is not amongst the world's wealthiest, millions of households are passing through points of inflection making their first purchases of basic packaged grocery products or making health and beauty categories a consistent part of the weekly basket of goods. Price inflation notwithstanding, growing wealth is allowing millions of households across the region to increase their expenditure on groceries in real terms every month.

Eurasia and Africa's growing demand requires thousands of existing stores to be renovated and thousands of new stores to be developed over the next decade.


In this region of rapid retail growth, the appropriate allocation of finite resource, both human and financial, will be critical for success.



THE SHOPPER DEMOCRACY

Understanding the subconscious and conscious reasons why shoppers choose an outlet is the foundation of growth for a store owner. Whether it is in identifying the critical items to be stocked, or understanding the combinations of categories purchased across the store at different times of the month, there are a number of business improvements to be developed from a clearer understanding of the motivations for store selection and the reasons behind shoppers choosing to return again to the same store.





For a shopper, selecting a grocery outlet is a combination of the optimal choice derived from two areas of consideration made on each trip:

1. The items, categories or experiences which are desired for that shopping occasion at that time of the month. These pre-meditated considerations account for about 20% of the average basket in the Eurasia and Africa region.
2. The most convenient means of fulfilling the need for these items which, in the majority of cases, is about the travel time required to reach the outlet.


The shopper's choice is a consequence of two choices made by the retailer:

1. The "intrinsic offer" made by the store owner who chooses which items, categories and experiences are offered in a given location.
2. The most appropriate "extrinsic offer" which is a result of the comparison the store faces in a given catchment area.

A shopper repeatedly selecting the same outlet in a given catchment area over all other relevant choices for that shopping occasion is the principal indication of loyalty.

Successful store owners know that constant attention to the conscious and subconscious needs of their shoppers can help them achieve preference in a competitive market.


These concepts have been understood for decades and refined in many of the world's retail markets. However, despite the growth in Eurasia and Africa, there is a dearth of understanding and measurement in one of the world's most dynamic and exciting regions.



ENABLING GROWTH BY UNDERSTANDING ITS DRIVERS

For its inaugural study, the members of the Coca-Cola Retailing Research Council for Eurasia and Africa commissioned Shirland Ventures Limited to understand and define the triggers for shoppers in the region to switch their loyalty between various grocery retailing channels. By better understanding the reasons for choosing to visit one group of outlets versus another, retailers will be able to refine their approach to protecting loyalty in existing stores and developing new concepts for the region.

During the course of the study, the Coca-Cola Retailing Research Council for Eurasia and Africa decided to focus on three aspects of the search for loyalty:

1. Understand and create a shopper-centric view of channels which explains the reasons for repeat purchase or loyalty
 2. Understand clusters of loyalty, and their triggers, in different channels and demographic areas across this diverse region revealing variations which have implications for retailers' investment strategies
 3. Develop a shopper-centric means of forecasting the future channel landscape in 2015 and 2020 across the region
- 

Those three areas of focus have led us to the following conclusions:

A SHOPPER'S VIEW OF GROCERY CHANNELS IS SHAPED BY BOTH DEMAND AND SUPPLY

Increasingly multi-visual shoppers shop in increasingly multi-mission channels. Just as shoppers spread their growing shopping expenditure over multiple missions, channels increasingly fulfill multiple roles:

1. Shoppers do not define channels according to industry axiom.

Whilst retailers and manufacturers apply a largely fixed, supply-driven segmentation, a shopper's view of channels stems from the relative convenience by which a specific store or channel can fulfill their purchasing demands at a specific point in time and place. As shoppers have a fluid view of channels, their loyalty to a given channel will change during the course of a monthly pay cycle. We find that neighbourhood channels in close proximity to households fulfill multiple variations in shopper needs, across variations due to income, household structure, living area and time of month. At the same time, out-of-neighbourhood grocery channels tend to service a more homogenous set of shopper needs at certain times of the month.

2. As catchment areas develop with a wider choice of channels, the Shopper's view of "self-service" stores (supermarkets, hypermarkets, discounters, etc.) and "serviced" outlets (where the shopper relies on the staff to select products) reverse.

Whereas serviced outlets will increasingly focus on satisfying specific shopper needs, self-service will generalise to satisfy a fragmenting set of shopping trip types in order to continue growing.

EVERY MONTH, SHOPPER LOYALTY IS SHAPING RETAIL DYNAMICS WITHIN CATCHMENT AREAS

Average dynamics deceive – whilst the aggregate channel landscape across the Eurasia and Africa region is changing, shopper loyalty is gained and lost every month, in every catchment, by every channel:

3. Growing household wealth fuels the growth of retail markets, yet leads to a reduction in shoppers' loyalty to a given channel.

Increasing shopper expenditure attracts new stores opening in a catchment, thus decreasing average shopper loyalty in this catchment area. We found shoppers to be uniformly curious about new outlets and see the growth in the number of outlets in a catchment area as the biggest challenge for loyalty. At the same time, wealthier shoppers can afford higher levels of mobility, which causes catchment areas to expand, as travel is measured in minutes, not in metres. The wealthiest shoppers are gaining the freedom to purchase various quantities regardless of the time of month – where and when it suits them. Thus, retailers who open outlets in lower and middle income areas will generally achieve greater levels of loyalty, regardless of channel type, than retailers targeting the highest income catchments.

4. Overall channel loyalty, as measured by market share, includes the effect of opening of new stores in a market. However, like-for-like sales growth driven by increasing loyalty to an individual store is a more consistent measure of actual shopper behaviour.

Indeed, market share evolution mixes the impacts of both new stores opening and shopper loyalty evolution. Store opening can result in increased market share for a retailer, although his like-for-like shopper loyalty is flat or declining.

5. Catchment shopper drivers determine performance delivery store by store, and are only loosely correlated to store format.

Shoppers are very different, as are their needs, by catchment area – and their trip behaviour

within this catchment area changes in the course of a pay cycle. A generalised approach to formats driving overall channel loyalty does not answer shopper needs in specific catchments. When de-averaging shopper needs by their specific catchment areas, there is often more similarity *across channel format types within* a specific catchment type, than *within channel types across* catchments. Consequently, retail formats have to drive performance bottom-up from the individual store level, as opposed to just offering an average, top-down solution.

CONVERSELY, RETAIL DYNAMICS WILL SHAPE SHOPPER LOYALTY ACROSS CATCHMENT AREAS IN THE COMING YEARS

As households become wealthier, with more and more households entering the formal retail market in the Eurasia and Africa region, there is hardly a channel that will not grow. The supply side will meet this growing demand, yet can (and will) also shape it:

6. **Market Drivers (spending power, socio-demographic and investment convergence), which are closely correlated with catchment area drivers, determine continuous growth opportunities for different channels in different geographies.**

Spending power drivers are strongly correlated with channel development as growing consumption attracts investment. Moreover, *socio-demographic drivers*, e.g. household size, urbanisation and the percentage of women participating in the workforce, are shown to either accelerate or decelerate these channel dynamics, often very significantly. Thirdly, capital investment behind discrete channel-country combinations is correlated with their differing levels of expected Return on Investment, thus triggering cross-country investment choices and causing in-country *Investment Convergence* over time.

The aggregate momentum from Market Drivers represents “Retail Gradualism.” The size of the market will grow for each channel in a market based on the steady evolution of these Market Drivers.

7. **Market Drivers do not always evolve in harmony, creating the opportunity for discontinuous share gains by retailers who seize the advantage.**

In some markets and channels, Market Drivers actually work against each other, thereby over time increasing the sensitivity for radical change (representing “*Punctuated Retail Equilibrium*”), thus offering retailers the opportunity to grow through *disruptive channel share gain*. We expect that advances in technology will reduce the supply chain cost of de-averaging. This will progressively enable individual retailers to trigger these disruptions – whether it is by targeting their in-store offer for a specific catchment area, targeting a more specific shopper group, or expanding their target to include loyalty drivers which currently belong to another channel. Gaining and maintaining shopper loyalty will no longer just be a *game of averages* – rather it will be about creating competitive advantage through efficiently satisfying *discrete shopping needs*.

IN CONCLUSION: INVESTING IN SHOPPER-DRIVEN GROWTH WILL DELIVER SUPERIOR RETURNS

Eurasia and Africa is the world's grocery retail land of plenty: every channel will grow through 2020.

The Eurasia and Africa region will be the most vibrant and dynamic retail environment in the world in this decade. Millions of shoppers will enter the market, and millions more will enjoy increasing spending power. As a consequence, every channel will grow, in every market, and every channel will attract investment.

Growth and investment will already increase market turbulence in its own right - and where Market Forces are moving in opposite directions, increasing turbulence even further, opportunities for disruptive share gain will become ever more attractive.

Growth is generated in each neighbourhood: it's not what the store is, it's where the store is.

The challenge for all retailers in the region will be to make this investment work in each neighbourhood. Just as shoppers will spread their growing spending power across multiple missions, channels will increasingly fulfill multiple roles. Understanding and applying the shopper loyalty drivers revealed in this study, catchment by catchment, will enable superior returns on investment.

True shopper loyalty has to be earned, time after time, in each and every shopping trip.

Shopper needs vary by trip, and will evolve over time. So too must stores: the future belongs to those retailers whose channel strategy is delivered by shopper need-driven supply chains – as opposed to their supply chains delivering against average shopper needs.



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A BOUT THE CCRRC EURASIA & AFRICA REGION

THE COCA-COLA RETAILING RESEARCH COUNCIL – EURASIA & AFRICA

The Coca-Cola Retailing Research Council for Eurasia and Africa (CCRRC Eurasia and Africa) was created at the end of 2010, joining the five other Coca-Cola Retailing Research Councils worldwide (Asia, Europe, Latin America, North America and N. America//NACS).

Its purpose is to serve the Eurasia and Africa retailing industry by determining the most important issues and opportunities in the retailing business, and conducting research in these areas via independent third-party experts with an encouragement of broad public dissemination for these findings. This research program is independent of The Coca-Cola Company and is executed under the advice and guidance of the Retailing Research Council, on behalf of the industry.

Council Members sign on for a four-year term and work in a cooperative, non-competitive, environment. They are all senior executives of food retailing companies and represent retailers across most key retail markets and formats.

THE CCRRC EURASIA AND AFRICA REGION MEMBERSHIP

NAME	COMPANY	TITLE	GEOGRAPHY
Roelf Venter	Spar Group Ltd	Chairman of the Spar Guild of Southern Africa, Chairman of the CCRRC EAG	South Africa
Atul Shah	Nakumatt Holdings Ltd	Managing Director	Kenya
Cem Rodoslu	Migros Ticaret A.S.	Assistant General Manager	Turkey
Frank Witek	Majid Al Futtaim Retail LLC (Carrefour)	CEO	MENA – CCAR Iran Pakistan
Haci Duran Beğendik	Beğendik A.S	President of the Executive Board	Turkey
Ilya Yakubson	Dixy Group	President	Russia
Jamal Mustafa Siddique	Makro-Habib Pakistan Ltd	Managing Director & CEO	Pakistan
Jay Pillay	Vivo Energy S.A., Shell licensee	Convenience Retail Director	Africa
Omar Seoudi	Seoudi Supermarkets	CEO	Egypt
Peter Arnold	Pick 'n Pay	Food Merchandise Director	South Africa
Raj Jain	Wal*Mart	President	India
Muwaffaq Jamal	Azizia Panda United	CEO	Saudi Arabia
Thomas Varghese	Aditya Birla Retail Ltd	Managing Director and CEO	India
Vadim Korsunsky	O'key Group of Companies	Commercial Director	Russia
Dominique Tesniere	DTMT Consult	CCRRC Research Director	Eurasia & Africa

This report has been developed by Shirland Ventures Limited aided by its network of partners in Correlation Sàrl. Shirland Ventures and its partners combine innovative analytical techniques with research and operational experience gathered from decades of work in the retail and consumer products industries.

THE COCA-COLA RETAILING RESEARCH COUNCILS SUPPORT THE RETAILING INDUSTRY IN ALL PARTS OF THE WORLD

Through The Coca-Cola Retailing Research Council, The Coca-Cola Company has supported independent research about retailing topics for more than 30 years. Initiated in the US in 1978, the Councils have developed and published, throughout the world, more than 40 studies investigating the most pressing issues facing food retailers. Taken together, the body of knowledge produced by the Councils is unrivalled in the food retail industry, and provides a considerable amount of valuable learning and insights as well as an important guide for any journey into the rich landscape of future food retail.

Retailers are using this knowledgebase internally and combine it with their proprietary insights to foster their competitiveness and differentiation. Applications are numerous, yet rarely shared externally for business confidentiality reasons.

Here are some examples of actions initiated by retailers, leveraging outcome of CCRRC's studies:

- Adapting EDLP strategies based on learning of promotion impact on price perception
- Combining a campaign of localisation and differentiation in stores with shopper marketing efforts
- Developing an offer to meet average/low income consumers
- Increasing in store service levels through a new procedure to reduce out-of-stock
- Improving employee retention through enhanced communication on performance and management skills
- Reducing employee turnover by adding turnover statistics to regular operating statements
- Strengthening health and wellness offer
- Testing a new format outlet
- Providing additional inspiration for developing the convenience format

INTRODUCTION

“[I go grocery shopping] a few times a week. I don’t like carrying lots of stuff back home. Say, I run out of eggs and yogurt; I go to get those. I don’t think I should carry everything at once. I go every other day or so; it’s a trip and some fresh air. I can’t go with my husband. He rushes me, saying “OK, let’s go” all the time. I need to take my time, choose the stuff, look at it, read the label.”

AB Female Shopper, Istanbul, TURKEY

“Weekend shopping depends on the mood, if I have mood of buying anything, I will go. For week days I will shop what I need.”

SEC B2C Male Shopper, Lucknow, INDIA

Billions of grocery shopping trips are made each month around the world. Whilst those billions of trips are all being made for the same general purpose, buying food, there are wide variations as to the specific rationale behind each trip. As we can see with differences in the two quotes above, the shopper’s sense of enjoyment, available time and purchasing requirements will vary based on the time of the month, the number of people accompanying them and their particular preferences. Grocery shopping can be a daily necessity or part of a leisure activity, special event or a payday celebration.

Understanding the subconscious and conscious reasons why shoppers choose an outlet can be the foundation of growth for a store owner. Whether it is in identifying the critical items to be stocked or understanding the willingness to shop different areas of the store at different times of the month, there are a number of business improvements to be developed from a clearer understanding of the motivations for store selection.

For a shopper, the selection of a grocery outlet is a combination of the optimal choice derived from two areas of consideration made on each trip:

1. The items, categories and experiences which are desired for that shopping occasion at that time of the month. Pre-meditated items account for about 20% of the average basket in the Eurasia and Africa region and are the foundation of shopper loyalty for any retailer
2. The most convenient means of fulfilling the need for items, categories and experiences which, in the majority of cases, is a consideration of the travel time required to reach the outlet

The shopper's choice is a consequence of two choices made by the retailer:

1. The “intrinsic offer” made by the store owner who chooses which items, categories and experiences are offered in a given location
2. The most appropriate “extrinsic offer” which is a result of the comparison the store faces in a given catchment area

A shopper repeatedly selecting the same outlet in a given catchment area over all other relevant choices for that shopping occasion is the principal indication of loyalty.

Successful store owners know that constant attention to the conscious and subconscious needs of their shoppers can help them achieve preference in a competitive market. From a store owner's point of view, the loyalty of shoppers to an individual store can be directly tied to the profit and loss of the business if measured as the year-on-year growth in same store sales. The growth of same store sales should indicate that either more shoppers are preferring to shop in a specific outlet, or that shoppers are coming more frequently, or that they are spending more per trip.

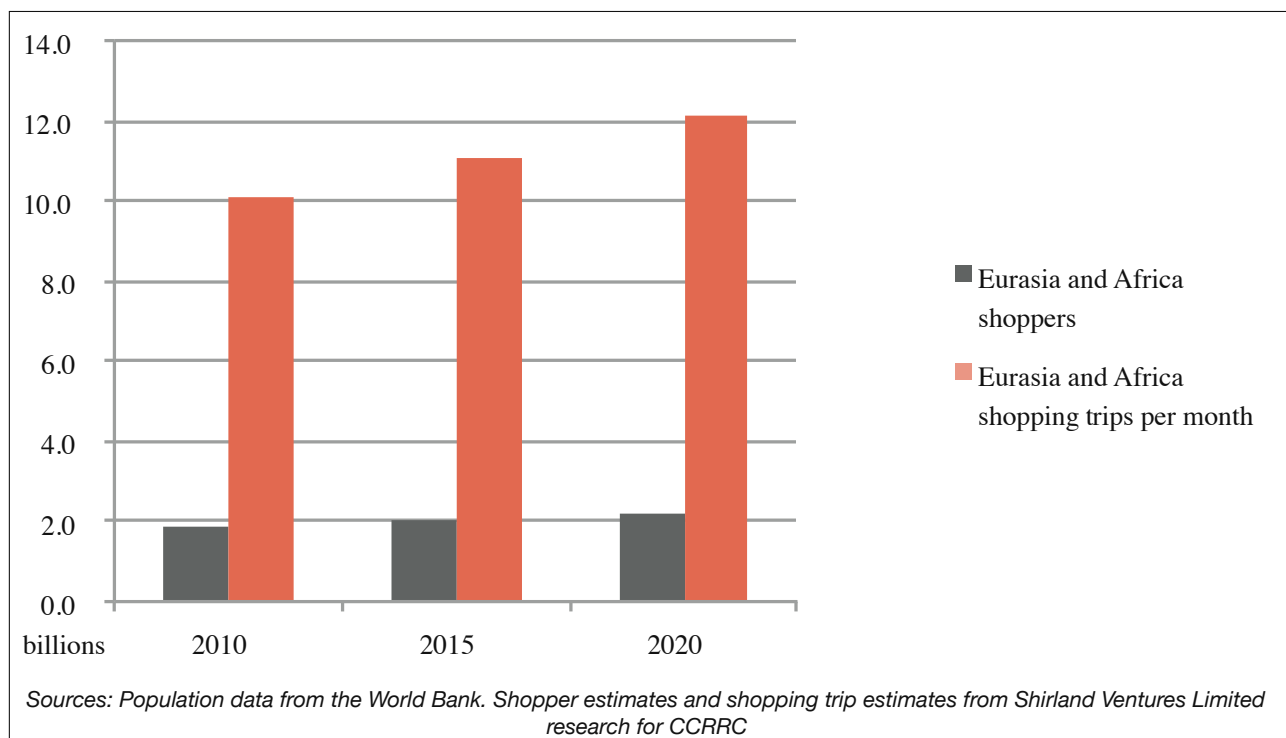
These concepts have been understood for decades and refined in many of the world's retail markets. However, there is a dearth of understanding and measurement in one of the world's most dynamic and exciting regions—Eurasia and Africa.

EURASIA AND AFRICA: COMPLEXITY AND OPPORTUNITY



The Eurasia and Africa region is home to 92 countries and almost 3 billion consumers. In the next 10 years, over 30% of the world's projected personal expenditure growth and more than 40% of the global growth in urban population is expected from this Region. Amongst those 3 billion consumers there are an estimated 1.8 billion primary grocery shoppers making an

estimated 10 billion trips per month. By 2020, there will be an estimated 12 billion trips per month made for groceries in the Eurasia and Africa region.

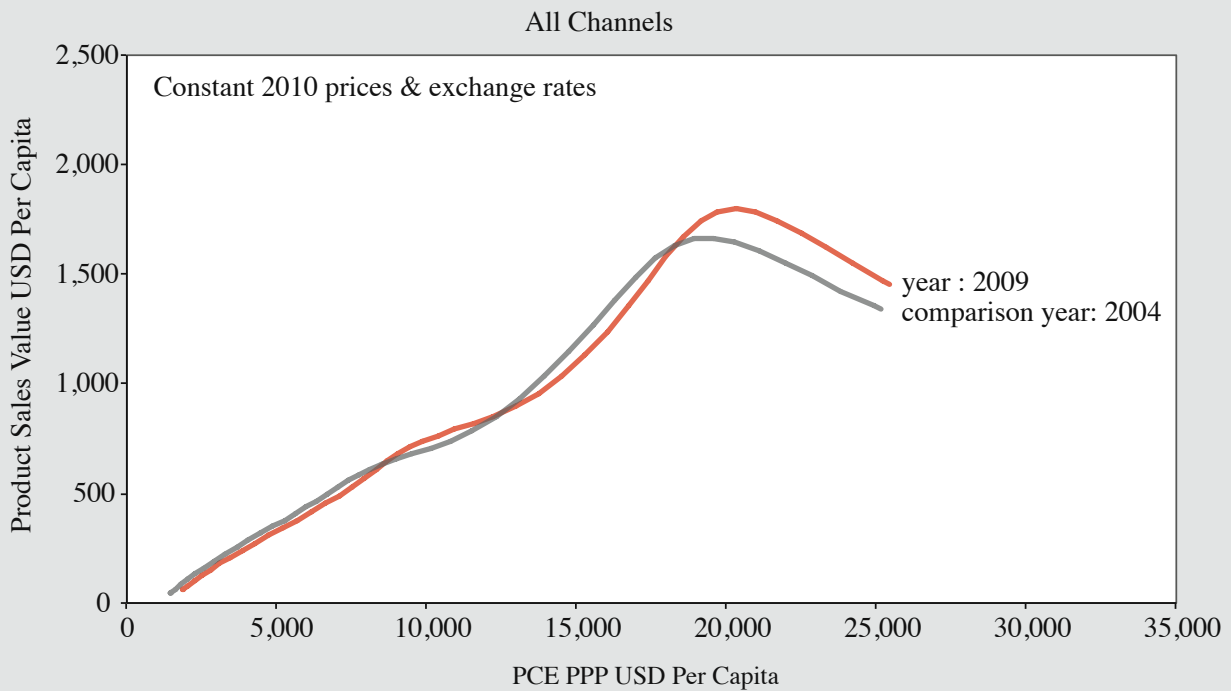


The potential market growth from the increase in population is complemented by an increase in household wealth.

Whilst households in the Eurasia and Africa region are not amongst the world's wealthiest, there are millions of them moving into the high growth point of grocery products consumption. Despite well-publicised reports of price inflation, millions of households are increasing their expenditure in real terms on groceries in the region. Our survey found that 73% of shoppers in India are aware that they spend more on groceries at present than during the same time last year. Whilst more than 80% of respondents said that this was due to rising prices, more than 25% of shoppers indicated it was also a result of purchasing more items each week. In South Africa, we found that 75% of our survey respondents believe that they are spending more money on groceries at present than one year ago. Whereas more than 80% of respondents said this was due to rising prices, 3% indicated it was due to the purchase of more items.

As is illustrated by the chart below, the fastest growth in food consumption occurs in markets where consumers are moving from Private Consumption Expenditure (PCE) of USD 1,000 per year to USD 10,000 per annum. Rapid growth continues until USD 20,000 per year in PCE, which means that 99% of the countries in Eurasia and Africa are in a state of rapid growth of the consumption of grocery products.

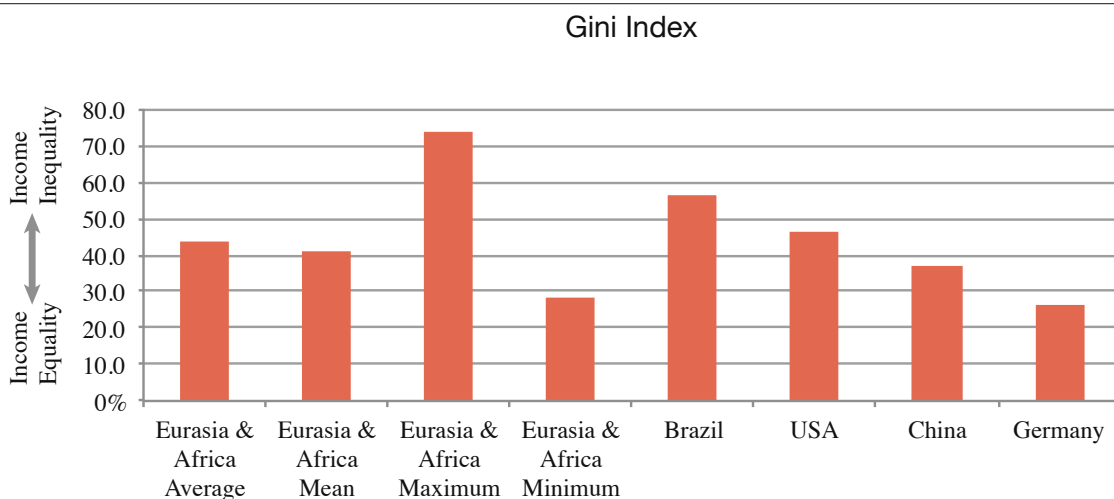
Packaged Foods



*Note: Consumption Curves are comprised of data from 48 countries around the world, including 10 countries in Eurasia and Africa.
A complete list of the countries is available on page 129.
Source: TLE Strategy Ltd*

This growth is outpacing the supply of stores, products and experiences in many areas of the region leaving enormous latent potential for retailers.

It would certainly be naïve to suggest that all households in this region were progressing at the same speed of purchasing power evolution. Like most countries around the world, there is an imbalance of incomes in the Eurasia and Africa markets. Interestingly, this imbalance on average is similar to other global economies with only the extremes of Eurasia and Africa showing an income distribution which is less equal than that of Brazil or the United States of America.



Source: Shirland Ventures analysis supported by World Bank data

The dynamism and potential of the region has not gone unnoticed; there is a great deal of expansion underway in terms of changes to existing stores, the construction of new stores and the development of new channels. We would expect this proliferation of shopper choice to continue across the region as purchasing power continues to grow.

From a research perspective, this means that we need to also take a view as to how these shoppers change as they interact with different channels.

The expansion of grocery retailing outlets in Eurasia and Africa is offering shoppers new choices and altering the balance of preferences in the market. There is no single model for the movement of grocery shopping preference; the pace of demand growth, as well as the evolution of shoppers' loyalties to channels vary considerably due to a number of variables including geography, culture, investment climate etc. However, there are two significant points within that continuum:

- Where new trade formats emerge in areas served by traditional retailing, and start offering shoppers the opportunity to change their preferred type of outlet to so-called "modern" stores
- Where the modern trade momentum is well-established and different formats of modern trade emerge with shoppers switching between them

Beyond this point, differentiating between "modern" and "traditional" in fact becomes increasingly arbitrary – and certainly not relevant for shoppers.

UNDERSTANDING SHOPPER LOYALTY IN EURASIA & AFRICA

Thus, for its inaugural study, The Coca-Cola Retailing Research Council for Eurasia and Africa has designed, as its main objective, to understand and define the triggers for shoppers in Eurasia/Africa to switch at each of these two critical points of the retail continuum: from traditional to modern trade; and then, within modern trade, between formats.

By deeply understanding shopper motivations to shift their allegiance from traditional to modern trade formats, as well as within different modern trade formats - and vice versa - all retailers will be able to refine and strengthen their respective shopper propositions, based on the main drivers for shopper loyalty by format:

- Retailers in the traditional trade will be better equipped to sustainably service the needs of their shoppers, in an increasingly competitive world
- Retailers with (a range of) modern formats will be able to act on the main drivers for shopper loyalty for each format, thus enabling future growth.

The CCRRC Eurasia and Africa commissioned Shirland Ventures Ltd to carry out a study to determine the triggers for shopper loyalty to different retailing formats in Eurasia and Africa, focusing on three main areas:

- define a shopper-centric view of channels which moves from a supply-driven construct of traditional and modern trade to a shopper-driven reality of repertoire and loyalty
- articulate insights which are actionable across all manifestations of the grocery trade by understanding clusters of loyalty in different channels and demographic areas
- quantify opportunities in a report which evaluates the present as a means to forecast the future (2015 and 2020).

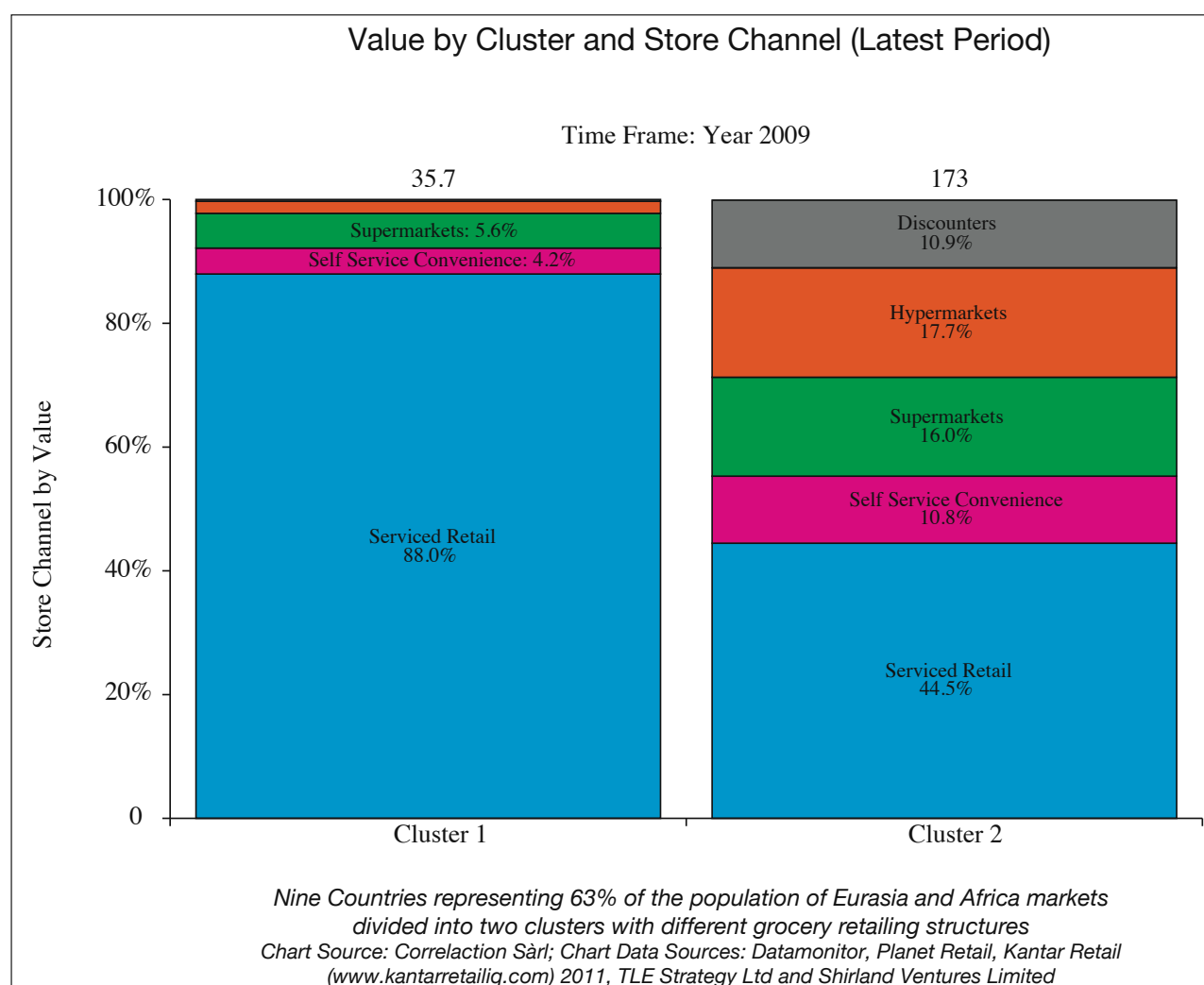
METHODOLOGY OF THE STUDY

There is clearly no singular shopper as an individual. The decision as to where each shopping trip will occur is the result of a number of factors. Our challenge was to understand the numerous variations of shopper types and trips as a smaller group of consistent patterns and loyalty. We pledged to ignore the temptation to use existing constructs of channels and shoppers as our starting point, instead relying on data patterns to tell a story. We used a de-averaged approach which allows the identification of meaningful clusters of channel perception and loyalty by types of shopper. Meaningful clusters in our report include, amongst others: SEC/LSM type of household, households with automotive transport and Payday shoppers. A de-averaged approach can be used by retailers to develop store-by-store solutions which grow their businesses.

In the end, a matrix of consumer types and channel types was the basis for our study. As we will illustrate, the final understanding of shopper loyalty results from a combination of differences stemming from household incomes, time of the month and some additional lifestyle factors. In some cases, we were able to isolate catchment area loyalty drivers such as specific travel times to an outlet. In other cases, we were able to draw correlations from large data sets to market level loyalty drivers like the number of women in the workforce.

The diversity of the markets under study required us to undertake what we believe to be the largest shopper study ever conducted in this region to get a relevant sample size from which to base our conclusions. We were privileged to conduct new primary research and gain access to other primary data sources from a variety of retailers and industry companies.

Given the breadth of the region, we had to narrow our focus without losing relevance. We identified two clusters of markets, representative of broader sets of markets in the region, based on the state of grocery retail development. In the Cluster 1 markets (India, Egypt, Kenya and Pakistan) small grocery outlets where the shopper relies on over-the-counter service represent nearly 90% of the retail trade for packaged groceries. Whilst in the Cluster 2 Markets (South Africa, Russia, Saudi Arabia, Turkey, and the U.A.E.) the majority of sales for packaged groceries pass through self-service channels where shoppers are free to choose their items.



Just as we were trying to understand commonalities across extremes of income, catchment area and the time of the month, our ultimate goal was to understand the commonalities in behaviour across these markets.

Countries		Focus Groups and Accompanied Shopping	Shopper Intercepts	EPOS data
Cluster 1	India	X	X	X
	Egypt		X	
	Kenya		X	X
	Pakistan		X	
Cluster 2	RSA	X	X	X
	Saudi Arabia		X	
	Russia		X	
	Turkey	X	X	
	UAE		X	
	Morocco		X	
> 60 countries		Desk work and historical channel development data analysis		

We commissioned and were given access to focus groups and tens of thousands of shopper intercepts across 9 countries. The intercepts were supplemented by accompanied shopping visits and store owner or store manager interviews.

We conducted historical analysis using data sets from a number of sources to understand correlations across more than 60 countries.

We analysed more than a billion EPOS transactions which gave us insight into specific shopping trip types in India, South Africa and Kenya.

Whilst we sponsored a considerable body of original research and had access to the expertise of Council Members, we were notably given access to invaluable datasets from a number of organisations including Planet Retail and Kantar Retail (www.kantarretailiq.com) 2011.

REPORT STRUCTURE AND TARGET AUDIENCES

This study was undertaken to understand three different themes that help retailers in Eurasia and Africa better understand shopper loyalty and strengthen their respective business propositions:

1. Understand and create a shopper-centric view of channels which explains the reasons for repeat purchase or loyalty
2. Understand clusters of loyalty, and their triggers, in different channels and demographic areas across this diverse region revealing variations which have implications for retailers' investment strategies
3. Develop a shopper-centric means of forecasting the future channel landscape in 2015 and 2020 across the region

This report summarises the conclusions of the study and sets out recommendations. It is intended to be read by retailers in Eurasia and Africa as the primary audience. However, other constituencies will find topics of interest to refine their own understanding of shopper behaviour and its future in this region and beyond:

- Consumer products marketers seeking to optimise their brand and product segmentation
- Universities and Business Schools studying retailing, distribution and the development of consumption and shopping habits
- Institutions planning better coordination between the general population and food retailers

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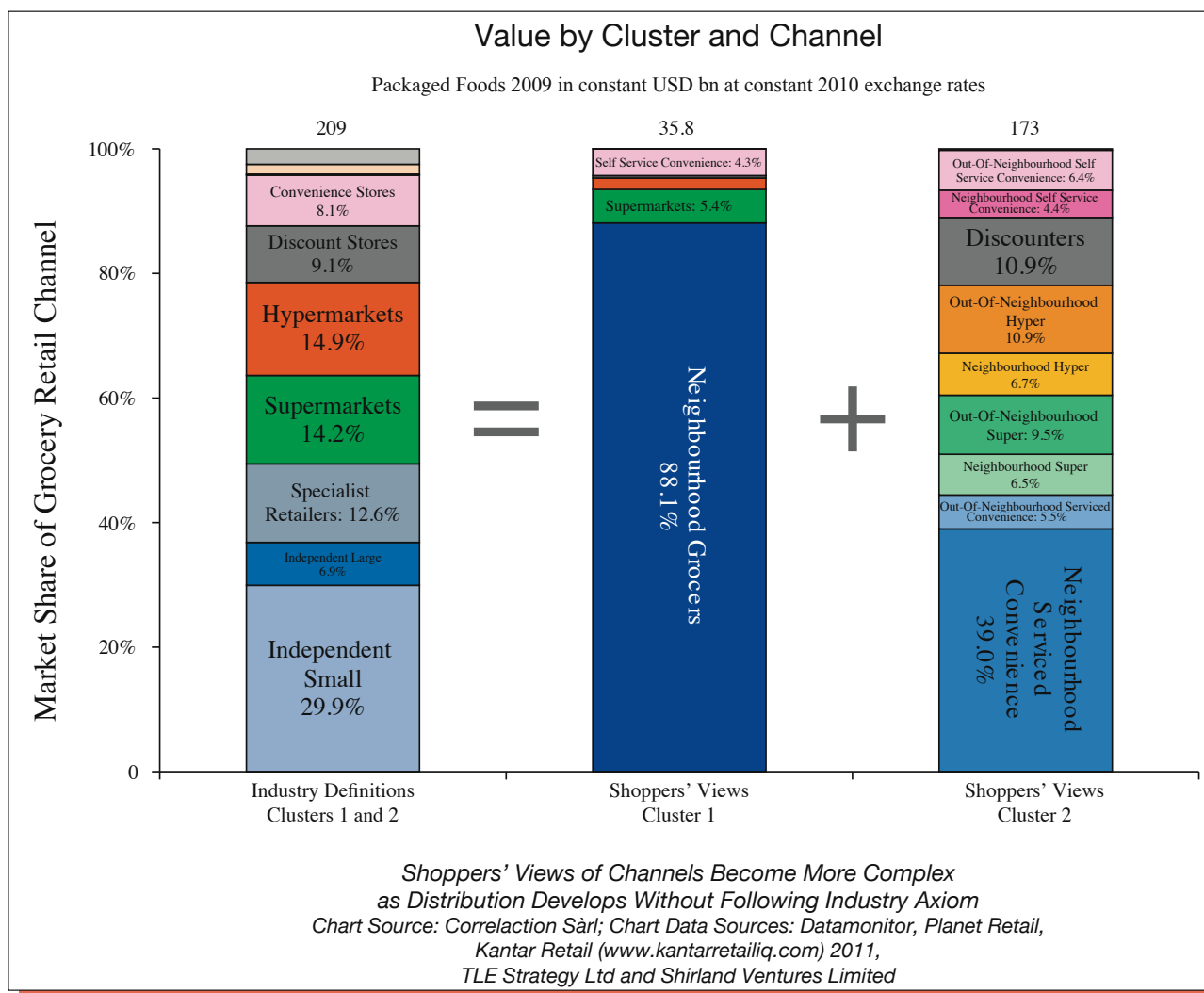
SHOPPER'S VIEW OF GROCERY CHANNELS IS SHAPED BY BOTH DEMAND AND SUPPLY

Shoppers do not define channels according to industry axiom.

Whereas retailers and manufacturers use floor space, checkouts and product mix to create a supply-driven segmentation of the marketplace, a shopper's view of distribution stems from the relative convenience by which a specific store or channel can fulfil their purchasing demands at a specific point in time (hour, day or week).

Shoppers define different channels relative to their varying needs as opposed to accepted industry practice which identifies channels by absolute business models. Shoppers have a fluid view of channels that changes during the course of a day, week or month in contrast to the static definitions used by retailers and manufacturers. Shoppers' definitions are further in flux as more stores and channels enter a market, shoppers' definitions of existing channels evolve and change.

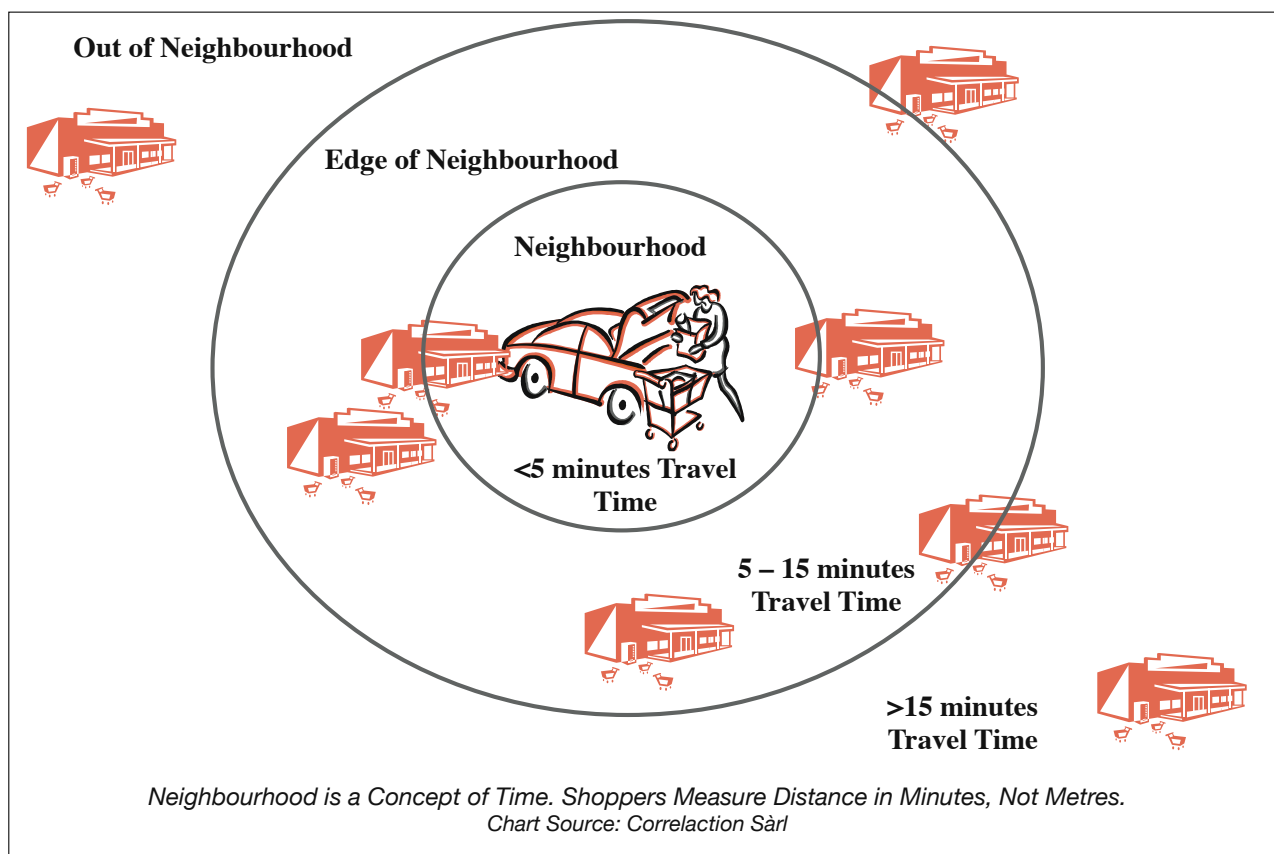
Whilst the role of channels and even particular stores within channels is constantly changing in the shopper's mind, we can ascribe some general characteristics to groups of stores to come to a broadly representative view of the market.



In this view of the market we have found that characteristics which allow us to group channels are as follows:

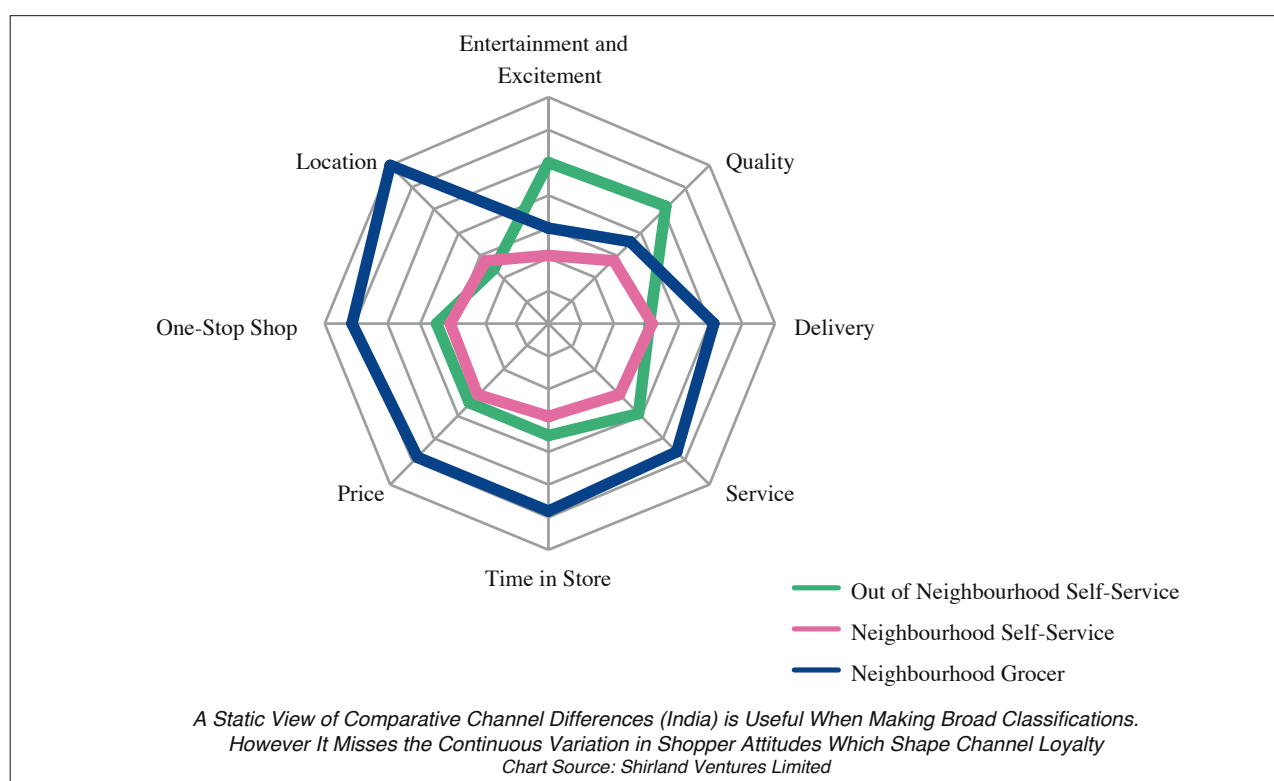
1. Common shopper needs fulfilled in the channel. For example, a top-up shop for fresh foods or monthly visit for non-grocery promotions.
2. Time travelled to the store. For example, a travel time of outlet of less than 5 minutes we can call neighbourhood. As we will clarify later, the relative nature of this definition means that we can have the same outlet classified as both neighbourhood and out of neighbourhood from the perspective of different shoppers.
3. Perceived attributes of the comparative offer. For example, in Cluster 2 markets we see the Discounter channel evolve based on its differentiated shopper offer within a neighbourhood: saving time and money compared to other shopping options, through limited range, everyday price or promotion.

Whilst we have been able to develop an estimated view of channels from the perspective of all shoppers' in the region, the relative nature of time travelled to the store makes a precise view of channel shares almost impossible to develop unless a company has access to the travel times to outlet for every shopper and every store in a given market.

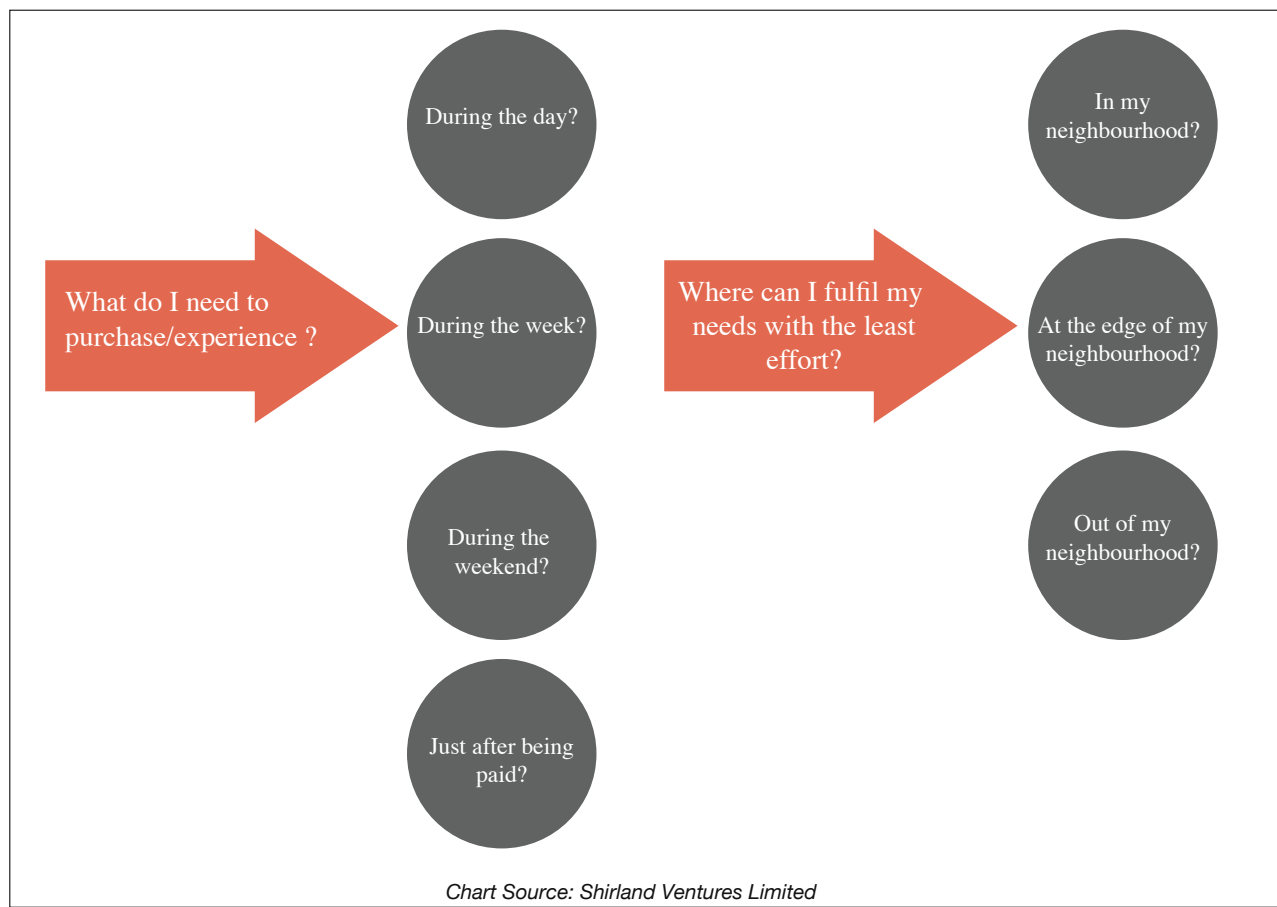


We therefore see the view of channels as a useful way to represent the shopper's mind, rather than proposing it as a practical new means to tracking channel development in a given country.

Just as we have estimated the split of neighbourhood and out of neighbourhood stores based on travel times, so we have had to make a general representation of the comparative offer. It is common practice around the world to use spider charts, like the one below, to take the shopper's view of a channel. When asked in broad terms, shoppers will claim to see differences between stores based on the criteria below from our Indian research. However, as we will illustrate later, a static view of channels compared to one another is only useful when attempting to classify groups of stores. In actual fact, the attributes below are continuously changing for each shopper by time of day, time of month, and the relative choice that they have available to them.



Shoppers' views of channels are continuously changing. Shoppers' needs, in terms of physical goods and/or experiences, change over the course of a month. A shopper's need for daily grocery shopping is different than that of the weekend. Shoppers are exposed to different levels of choice depending upon their place of residence, mode of transportation and time available for a particular shopping trip.



THE INDUSTRY DEFINITION OF “TRADITIONAL” TRADE IS INCREASINGLY IRRELEVANT FOR SHOPPERS

Whilst shoppers have a notion of Traditional and Modern, it is different than the trade definition. Shoppers across the markets surveyed are keenly aware of things which are new and different to their experiences of the past few years.

For example, in the Cluster 1 and some Cluster 2 countries, the appearance of air-conditioning and electronic point-of-sale tills is viewed as modern. This modernity stands in contrast to the recognised historical practice of open-air stores and calculation by paper or calculator. In this instance, the Trade's and Shopper's idea of traditional and modern are generally aligned.

However, as markets mature, the shopper distinction diverges from the trade definition: shoppers are more fluid in their (experience-based) definition whilst the industry continues to define channels according to their underlying business models. In Cluster 2 countries, the widespread use of stores with air-conditioning and electronic point of sale brings about another view of modern and traditional. Modern stores in Cluster 2 markets are associated with a sense of fashion supported by a wide range of innovative products, the appearance of lighted store fixtures, bright in-store marketing displays.

I don't think modernity is only about appearance...[Discounter] does not have any visual appeal. MIGROS has a lot of visual appeal and a lot of modernity...[Discounter] doesn't, that's why....I hear that people think that those who shop there are the neighbourhood grocer crowd, that it's known to be low brow [for those with simple tastes]...

Turkish Shopper

The notion of “traditional trade” in Cluster 2 markets therefore includes outlets which have existed for years along with newly built stores classified by the trade as discounters, neighbourhood supermarkets and convenience stores.

As a result, we avoid using the terms “traditional” and “modern” in this report, as it is impossible to identify one common historical reality across such a large region. In actual fact, the research clearly indicates that it is impossible to define a common reality across a given country as different towns and cities have unique patterns of channel development.

A SHOPPER'S PERCEPTION OF CHANNELS IS FORMED BY THE SURROUNDING RETAIL TRADE PROPOSITION

Supply and Demand shape the perceptions of channels held by shoppers. The changing needs of shoppers certainly affect their view of the roles of channels. Similarly, the changing supply of channel choices shapes perceptions. We found that the supply of retail stores certainly changes the shopper's idea of channel roles. Across the Cluster 1 and Cluster 2 markets, we found shoppers who were able to choose from four or five different channels within 5 minutes travel of their homes and those without any choice in that proximity. For shoppers with limited choice, the store in closest proximity fulfils a wide range of shopping missions from the immediate needs of that day to the shopping for a week. As shoppers have more choice in close proximity to their home or workplace, we see them becoming more discerning about the role of each channel. In the absence of choice, we see shoppers in South Africa ascribing the attributes of a self-service convenience store to a serviced convenience outlet.

“The Spaza is our 7-11”

Shopper, SOUTH AFRICA

SERVICED VS SELF-SERVICE: FREE TIME OR FREE CHOICE

In the Cluster 1 retail markets, smaller neighbourhood outlets, usually owner-operated with service conducted over a counter, provide the bulk of a household's weekly needs. In these markets, shoppers identify these outlets with their owners. Shoppers universally discuss the inability to shop for themselves in these outlets. With both positive and negative results they are reliant on the shopkeeper to view most of the assortment, let alone select and pay for individual items. In a number of Cluster 1 markets these neighbourhood grocers are viewed as both an outlet within 5 minutes of the home, an interest-free short-term lender and a delivery service.

Across the Cluster 1 markets, these stores service a wide variety of shopping needs. Shoppers travel to these outlets, or shop via phone, for weekly staple items like rice, grains, oils, fats, household chemicals and health and beauty products. Shoppers will also go to these stores for a quick top-up shop to purchase items like bread or eggs. Whilst visiting these stores, shoppers will also purchase products for immediate consumption like beverages or ice-cream. These stores are truly generalist servicing a wide range of needs.

Short-term borrowing is quite expensive for most consumers in Cluster 1 markets. Double-digit interest rates and other factors have conspired to limit credit card penetration in these markets and keep them as largely cash-in-hand economies. Yet, in this environment, the neighbourhood grocer is a consistent source of short-term credit at interest free rates. Across Cluster 1 markets we find that neighbourhood grocers consistently offer monthly credit to their customers without interest.



A Neighbourhood Grocer Keeping the Accounts in His Credit Book.
Photo Source: Shirland Ventures Limited

The delivery service provided by the neighbourhood grocer is widely used in Cluster 1 markets and unrelated to the average income of the shopper. In markets like India and Egypt, the neighbourhood grocer provides free delivery, regardless of order quantities.



A Delivery Being Prepared from a Neighbourhood Grocer
Photo Source: Shirland Ventures Limited

The majority of shoppers and retailers in Cluster 1 markets like India and Egypt believe that delivery will always be an important part of the grocery shopping landscape. The prevalence of delivery in India and Egypt is so strong that self-service retailers have had to adopt the model. Although the prevalence of delivery in self-service retail is considerably lower, about 20% of purchases in Egypt, it is a growth segment of the business. McDonald's has had to offer the service, with some additional costs, as a core part of its growth model in these countries.



McDelivery 66 000 666

If you can't come to McDonald's, McDonald's will come to you!

McDonald's India is one of the few countries that provide a home delivery service. In west & south India, this service is currently available in select cities. Call us on 6600 0666 (Pune residents please prefix 9522) (Baroda residents please prefix 9579) and place your order.

There is no restriction on the minimum order for home delivery; however there is a fee of Rs 20/- per order as delivery charges, irrespective of the size of the order.

Please check with the order-taker while placing your order. Delivery of menu items through McDelivery is subject to availability of menu items in the restaurants. Further, in any event, hot beverages are not delivered through McDelivery. We deliver between 11:00 am to 11:00 pm.

Limited Delivery area.

FASTEST DELIVERY IN EGYPT
☎19991

Image sources: McDonald's Egypt and India websites 2011

The Neighbourhood Grocer stands in contrast to Self-Service concepts which already begin to appear in Cluster 1 markets. Whether it is the petrol convenience outlet within walking distance of the home, or a supermarket in the same area, a number of self-service outlets fall into this classification.



*A Neighbourhood Self-Service Store in India located immediately underneath apartments, is a common site across Eurasia and Africa.
Photo Source: Shirland Ventures Limited*

For shoppers, the key benefit of self-service stores is the freedom that they provide. Whilst this may seem like an obvious concept for many readers of this report, the research revealed a considerable amount of demand for choice across the Eurasia and Africa region. At its most basic, self-service is not seen as a shifting of the burden from store staff to the shopper, it is rather seen as an expression of freedom.

Yes it's a self serviced store - you can choose what you want.

Male SEC B2C in Dehli, India

The power of choice and freedom was mentioned throughout the region, whether in Turkey, India or South Africa.



Shopper comparing items in a self-service store (supermarket)
Photo Source: Shirland Ventures Limited

Shoppers often spoke of their delight on being able to browse and choose items on their shopping trips.

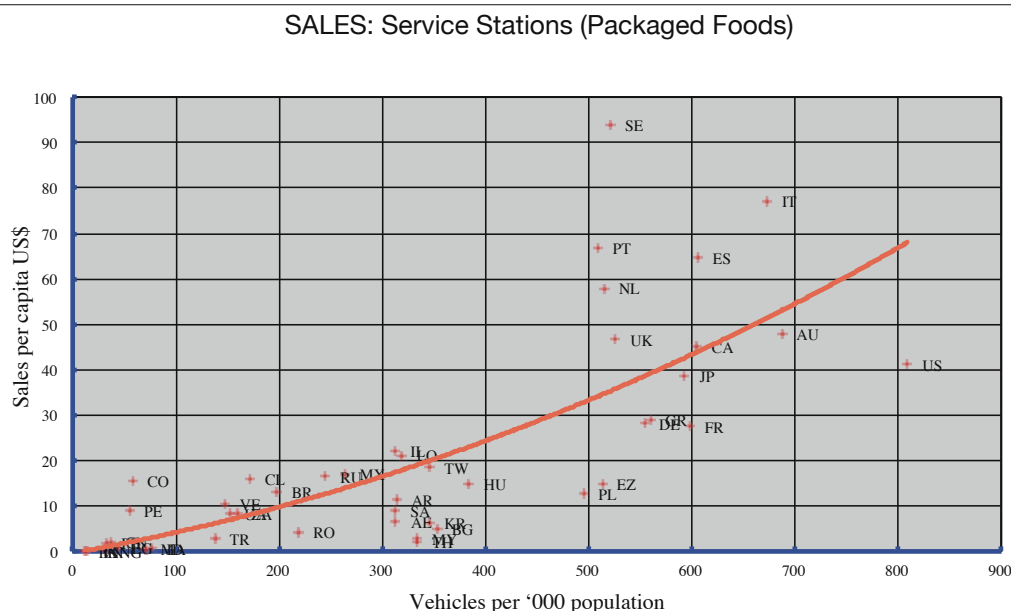
Shoppers in most markets also associate neighbourhood self-service stores with promotions and offers which are unavailable in neighbourhood grocers. Although they do not always note that these are the best prices that they can find, the ability to see and browse these offers is a consistent part of the neighbourhood self-service concept.



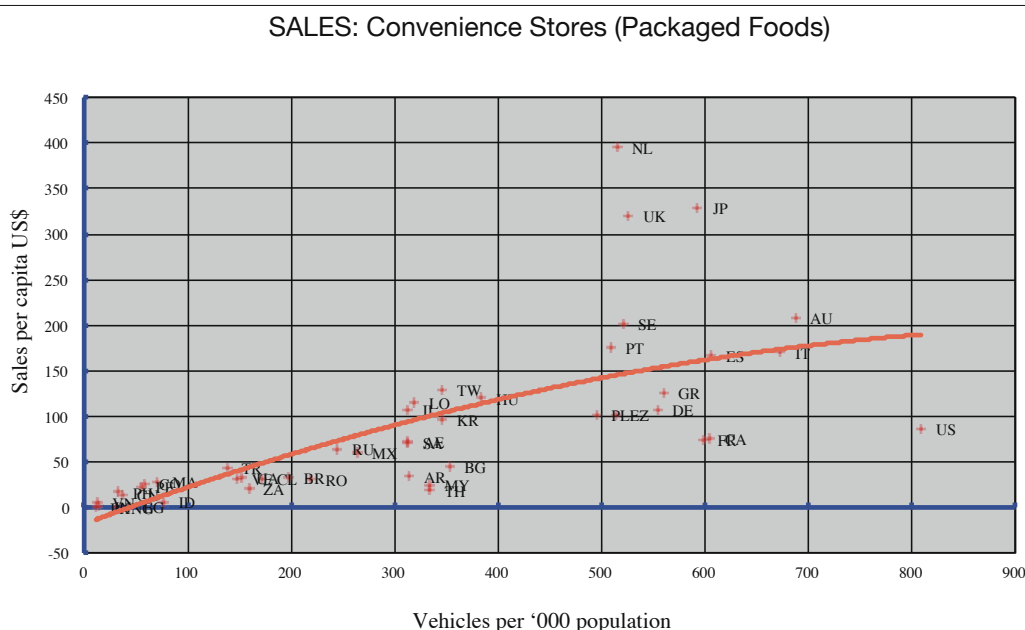
Promotions in a Neighbourhood Self-Service Store
Photo Source: Shirland Ventures Limited

NEIGHBOURHOOD VS OUT-OF-NEIGHBOURHOOD: DIFFERENT CHANNELS AT DIFFERENT TIMES OF THE MONTH

The concept of a “neighbourhood” expands with the ownership of personal motor vehicles. Whilst there is a tendency to associate the self-service outlets located on petrol station forecourts as an out-of-neighbourhood channel, the majority of these stores in the Eurasia and Africa are located in neighbourhoods. There are more than 30,000 service stations across the region without self-service grocery outlets at present. We expect that this will change over the next decade following the pattern established by rising vehicle ownership.



Grocery Sales Through Self-Service Convenience Stores Located on Petrol Forecourts
Increase as Vehicle Ownership Rises
Chart Source: TLE Strategy Ltd (Correlation); Chart Data Sources: Datamonitor, Planet Retail, Kantar Retail
(www.kantarretail.co.uk) 2011 and TLE Strategy Ltd



Similarly, Grocery Sales Through Self-Service Convenience Stores Located Away from Petrol Forecourts Increase as Vehicle Ownership Rises

Chart Source: TLE Strategy Ltd (Correlation); Chart Data Sources: Datamonitor, Planet Retail, Kantar Retail (www.kantarretail.co.uk) 2011 and TLE Strategy Ltd

The concept of a neighbourhood implies an urban or suburban landscape. In our research, the most important implication of this neighbourhood idea was whether or not shoppers could reach an outlet within 5 minutes of travelling from their homes. The Eurasia and Africa Region is also home to a huge population of rural consumers.

Whilst in the most extreme cases these rural shoppers are inaccessible and/or unable to purchase a wide assortment of modern goods, those who can purchase packaged groceries show us another perspective. The neighbourhood store in rural Cluster 1 and Cluster 2 markets is merely an outlet of necessity and emergency purchase. Unlike urban or suburban areas, the bulk trip in rural markets is always to an out of neighbourhood shopping concept.

In Cluster 1 markets and early stages of retail development, large surface, generally out-of-neighbourhood outlets (both hypermarkets and large supermarkets) offer a new “one stop shopping” experience (everything under one roof). These outlets also serve as the weekend and monthly entertainment shop in early stage markets.

It is commonly accepted that these outlets are associated with a need to leave the neighbourhood. But, even in these less mature markets there are numerous examples of these concepts being available in close proximity to the shopper, whether it is from home or the workplace.

Promotions are a key part of the out-of-neighbourhood channel view from shoppers in Cluster 1 markets. Shoppers in India speak of 3 or 4 promotions that they are aware of in advance before taking the decision to travel to a large out-of-neighbourhood store.



Promotions in an Out-Of-Neighbourhood Hypermarket
Photo and Image Source: Hyperstar Pakistan

Furthermore, the shoppers in India speak of the understanding that they will find many more promotions once they are in the store. The desire for “unique” and special offers does fade in Cluster 2 markets. Although promotions are still noted as a part of the out-of-neighbourhood experience, the distinction is less clear. In Cluster 2 markets, shoppers focus more on the “everything under one roof” aspect of shopping the hypermarket which implies a wide range of needs and trip types can be satisfied throughout the course of a month.

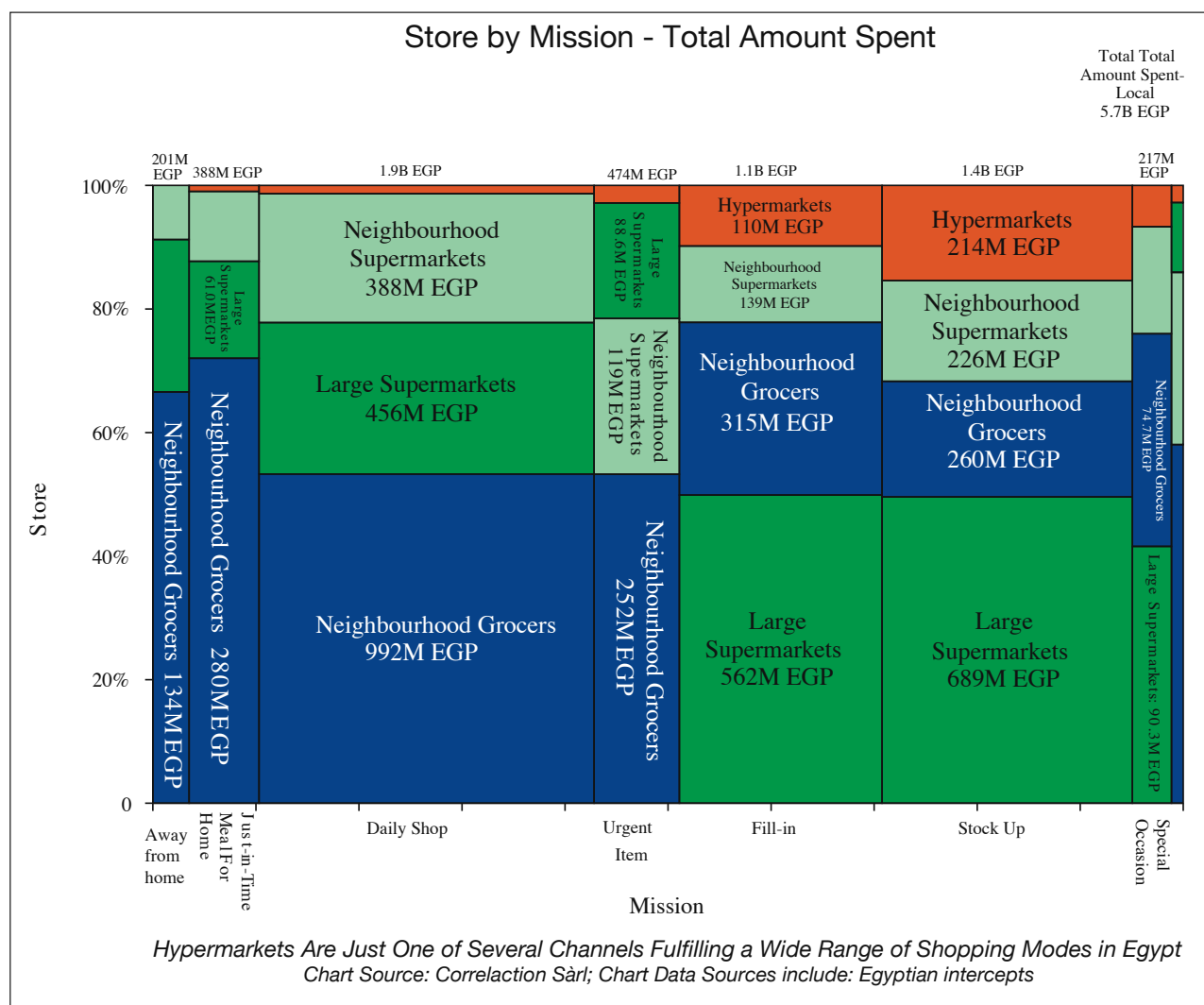


Shopping for clothing and textiles is a key part of the out-of-neighbourhood shopping definition in Cluster 1 Markets
Photo Source: Shirland Ventures Limited



"Pick n Pay hypermarket, drive your car you can park it" was the jingle in this 1985 advert which implied out of neighbourhood shopping for the channel
Source: Pick n Pay

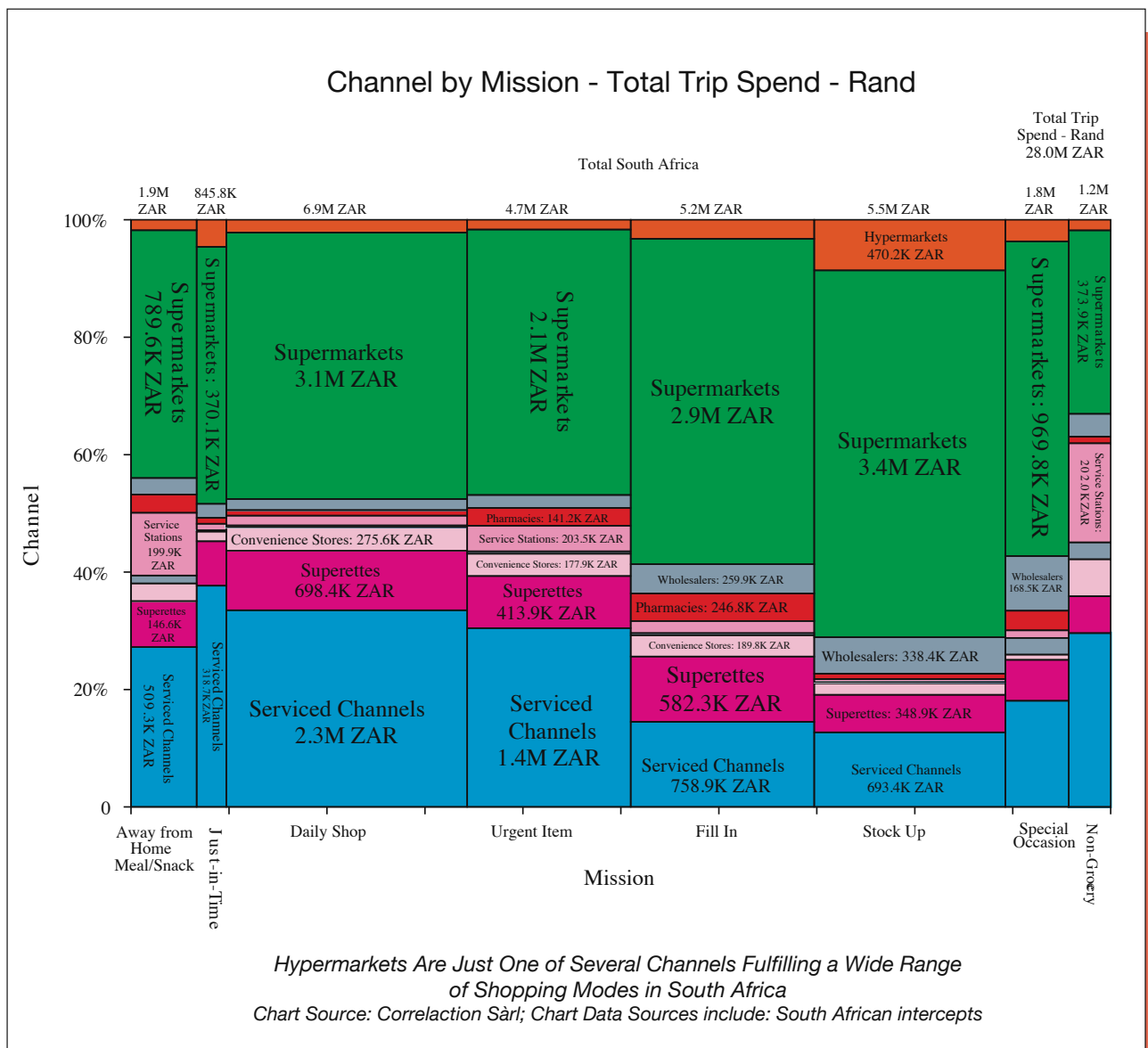
Looking at the shopping data for Egypt - we can see hypermarkets in 2 shopping roles - while primarily a stock-up store for shoppers, there are a surprisingly large number of fill-in and even daily shopping trips in those outlets.



A deeper look at the data reveals the neighbourhood hyper phenomenon. Hypermarkets are not exclusively seen or used as out-of-neighbourhood stores as there are many locations with shoppers living in close proximity.

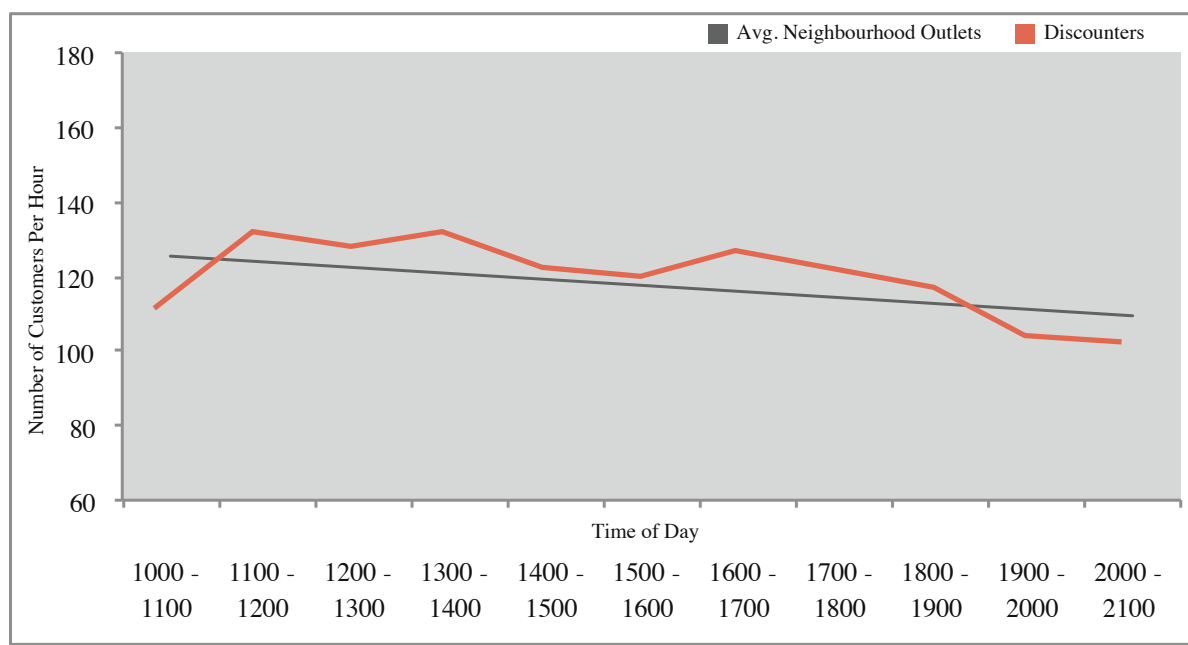
The contrasting roles of hypermarkets as either neighbourhood or out-of-neighbourhood stores, often in the same location, for shoppers are evident in a number of ways. Firstly, we observed a large number of shoppers visiting hypermarkets on quick mid-week shopping trips whereas the general perception is that they are weekend outlets. Here the hypermarket needs to balance its role as the place of excitement for the weekend or payday with the practical role of fulfilling weekly needs. The same hypermarket is therefore defined as two different channels by different groups of shoppers.

The complexity of the hypermarket's role is not unique to Egypt. We see the same pattern across markets in Cluster 1 (notably Kenya) and Cluster 2, here again in highly developed South Africa.



DISCOUNTERS ARE DISTINCT FROM OTHER SELF-SERVICE OUTLETS

Discounters in the Eurasia and Africa region, as in many parts of the world, are seen mostly as an extension of neighbourhood self-service outlets. As the shopping pattern data indicates, the average traffic during the course of a day in markets like Russia is very consistent, as you would expect with a neighbourhood outlet. In contrast, out-of-neighbourhood self-service outlets (hypermarkets and supermarkets) typically see an evening spike in traffic.



Discounters in Russia and Other Eurasia and Africa Markets Have Consistent Numbers of Shoppers During the Day Like Many Neighbourhood Outlets

Chart Source: Shirland Ventures Limited; Chart Data Source: Russian intercepts

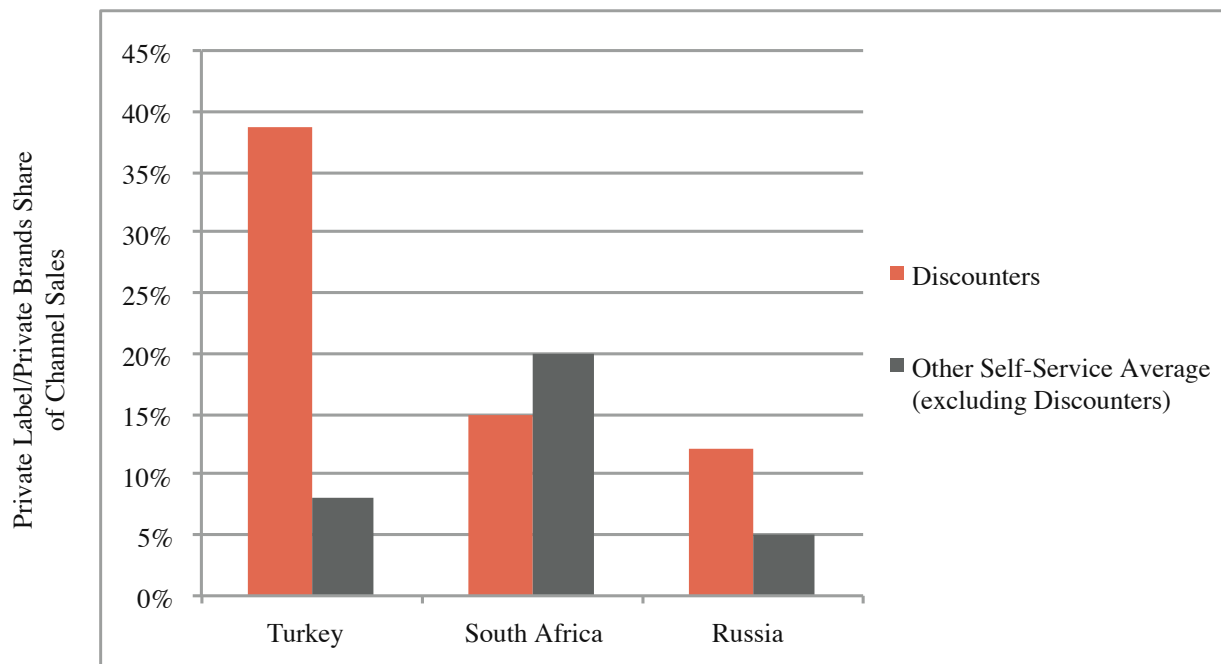
The majority of shoppers in Russian discount stores come from within a half-kilometre radius of the outlets. In Turkish cities most shoppers speak of a selection of discounters available in their neighbourhoods.

The distinction between a standard neighbourhood self-service outlet and the discounters came from a couple of factors:

1. The assortment of national brands in comparison with other neighbourhood channels
2. The view of everyday price
3. The view of promotional price

Across the Eurasia and Africa region, shoppers spoke of discounters as a place to purchase many of their favourite national brands. However, in markets like Turkey it was clear that the selection of brands was perceived to be limited compared with other outlets. Furthermore, in each market shoppers acknowledged the presence of low-priced private labels compared with other neighbourhood outlets. Whilst the data clearly shows us that the exact weight of private labels and national brands differs by market in both absolute and relative terms, there is a consistent acknowledgment of the presence of store specific brands.

Private Label Share of Sales



Discounters Across the Region Tend to Sell a Higher Proportion of Private Label Goods Than Other Self-Service Outlets

Chart Source: Shirland Ventures Limited; Data Source: Company reports and Shirland Ventures Estimates

The private labels were also acknowledged as a critical part of the everyday price perception of the discounters. Shoppers in Russia and Turkey acknowledged that the discounters have prices on national brands comparable to any other store or channel whilst having uniquely attractive private label prices.

Discounters were also seen as neighbourhood outlets who offered a uniquely attractive mix of weekly promotions. In all cases there was an acknowledgment of some grocery promotions, in Turkey there was an additional focus on twice weekly non-food promotions.

"I live opposite [Discounter] but I don't like to go there, only for specials"

Shopper, South Africa

"Thursdays and Fridays are discount days at markets like BIM and A101. We wait at BIM's door at 9 o'clock in the morning. That's their discount day. They bring in quality products at great prices on those days. I follow those."

SEC D Shopper Turkey

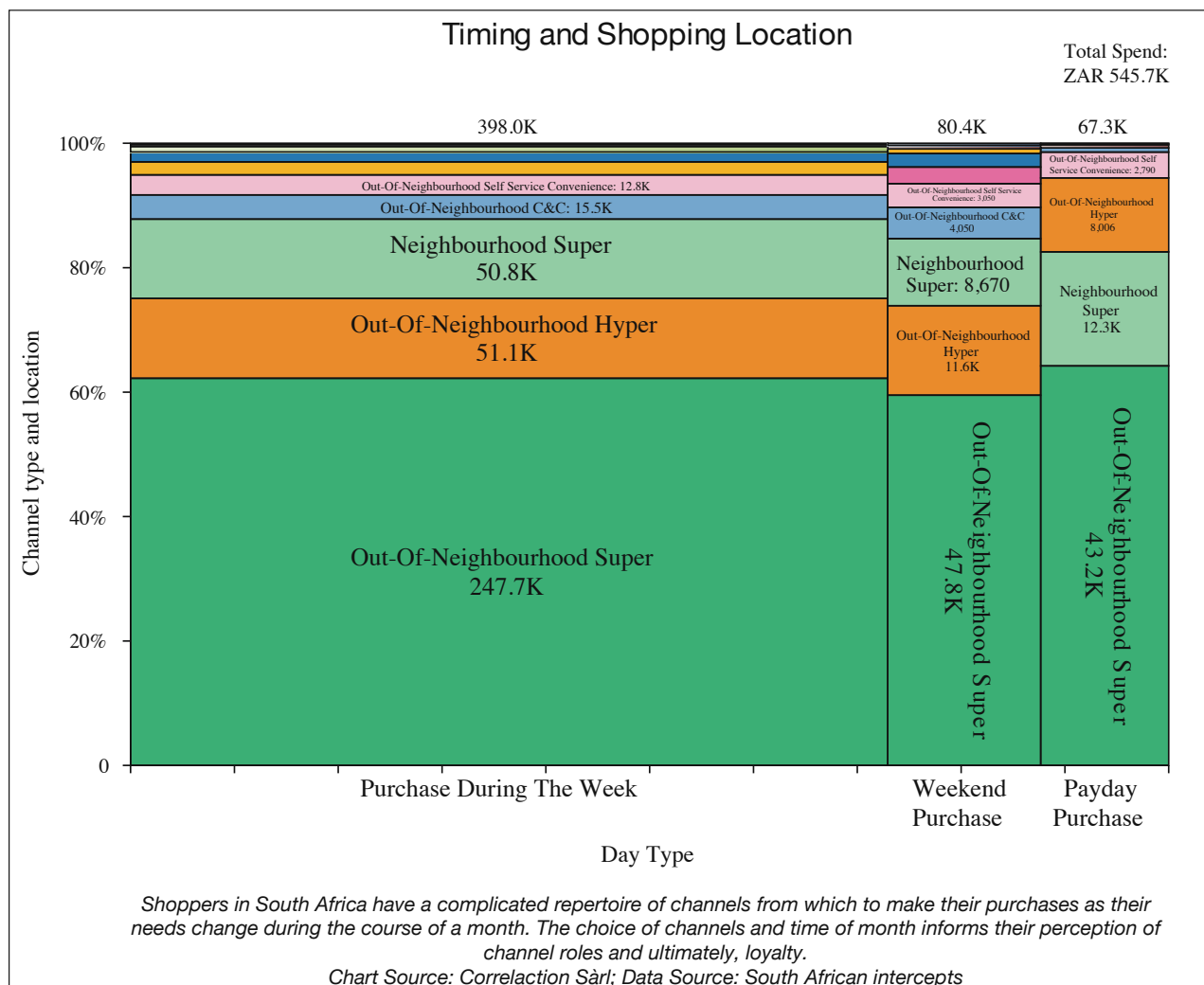


A Weekly Non-Food Promotional Leaflet from the A-101 Discount Chain in Turkey Which Creates Mid-Week Non-Food Promotion Trips to These Neighbourhood Stores Source: A-101 Flyer 2011

For these reasons, we believe discounters are distinct in the mind of the shopper. Although the exact nature of the channel differs by retailer and market due to the variation in private label mix and promotions, there is clearly a distinct role of this channel.

As catchment areas develop with a wider choice of channels, the Shopper's view of "self-service" stores (supermarkets, hypermarkets, discounters, etc.) and "serviced" outlets (where the shopper relies on the staff to select products) reverse

A shopper's view of channels stems from the relative convenience by which a specific store or channel can fulfil their purchasing demands at a specific point in time (hour, day, week), regardless of the channel role as defined in its design.



However, as markets mature with a greater choice of channels available in each catchment area, the shopper distinction diverges from the trade definition. We find that shoppers are more fluid in their (experience-based) definition of a store or channel's role and their reasons for exhibiting loyalty. At the same time, for a variety of reasons, the industry continues to define channels according to their underlying business models. The notion of "traditional trade" becomes progressively less relevant from a shopper's perspective, as serviced retailers change their concepts and a large number of independently owned shops offer self-service indistinguishable from chain stores.

As markets mature, the entertainment shop on paydays and weekends becomes less attractive for shoppers. Primarily due to an increase of choice in their immediate neighbourhoods, the need to make special trips with extraordinarily large purchases each month declines in Cluster 2 markets. However, it should be noted that the decline is not uniform. We see a continued tendency to purchase extremely large quantities on payday amongst shoppers who live in areas of Cluster 2 markets with a small choice of channels. The implication of the move away from payday shopping for retailers is one where scale benefits for certain channels decrease. The very fact that the cost of running “payday dependent” channels increases reveals opportunities for other channels.

Just as hypermarkets undergo a transition by market cluster, so do several other channels:

1. Neighbourhood Grocers become Serviced Convenience Outlets
2. Discounters evolve from Neighbourhood Self-Service outlets

We found that the Neighbourhood Grocer of Cluster 1 countries evolves into a Serviced Convenience outlet in Cluster 2 markets. Whereas neighbourhood grocers provided a wide range of groceries which provide shoppers with many of their essential weekly needs, Serviced Convenience outlets specialise in a few select categories and shopping trips associated with an urgent or immediate need for consumption. Bread, cold drinks (both non-alcoholic and alcoholic), phone and electricity top-up are staples of the Serviced Convenience channel across the region.

Moreover, serviced convenience stores abandon many of the areas previously occupied neighbourhood grocers. As convenience outlets, the idea of delivery is less relevant for the shopper. For these reasons, we see almost no association with this channel and delivery in markets like South Africa and Russia. Furthermore, credit is less important given the number of small value high frequency purchases which occur in these stores. Whilst the association with credit and smaller purchases is clear, it is not necessarily a foregone conclusion that a change in shopper demand reduces credit in serviced convenience. However, we can conclude that a reduction in interest free credit offered by small retailers is associated with the move to smaller and more frequent trips.

Neighbourhood Grocers and Serviced Convenience outlets may also become Neighbourhood self-service channels under franchise agreements. Below we see a comparison of two stores, one is part of a chain and the other is owner-operated as part of a franchise network. The role of the shopper is indistinguishable—both are neighbourhood self-service outlets.



Photo Sources: Shirland Ventures Limited

KEY LEARNING POINTS FROM CHAPTER 1

Shoppers do not define channels according to industry axiom.

Whilst retailers and manufacturers apply a largely fixed, supply-driven segmentation, a shopper's view of channels stems from the relative convenience by which a specific store or channel can fulfil their purchasing demands at a specific point in time and place. As shoppers have a fluid view of channels, their loyalty to a given channel will change during the course of a monthly pay cycle. We find that neighbourhood channels in close proximity to households fulfil multiple variations in shopper needs across variations due to income, household structure, living area and time of month. At the same time, out-of-neighbourhood grocery channels tend to service a more homogenous set of shopper needs at certain times of the month.

As catchment areas develop with a wider choice of channels, the Shopper's view of "self-service" stores (supermarkets, hypermarkets, discounters, etc.) and "serviced" outlets (where the shopper relies on the staff to select products) reverse.

Whereas serviced outlets will increasingly focus on satisfying *specific* shopper needs, self-service will *generalise* to satisfy a fragmenting set of shopping trip types in order to continue growing.

EVERY MONTH, SHOPPER LOYALTY IS SHAPING RETAIL DYNAMICS WITHIN CATCHMENT AREAS

Growing household wealth fuels the growth of retail markets, yet leads to a reduction in channel loyalty.

The growth of household wealth and consequently individual shopper expenditure, as we have seen across Eurasia and Africa, is the source of much of the change in channel loyalty that we can observe. We see a clear relationship in the markets of study and 50 other global markets, between the increase in household expenditure and the number of choices available to shoppers.

In the Cluster 1 markets (India, Egypt, Kenya and Pakistan) there is an extremely high density of small retail outlets resulting in less than 250 potential consumers per grocery outlet. Whilst in the Cluster 2 Markets (South Africa, Russia, Saudi Arabia, Turkey, and the U.A.E.) we see a much lower concentration of outlets, between two and four times fewer stores, with between 500 and 800 potential consumers. Clearly South Africa is an exception in our methodology because it belongs in Cluster 1 if we took a strict measure based on the state of outlet development. We decided to place South Africa in Cluster 2 because the country has an extremely large and concentrated self-service sector responsible for the majority of grocery sales.

Average Number of Consumers Per Grocery Outlet 2009/2010

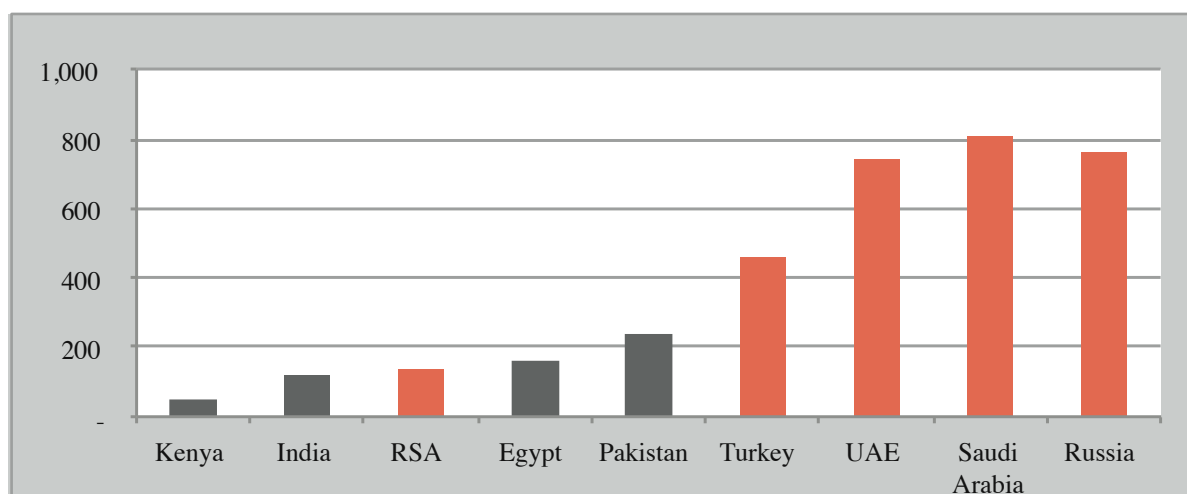


Chart Source: Shirland Ventures Limited; Data Sources: Planet Retail and Shirland Ventures Limited

GROWING HOUSEHOLD WEALTH AND RETAIL DEVELOPMENT ARE MUTUALLY CORRELATED

Looking across 50 of the largest markets in the world, including those in our study, we can see a clear pattern of growth in the size and number of retail channels available to shoppers as Personal Consumption Expenditure increases.

Packaged Grocery

Year : 2009

Constant 2010 prices & exchange rates

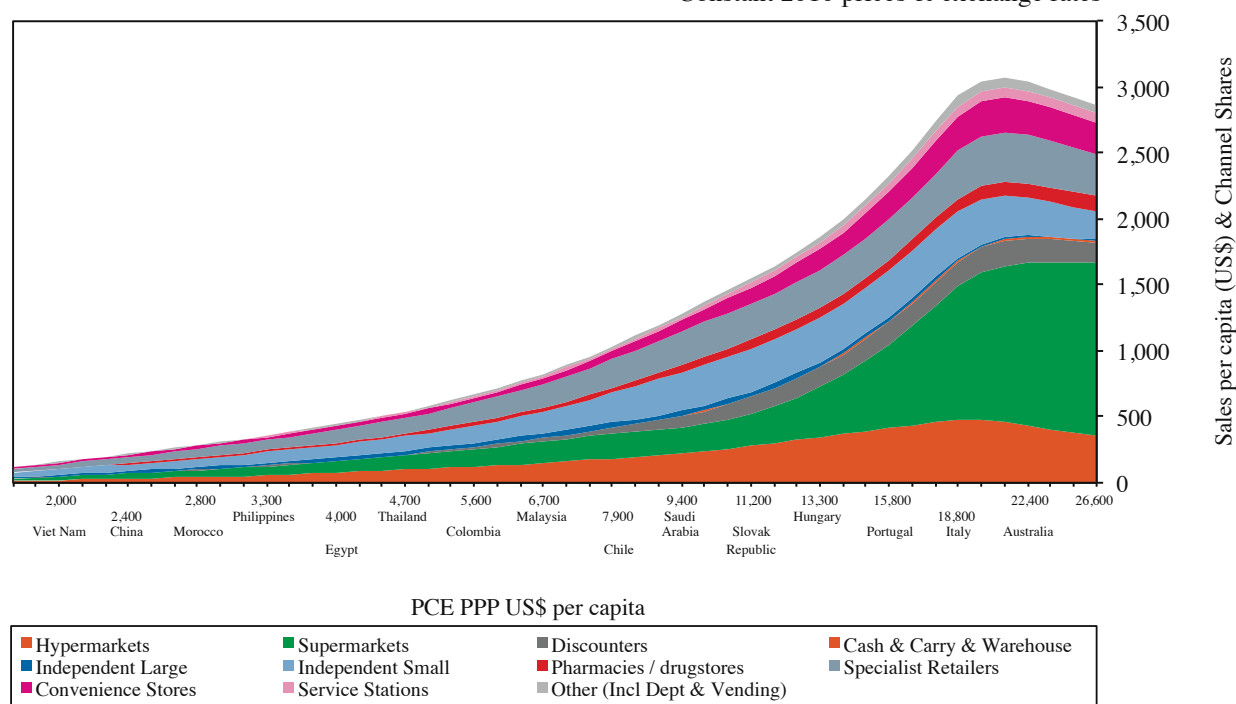


Chart Source: TLE Strategy Ltd (Correlation); Chart Data Sources: Datamonitor, Planet Retail, Kantar Retail (www.kantarretailiq.com) 2011 and TLE Strategy Ltd

This macro-observation, supported by data analysis, is an expression of a trend which we also observed in our research on a micro-level: within a given geography, shopper expenditure is spread over more channels as income increases.

The lowest demographic segments (called LSMs in South Africa) in South Africa spend relatively more in the Served Convenience channel.

Lowest LSM in South Africa

Channel by Mission - Total Trip Spend - Rand

R0 - R499s

Total Trip Spend - Rand
822.6K ZAR

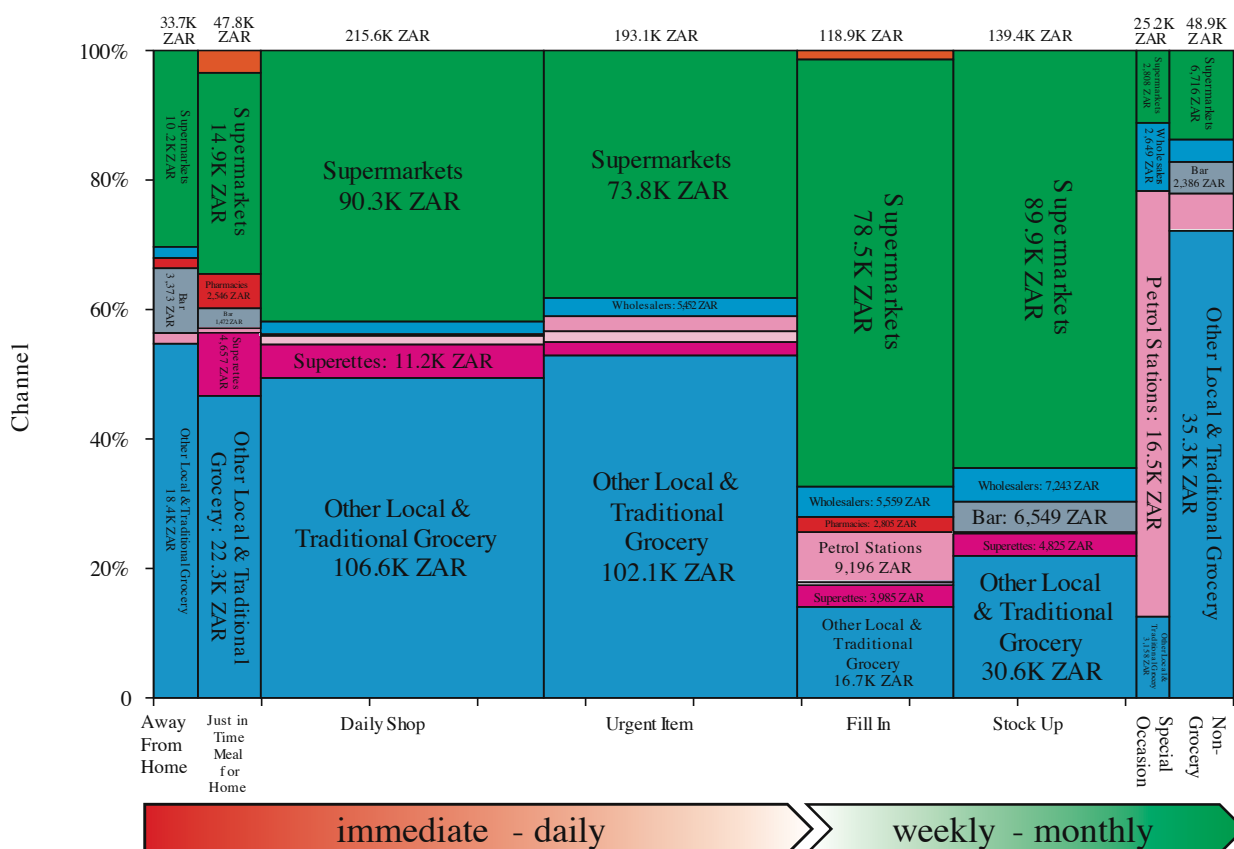
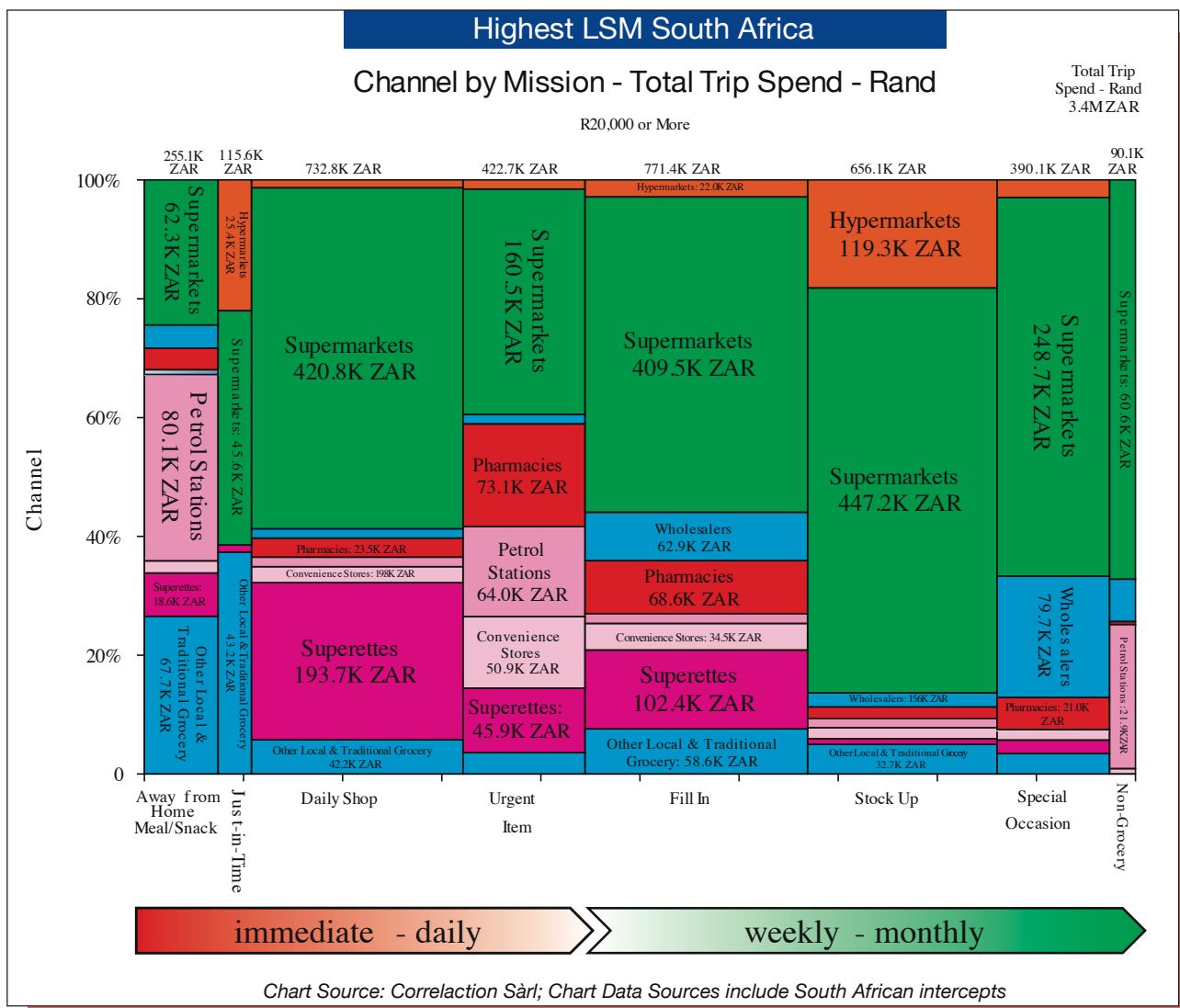


Chart Source: Correlation Sàrl; Chart Data Sources include South African intercepts

Within the same geography, the highest LSM's spread their spend across more channels, whilst also shifting their spend more towards the weekly and monthly trips:



The attraction of wealth is clearly a relative concept – and the correlation between spending power and retail development works both ways. As the countries across Eurasia and Africa become wealthier, consumers in the lower socio-economic classes start to obtain the spending power to justify retail investment. During the past few years we have seen rapid development of lower class areas across South Africa as government social programmes have increased spending power and made catchment areas viable for neighbourhood self-service outlets.

THE MODE OF TRANSPORTATION CHANGES THE CHANNEL CHOICE FOR SHOPPERS

Wealthier shoppers in the region, as elsewhere, also have access to more choices as a result of their transportation options. Our survey in India showed a direct correlation between wealth and choice of transportation when shopping. Whereas almost 80% of SEC D shoppers walked to their shopping trip, only 43% of the SEC A shoppers did the same.

India

MAIN QUESTIONNAIRE	SEC			
	SEC A	SEC B	SEC C	SEC D
Q2a:Mode of transport used to travel to the shopping location				
Total (Autobase)	550	569	421	226
1-Walking	43%	54%	69%	79%
2-Public Transportation (Bus, Taxi,etc)	15%	16%	9%	8%
3-Personal Transportation (Car/Two wheeler)	39%	28%	20%	12%
4-Got a ride from the person accompanied by (Friend/Husband)	1%	1%	0%	0%
97-Anything else	3%	2%	3%	2%
Not Specified	0%	0%	0%	0%

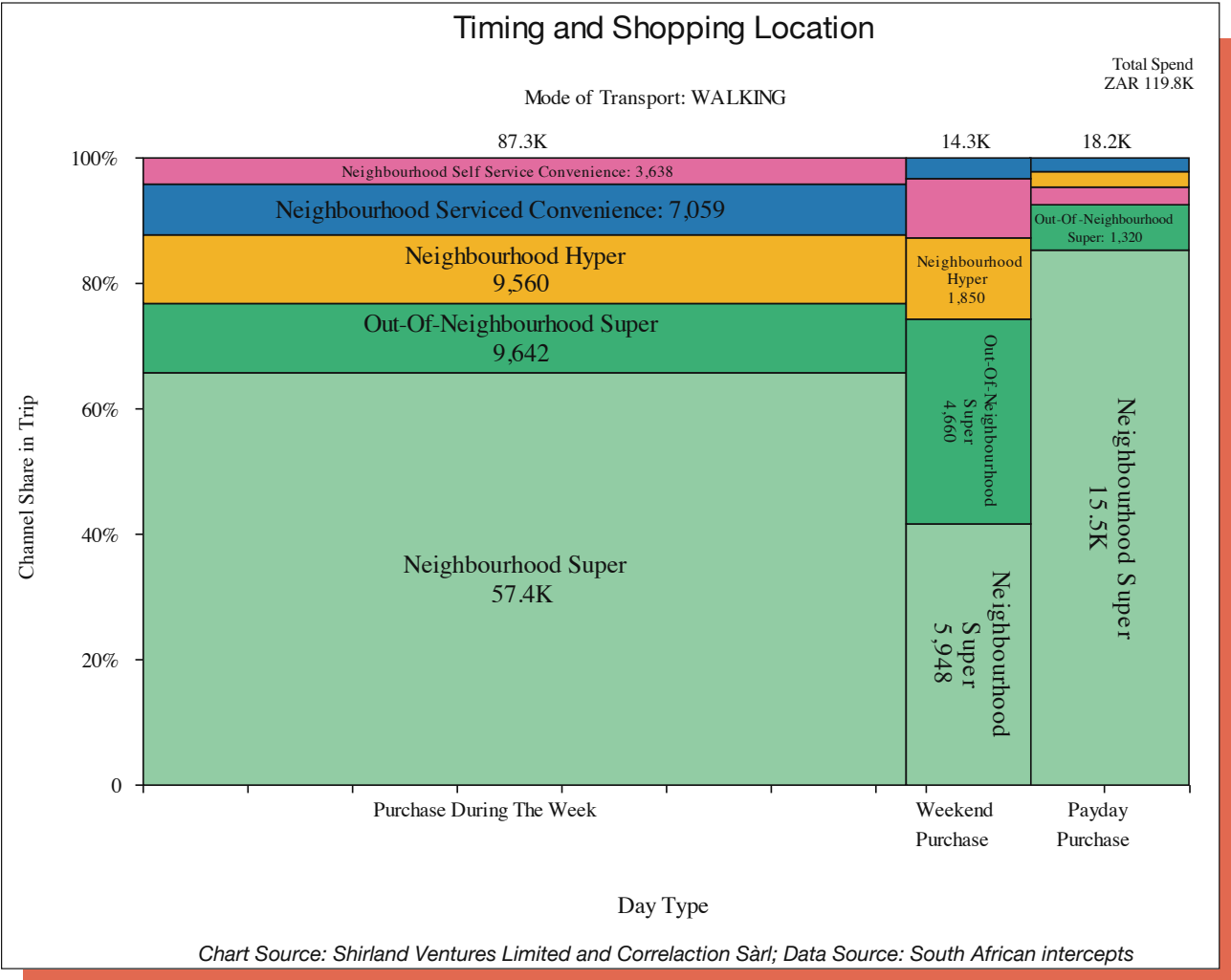
Chart Source: Shirland Ventures Limited

The general pattern observed across the region is that as people become wealthier they invest in personal transport. This has clear implications for channel loyalty. The chart in the next page shows that between 60% and 90% of shopping trips made on foot in South Africa and were in the neighbourhood. Whereas the data is similar for India, the main contrast is in the choice of channel.

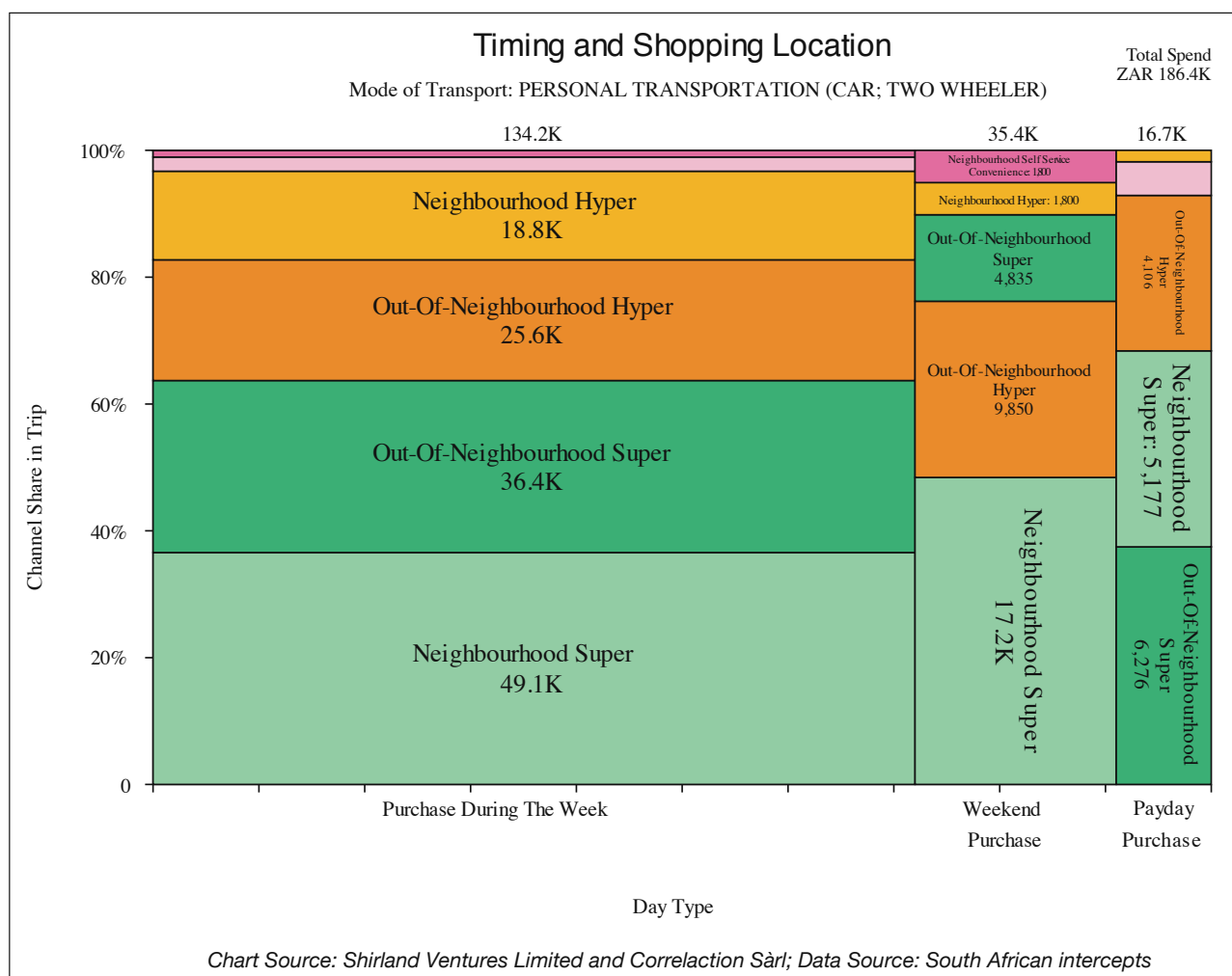


Indian shoppers standing in a queue at a Neighbourhood Grocer
Photo Source: Shirland Ventures Limited

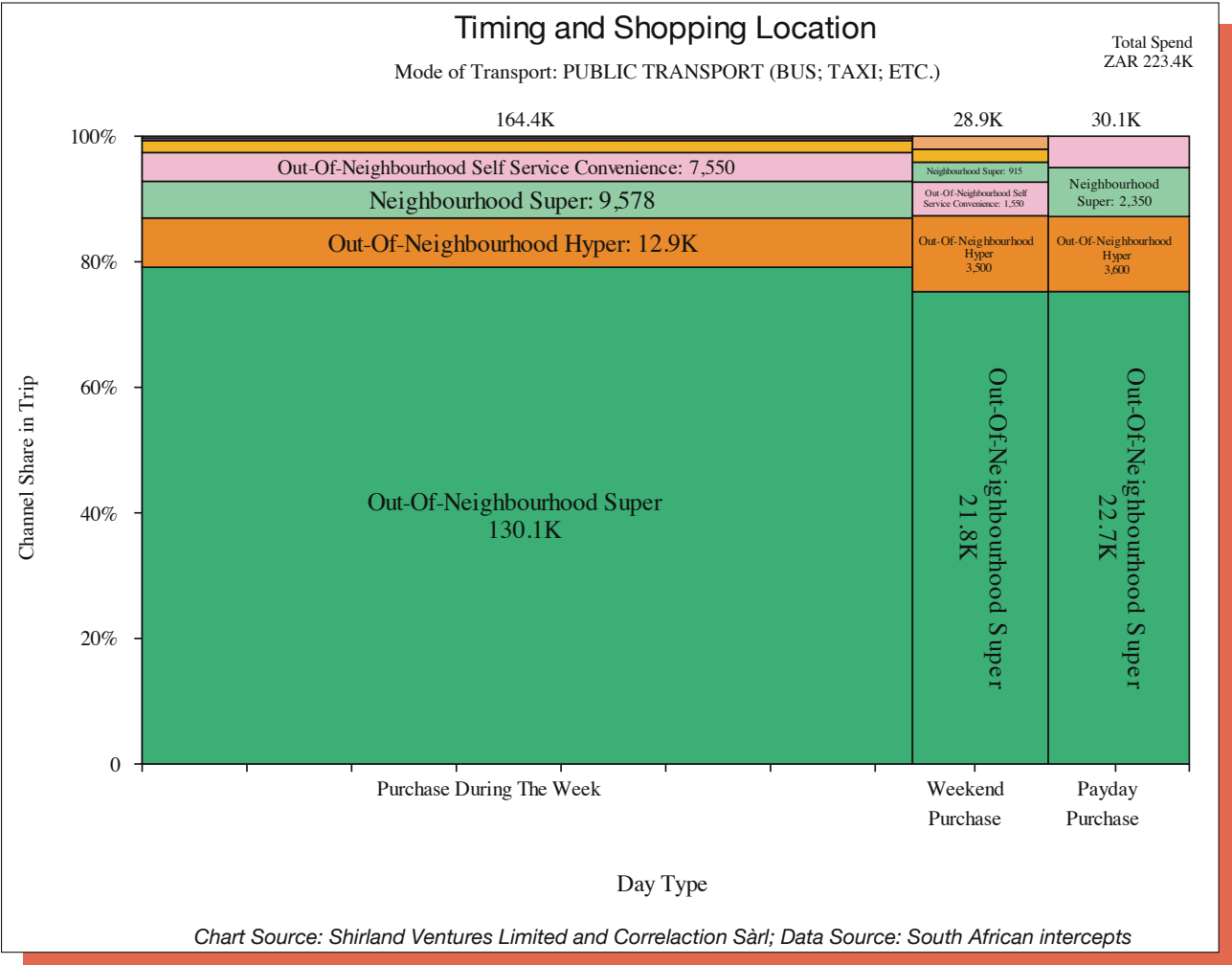
We see that in South Africa, neighbourhood shopping has largely become a self-service and mainly supermarket experience. In India, the trend is moving that way with the majority of neighbourhood trips still resulting in trips to the serviced Neighbourhood grocer.



Personal transportation changes the loyalty paradigm. We see a significantly lower concentration of trips to any specific channel by shoppers who use personal transportation. Whilst this is partially correlated with other income factors, it does also quantify the concept that the distance which can be travelled allows people to move out of the neighbourhood without great inconvenience. Furthermore, we see a greater use of large stores for weekly shopping trips when personal transportation is involved.



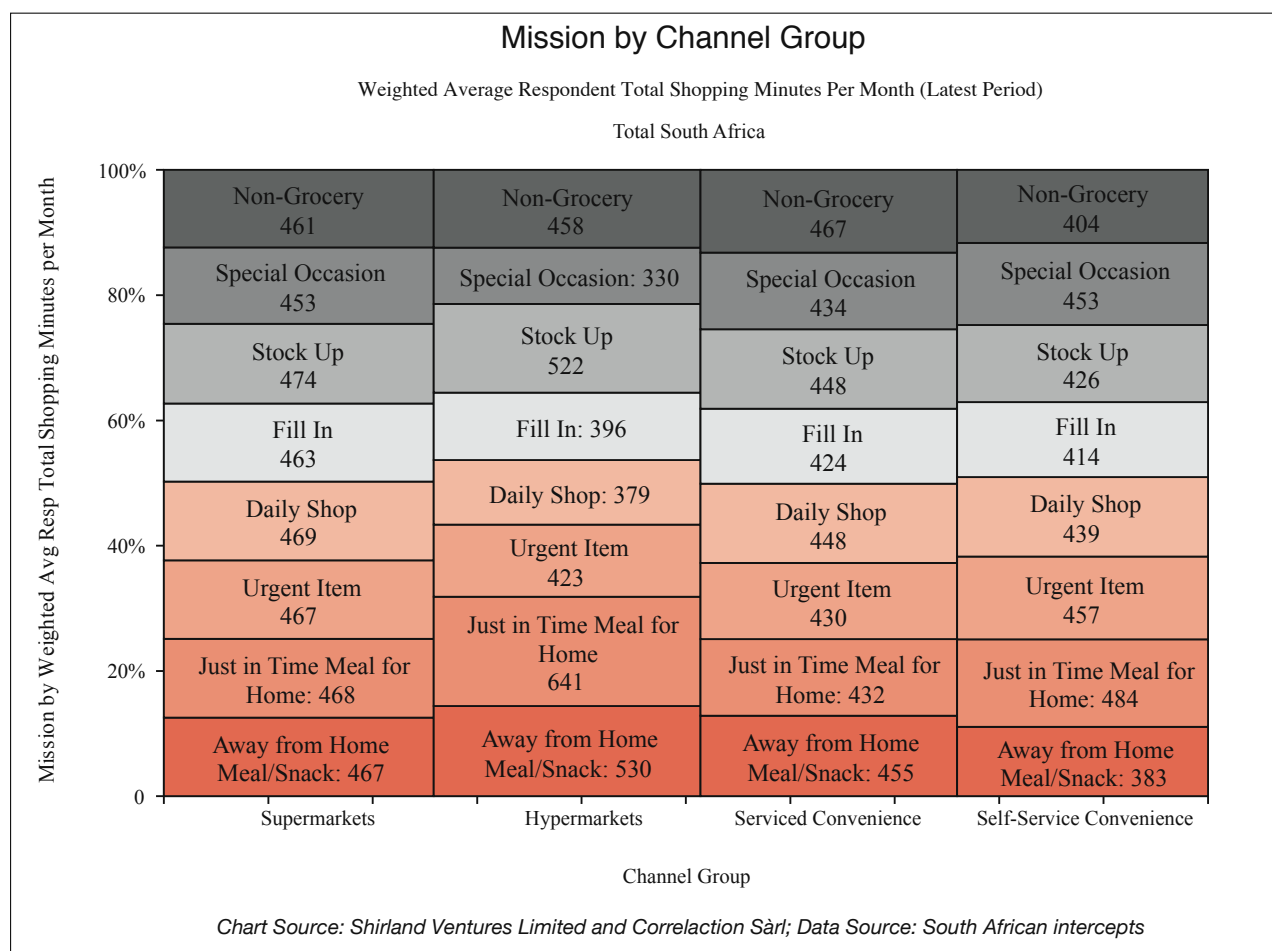
Public transportation represents a significant proportion of shopping trips in Eurasia and Africa. We found that the loyalty dynamics are very specific: a shopper's destination options are determined by the point-to-point nature of this mode of transport, which predetermines loyalty:



This also helps us understand that stores that are developed near public transport terminals, regardless of channel, command a higher level of loyalty. We see that hypermarkets in Pakistan are taking this model to heart by ensuring that taxi and minibus ranks are accommodated in their stores. Some of the most successful hypermarkets in Turkey, Kenya and South Africa are located near bus stations and minicab ranks.

DISTANCE IS MEASURED IN MINUTES, NOT IN METRES

Ultimately, the distance shoppers will travel to purchase groceries is measured in minutes not in metres. Across income groups and geographies travel times “invested” in particular shopping trips remain largely the same. Amazingly, our research seems to indicate that shoppers spend a similar amount of time across different channels. Therefore, the time-centric loyalty battle is more about choosing an outlet and less about saving time in one channel versus the other. This fact cuts across channels. If we look at the data from South Africa, although the “serviced convenience” channel may be very close, the number of minutes spent in a month is equal to the trips made to a hypermarket.



As mobility increases, the minutes invested in a trip do not decrease; consequently, catchment areas grow in size, increasing shopper choice even more.

So whilst the wealthiest shoppers will show the lowest levels of loyalty as a result of choice, the growing wealth of shoppers encourages development across a broad spectrum of locations which reduces loyalty across many of the Eurasia and Africa markets.

Overall channel loyalty, as measured by market share, includes the effect of opening of new stores in a market. However, like-for-like sales growth driven by increasing loyalty to an individual store in a catchment is a more consistent measure of actual shopper behaviour.

NEW STORE OPENINGS SHAPE MARKET SHARE

As choice in a catchment area increases, by definition the average loyalty to a particular store in that catchment will go down. We found that shoppers were less loyal within cities in India which had seen hundreds of store openings in the past few years.



A sign announcing the opening of a new hypermarket in India
Photo Source: Shirland Ventures Limited

Between 75% and 80% of shoppers we surveyed at different channels across India could not imagine shopping in a different location for groceries at the same time next year. However, less than 50% of all of the shoppers in self-service stores, most of which have been built in the last 5 years, shopped in the same outlet the previous year.

For example, less than 50% of shoppers surveyed in Delhi, Ludhiana and Hyderabad had visited the store where we interviewed them for more than 6 months. Conversely in cities with considerably less retail development like Kochin, Kolkata and Bhubaneswar the majority of people had been visiting the store for at least a year and almost 5 or more years.

A Turkish shopper describes the loyalty changes resulting from a new outlet:

“...there wasn’t a [DISCOUNTER A] around where I lived. I didn’t go looking for a [DISCOUNTER A] branch. [DISCOUNTER B] was right nearby. I went to check them out when [DISCOUNTER A] opened a branch... The distances are the same, too. You always feel curious and go scouting when a new market opens up.”

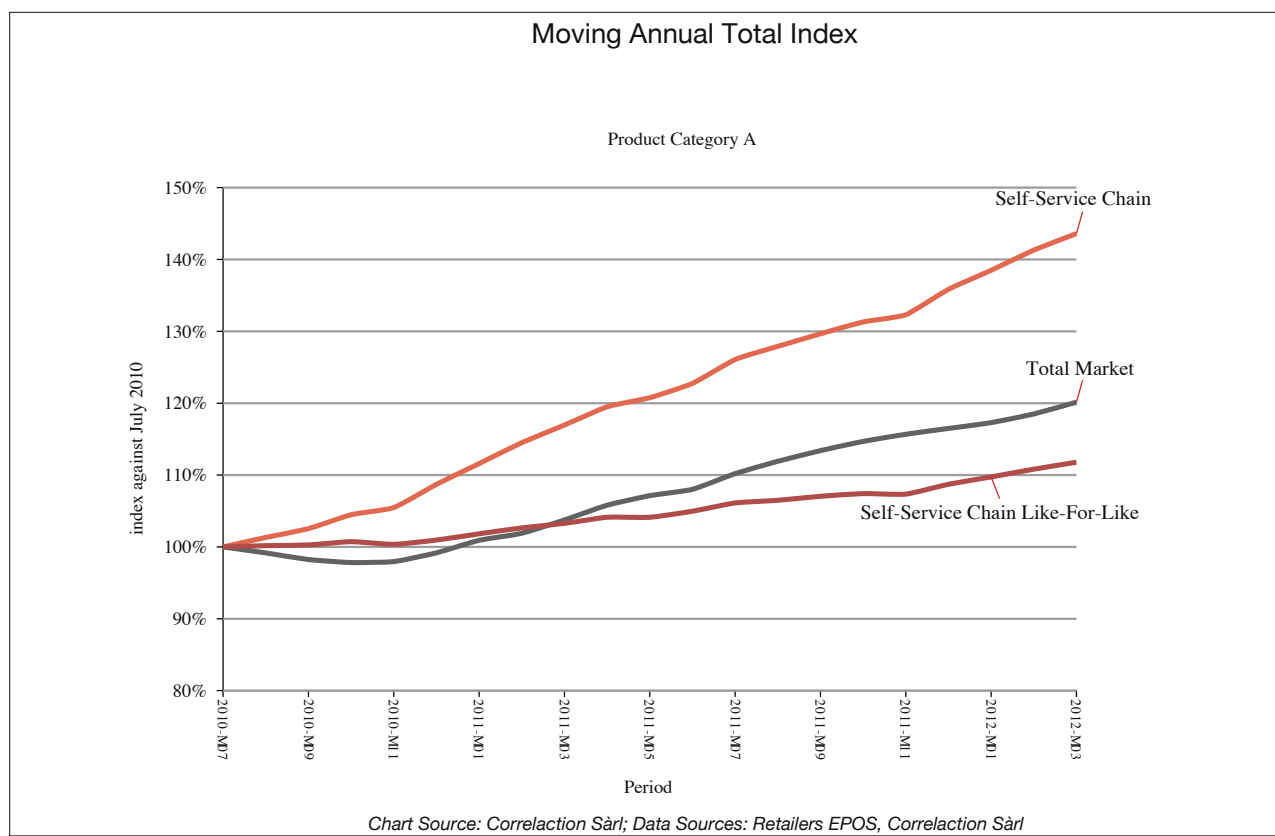
SEC D Shopper in Turkey

Conversely, an Indian shopper describes the dearth of choice in his neighbourhood and the resulting limitations it places on his shopping repertoire:

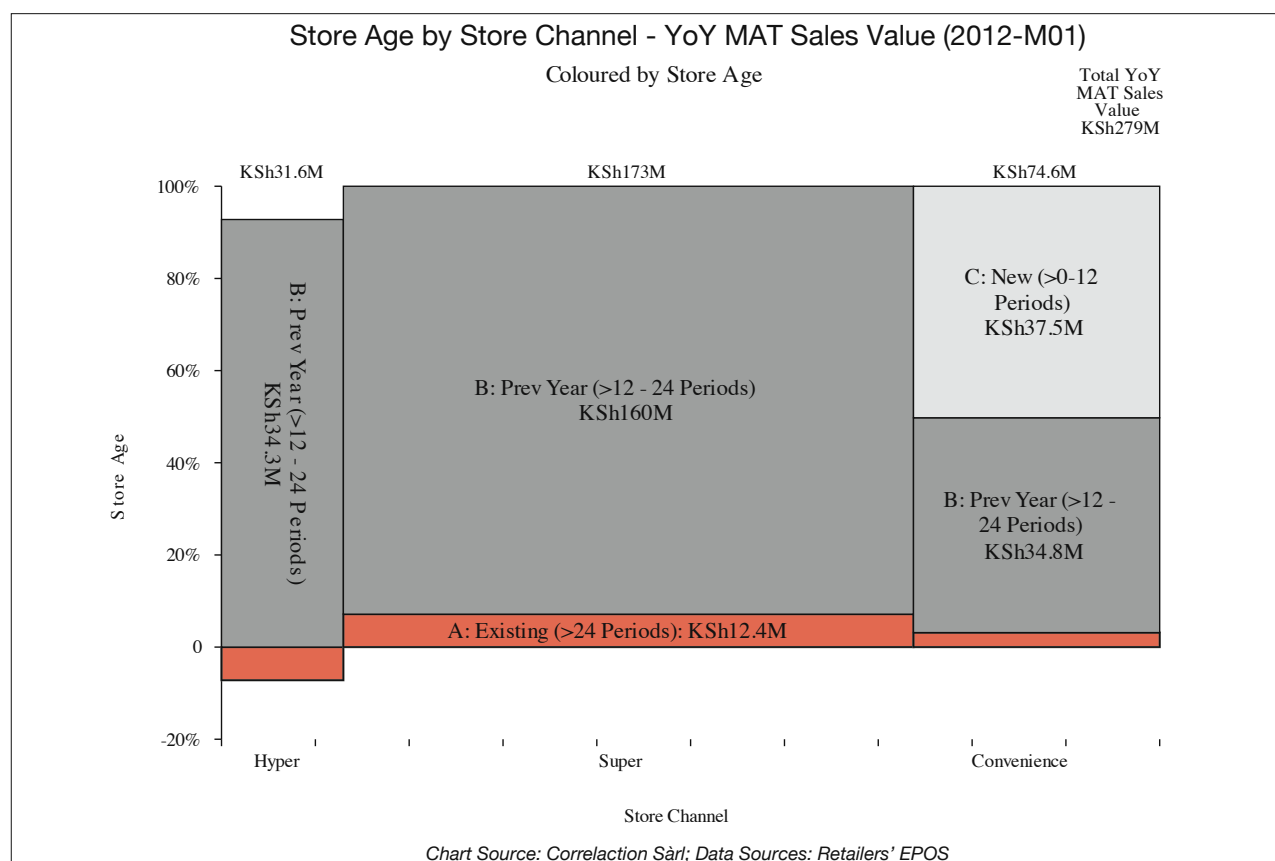
“We do not have any good shops close-by for grocery. We are living in Dwarka sector 7, so there aren’t any big shops. So we are used to going to these malls, Big Bazaar - hyper markets so that we can avail of the schemes also - once or twice a month.”

Male Shopper, Delhi, India SEC B2C

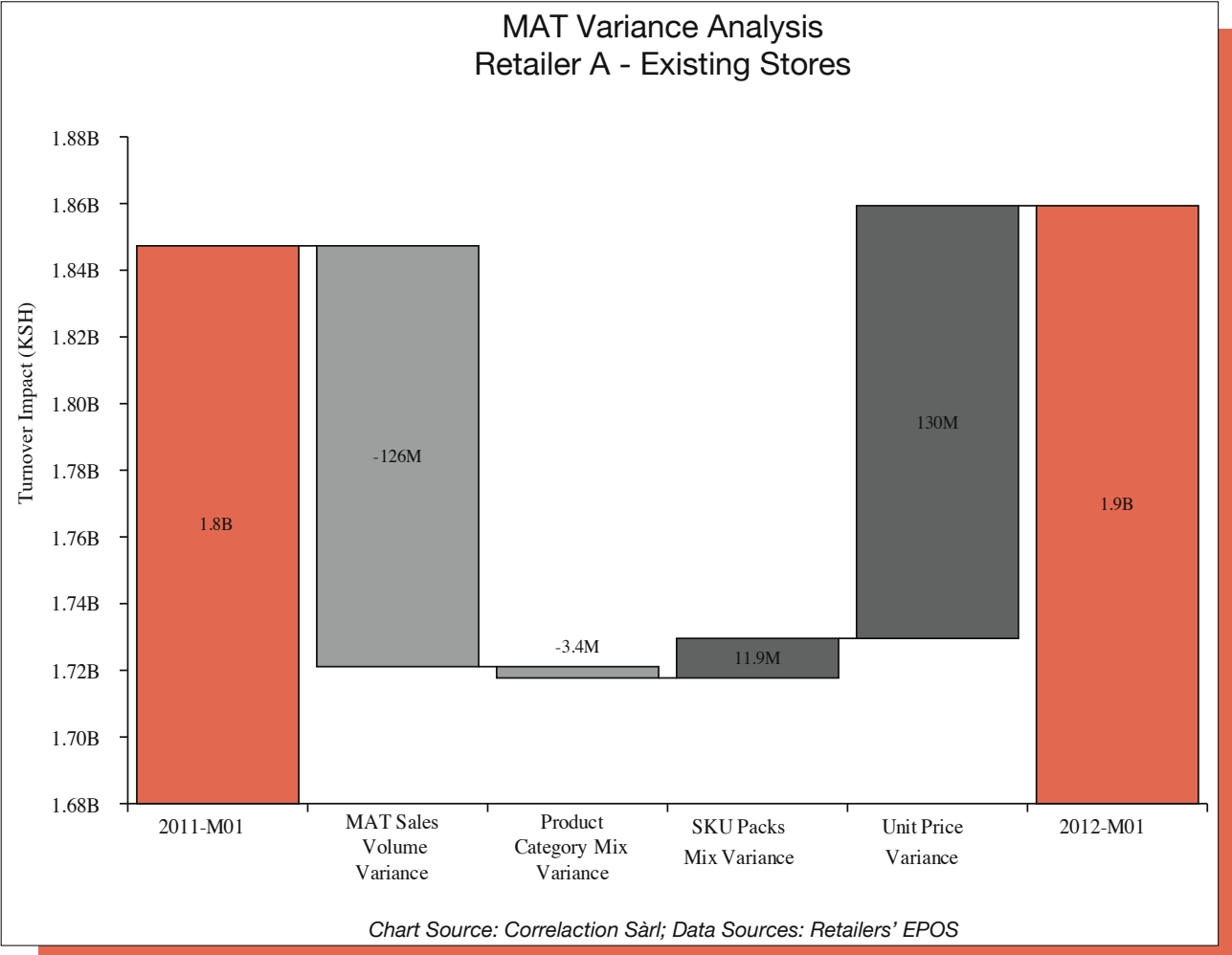
In response to this rising shopper demand, retailers invest in opening new stores – and as a consequence, grow their topline ahead of the market, increasing their overall market share.



This trend can be observed across our region – and many would argue that market share is a good indicator of shopper loyalty – however, the opening of new stores masks same-store performance. The definition of like-for-like sales varies by retailer, notably for publicly listed companies. In this example, we have applied the conservative method of evaluating store performance for stores that have been trading for 2 years or more, whereas many retailers will include those stores that were opened between 1 and 2 years ago – increasing the numerator ahead of the denominator. Application of this conservative method shows that the posted growth was generated mostly by these stores:



Furthermore, many of our markets are in comparatively high-inflation environments. When decomposing the like-for-like sales of stores that have been trading for 2 years or more, changes in price need to be analysed to understand trends in underlying volume:



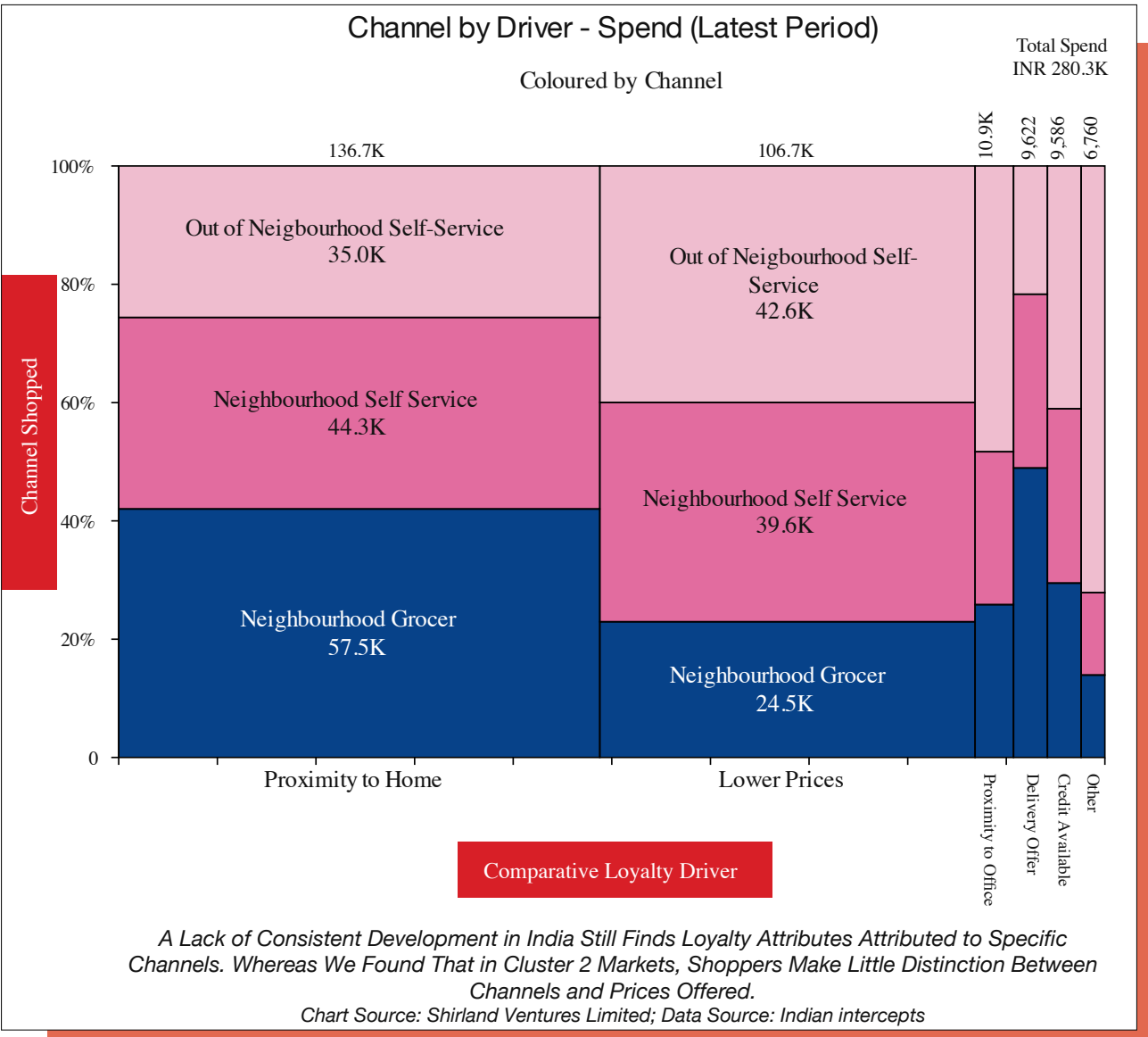
As a consequence, we will need to de-average overall channel performance down to the catchment level where each individual store competes for multiple shopping trips, in order to establish the underlying drivers for shopper loyalty.

Catchment shopper drivers determine performance delivery store by store, and are only loosely correlated to store format.

THE CHALLENGE: STATED VERSUS ACTUAL BEHAVIOUR

It is a well-published principle that the articulated responses given by shoppers can be at variance with their actual behaviour. This phenomenon is due to a combination of the reactions to scripted intercepts, post-rationalisation which can happen in focus groups and the subconscious behaviours that lead to a number of choices people make. Yet, it is mostly due to what is known in academia as “desirable responding”, which in fact is compounded by cultural differences. Given the cultural diversity across and within our region, we have sought to balance stated behaviour with actual behaviour where possible.

Below we find a summary of responses from our India intercepts inquiring as to the most important factors when choosing a grocery store. The basic results confirmed long understood research around the world in revealing that the main drivers of choice are location and price. There was no variation in responses when segmented by city or suburb, household income or sex. However, we did find some interesting variations when we segmented the responses by channel.

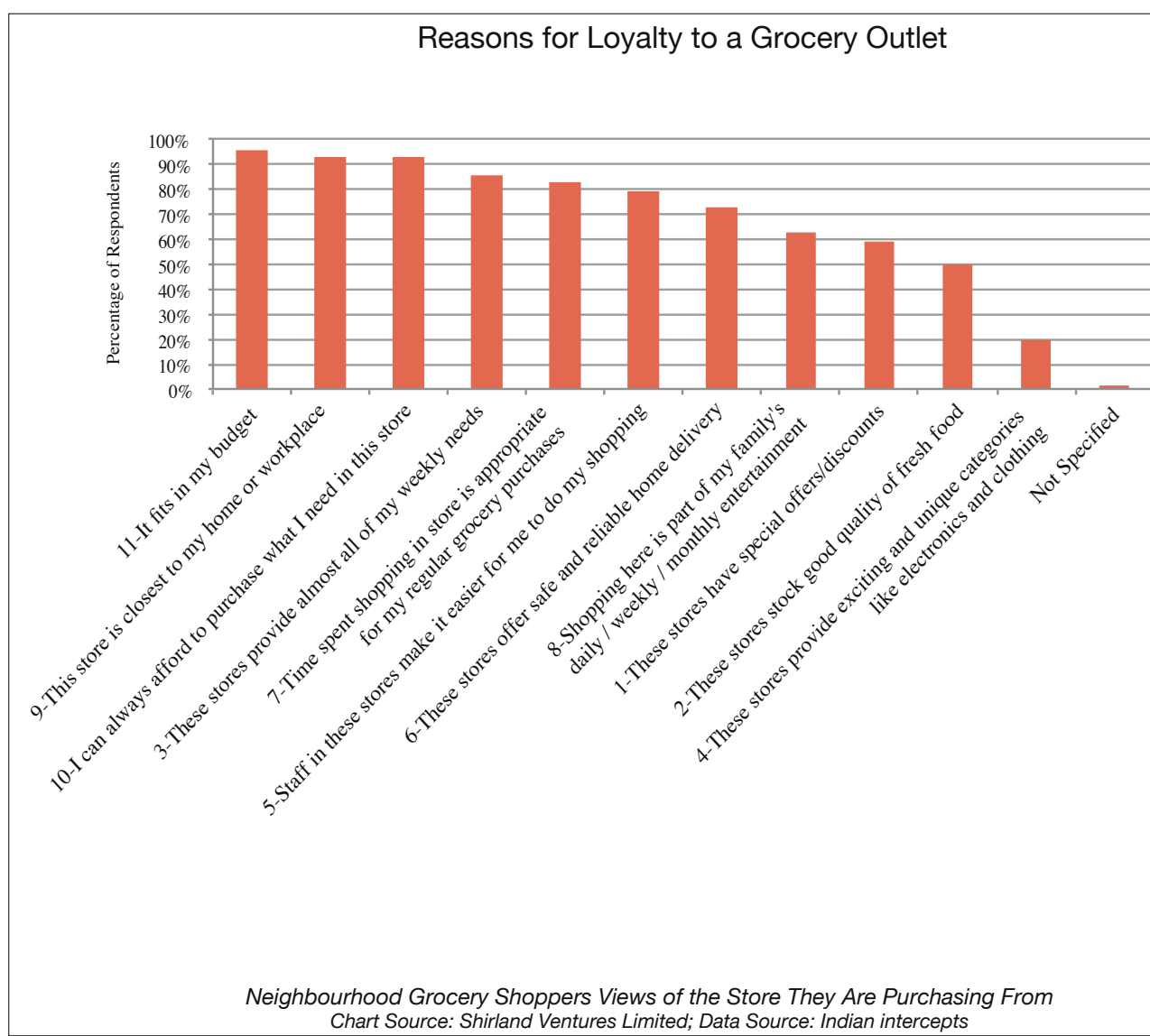


It is clear that in the case of India, and more likely across Cluster 1 markets in Eurasia and Africa, that shoppers selecting Neighbourhood Grocers as the primary grocery outlet have a stronger need for time savings than getting a lower price. There are a number of reasons for this phenomenon, documented throughout the report, but a large part of the underlying response relates to a lack of access to motorised transportation and/or a dearth of choice in a given neighbourhood. Therefore, we cannot necessarily say that the need for convenience we observe in Neighbourhood Grocers will remain an uninterrupted advantage as markets evolve.

These answers also substantiate the basic observation that in Cluster 1 Markets, lower prices are a critical component for enticing shoppers to leave their neighbourhoods – whereas we know that price and location are interrelated, we do not know to what extent, and particularly not which other drivers influence shopper loyalty.

CLEAR GAPS IN STATED LOYALTY DRIVERS

There are a number of questions which arise out of the general conclusions that we can draw from a classic loyalty analysis. Most importantly, there are unstated or misunderstood factors that are critical for loyalty. Ironically, the most important loyalty driver in most cases, assortment or the fulfilment of needs is not often articulated as the main reason to visit an outlet. This is partially a result of the assumptions made by the shopper as they respond to survey questions. It is also the result of an assumption by all parties that only store offering a comparable solution should be considered at that time. When generally asked about needs, shoppers responded that it was important, but not as critical as issues of price and proximity.



As a result, we have separated the fulfilment of specific needs from other factors in our analysis.

The clarity of prioritisation for shoppers at Neighbourhood Grocers, above, is less clear when we ask more detailed questions about the specific shop where they find themselves. Location and Price remain the dominant factors, but the subsets of these factors are intermingled in importance.

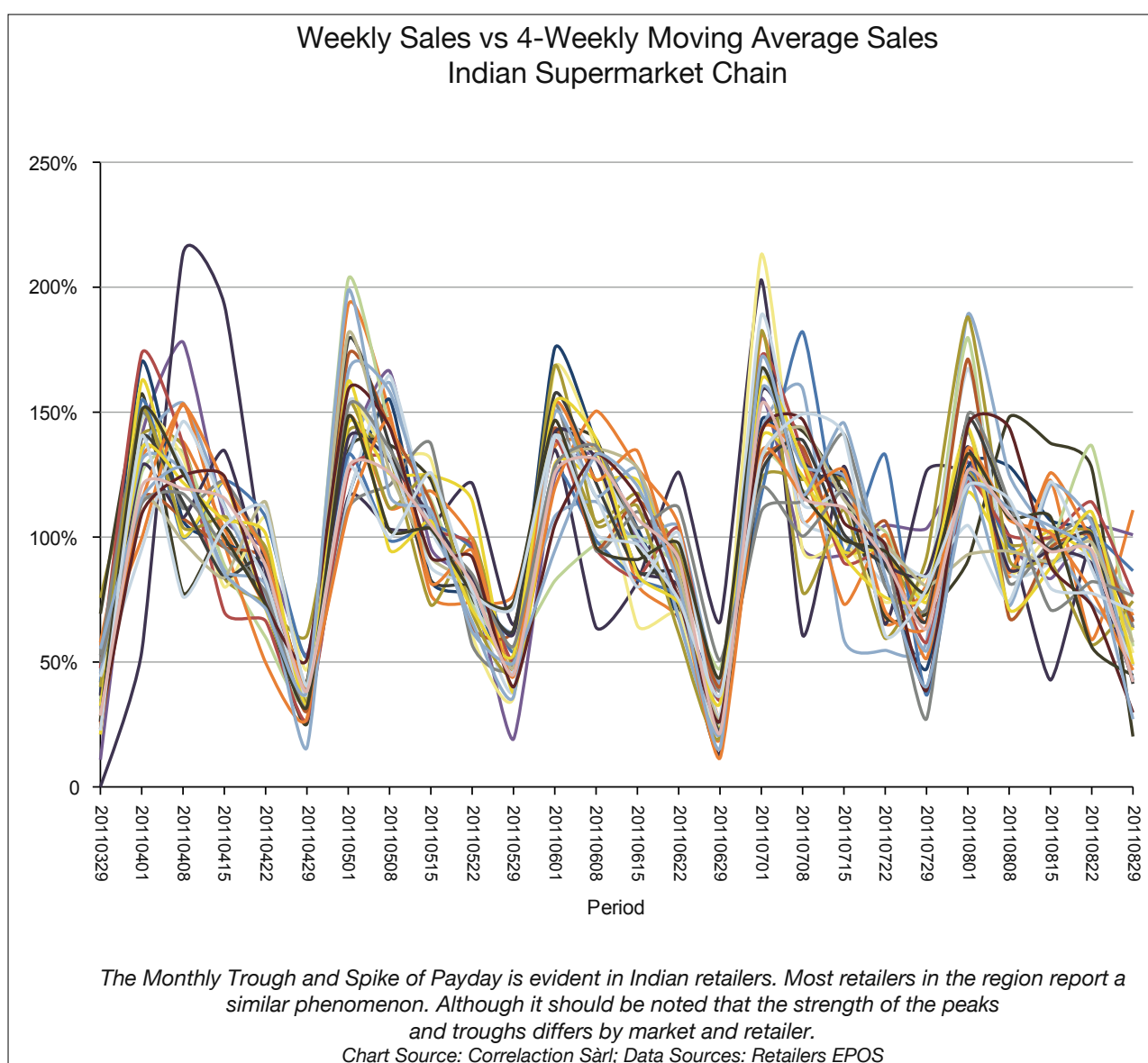
We believe that the actual hierarchy of loyalty drivers starts with needs which are continuously in flux over time. The changing nature of those needs, and their shifting importance relative to one another by trip, then results in a fluid comparison of proximity and pricing elements as the next most important factors with various nuances of these ideas appealing to different shoppers. Beyond these factors, it seems that other issues are of secondary importance at best.

DE-AVERAGING PAYDAY AND THE MONTHLY CYCLE

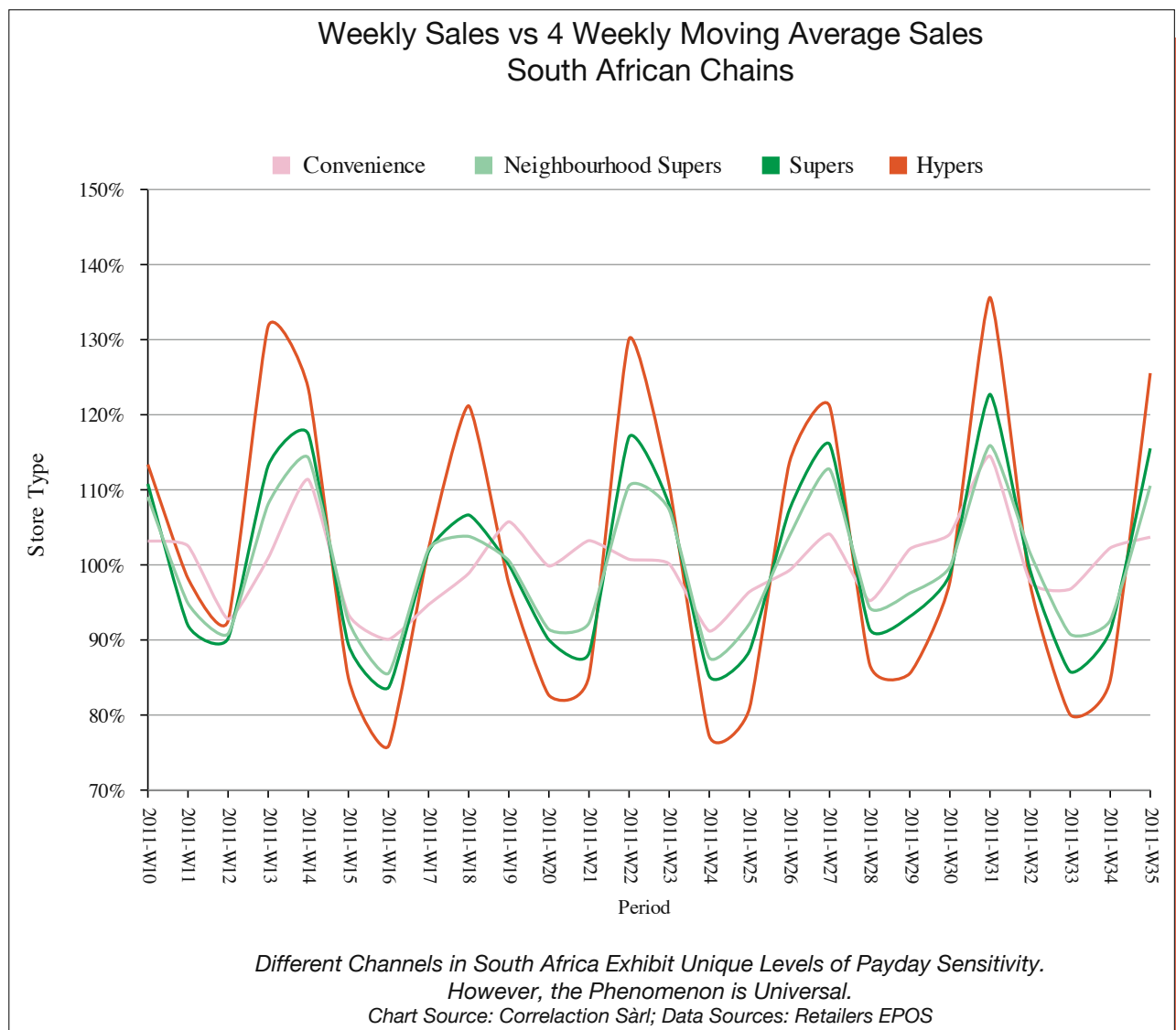
While wealth changes the supply of stores in a catchment area and ultimately the number of catchments that a shopper can visit, there are many factors which we can isolate that cause loyalty changes between channels in a given catchment area.

Our surveys indicate that 80% of Shoppers in South Africa are paid on a monthly basis and that almost 100% of self-service shoppers in India are on a monthly pay cycle. Payday in South Africa today is a combination of private and public sector employment and a growing suite of government benefits programmes for the retired and lower income households. Whilst the distribution of monthly pay cycles across the region is not consistently at South African levels, it does seem to be present in the majority or large minority in all of our countries of study. Our discussions with retailers across the region indicate that the majority of shoppers across Eurasia and Africa are on a monthly pay cycle.

Although as before, it is important to remember that these factors are in flux during the course of a month. The chart below is typical for most channels across Eurasia and Africa. We can see that store volumes peak once a month, around the Payday and then proceed to fall off during the following three weeks.



The sensitivity to the “Payday” spike is different by channel. We find that channels servicing out-of-neighbourhood trips (Hypermarkets and Large Supermarkets) and carrying a wider assortment of non-grocery items, particularly textiles, are more sensitive to the variation during the course of a month.



The exact causes of the Payday spikes are also slightly different by channel. In hypermarkets, the data we have analysed corroborates the focus group data to indicate that shoppers do indeed expand their baskets on payday. Part of this larger basket phenomenon comes from an increased instance of “family” shopping trips where multiple people from the household go to a store together.



Family Shoppers in an Indian Self-Service Store
Photo Source: Shirland Ventures Limited

During these family shopping occasions consumers in the region have indicated that they are more likely to take the decision to purchase semi-durable goods, treats and snacks. It should be noted that across the region, family shopping trips are not exclusively confined to the weekends. In Saudi Arabia in particular, we see families shopping consistently during the evenings with a very high concentration around payday weekends.

Average Spend by Day and Store Location - Bubble Size: Number of Trips

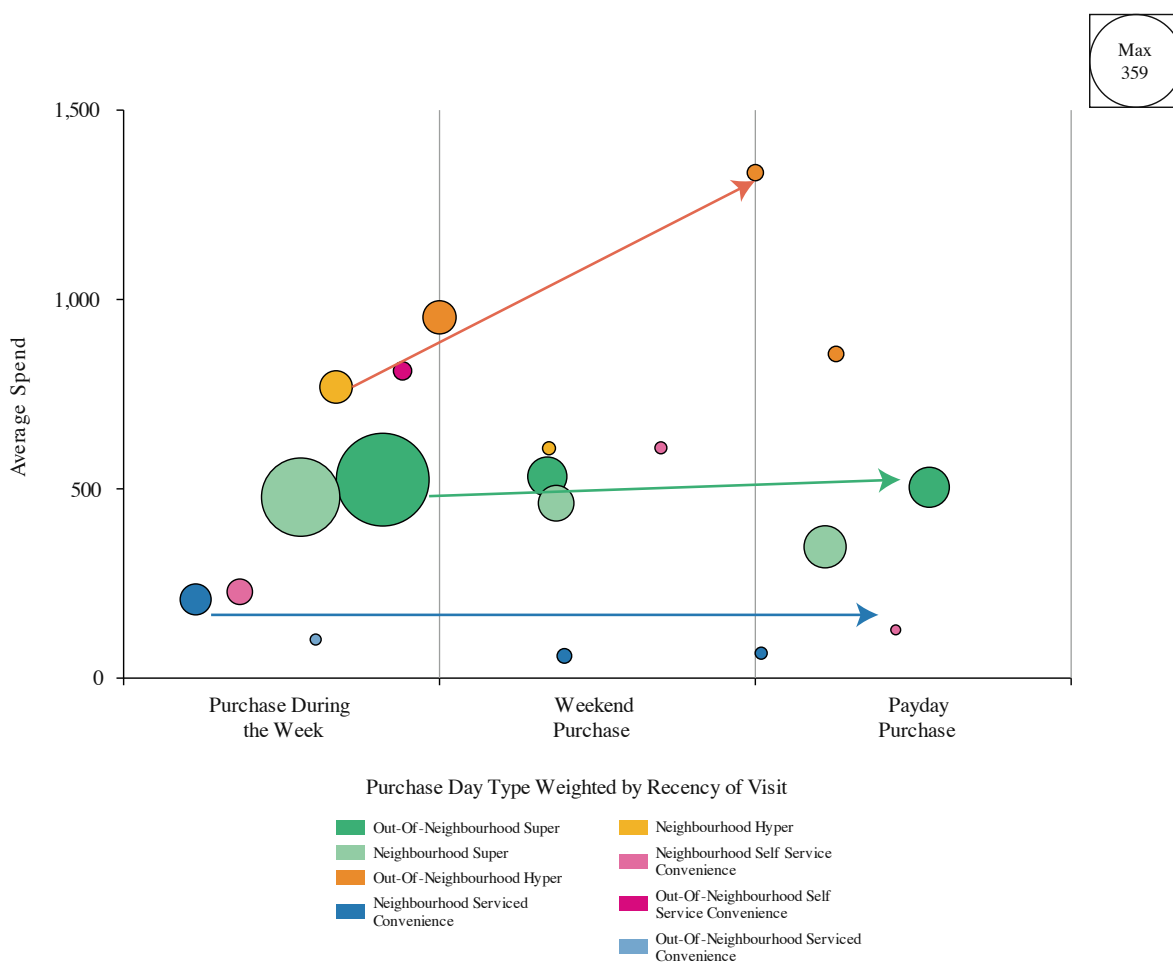


Chart Source: Correlation Sàrl; Data Sources: South African intercepts, Retailers EPOS

At the same time, it seems that in all other channels, the spike in Payday sales is due more to greater numbers of shoppers than a specific decision to purchase large baskets, although during a Payday weekend some extra items may find their way into a shopper's basket. This desire to shop and yet trend to hold basket values stable is something we see certain retailers using across the region. Big Bazaar's famous monthly promotion is one of the most successful uses of this Payday phenomenon in the region.

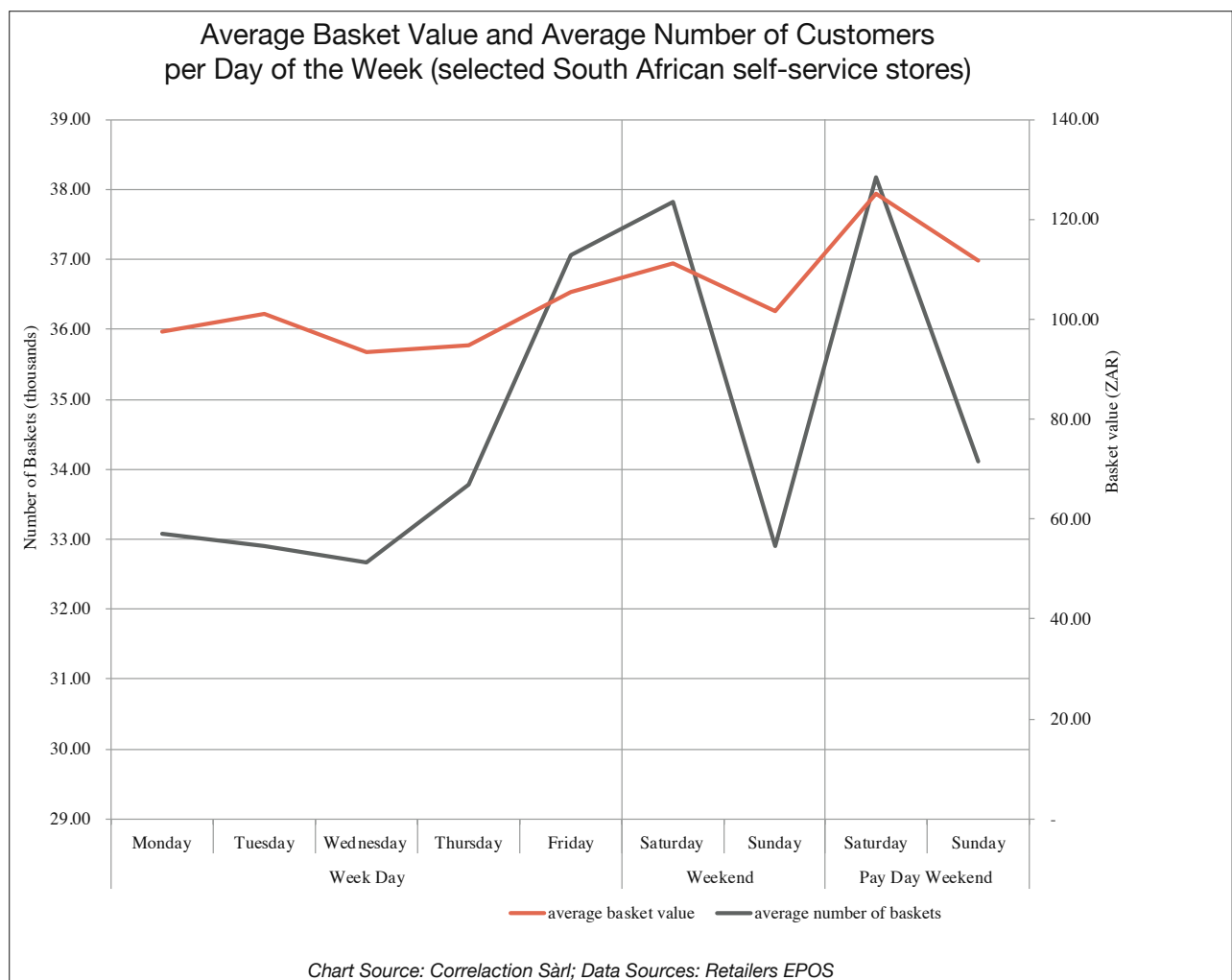


An advertisement for Big Bazaar's Monthly Payday promotion
Photo Source: Shirland Ventures Limited

"Payday is my time to shine."

Shopper, Johannesburg, SOUTH AFRICA

Within the Supermarket format, the average basket value remains quite stable – yet the number of shoppers purchasing in these stores vary significantly over the course of a week, as shown in this example from South Africa:



In summary, the loyalty to a channel within a catchment area is first determined by the time of the month. For the majority of shoppers in Eurasia and Africa, payment for work is given on a monthly basis. Throughout the course of that month, shoppers have a different priority of needs and desires.

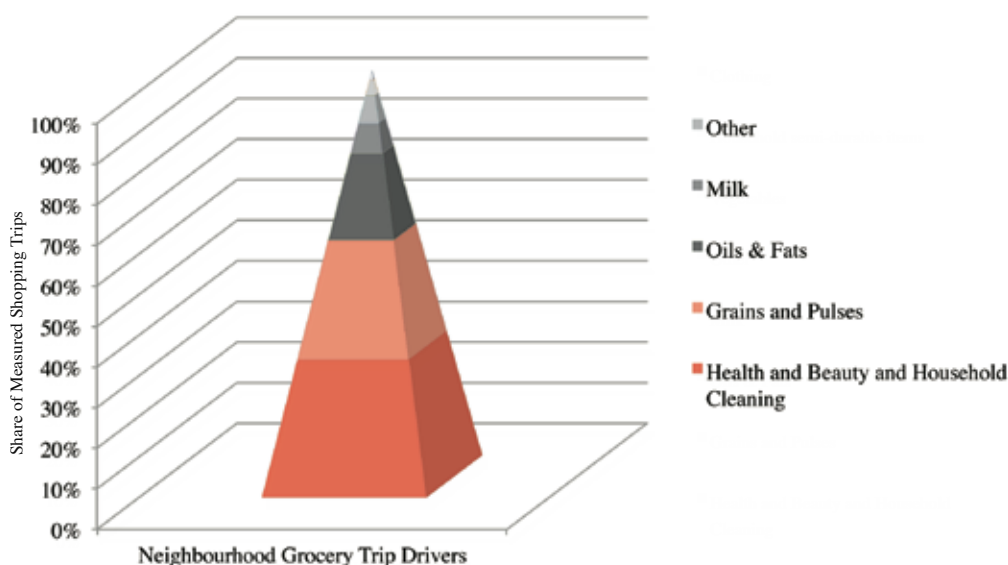
Where retailers compete for a shopper's basket, it is critical to differentiate between items that determine which store a shopper visits, and items picked up "along the way" – as they are different by trip type.

ITEMS DRIVING LOYALTY

Just as we understand that needs change over the course of a month, we understand that needs are the foundation of a shopping trip and ultimately the loyalty of shoppers. Whilst shopper loyalty is often measured by market share or share of total expenditure, we have tried to separate the basket further into those items which create loyalty to the store and those that are purchased once in the store. We have grouped the basket into three types of categories:

1. **"Trip Drivers"** – This is a common term. But in this analysis we mean specific items or SKUs that cause the shopper to make a trip to a particular store or channel on that day. These items vary by trip type, and are critical for the store as they drive a whole basket. We know from our intercepts and focus groups that experience can also be a trip driver. But, we are unable to detect experiences in the EPOS data.
2. **"In-Store Drivers"** – This is our term for items or SKU's that help drive the trip to a particular store, on a particular day of the month, without a specific item or SKU being on the shopper's mental list. For example, a shopper may know that their neighbourhood serviced convenience outlet sells confectionery products. However, they will wait until visiting the store to choose the exact item or SKU. In these categories, the awareness of the broader offer is critically important to drive loyalty.
3. **"Basket-Fill"** – This is our term for staple and impulse items that are purchased as well, as the shopper is in the store anyway. These include a wide range of items that are not on the shopping list triggering the trip to the outlet.

An analysis of "Trip Drivers" for Neighbourhood Grocers in India reveals that the majority of items, more than 80%, which trigger a shopping trip are from non-perishable categories. From the focus groups and discussions with Neighbourhood Grocers it is clear that the perception of quality and the cost of maintaining an attractive perishable assortment are the major reasons for these results.



Ambient Grocery Categories Dominate the Business of Neighbourhood Grocers. Despite Being Generalists, Supply Chain Limitations Tend to Force These Retailers to Exclude Vital Loyalty Driving Areas of Perishable Food Categories.

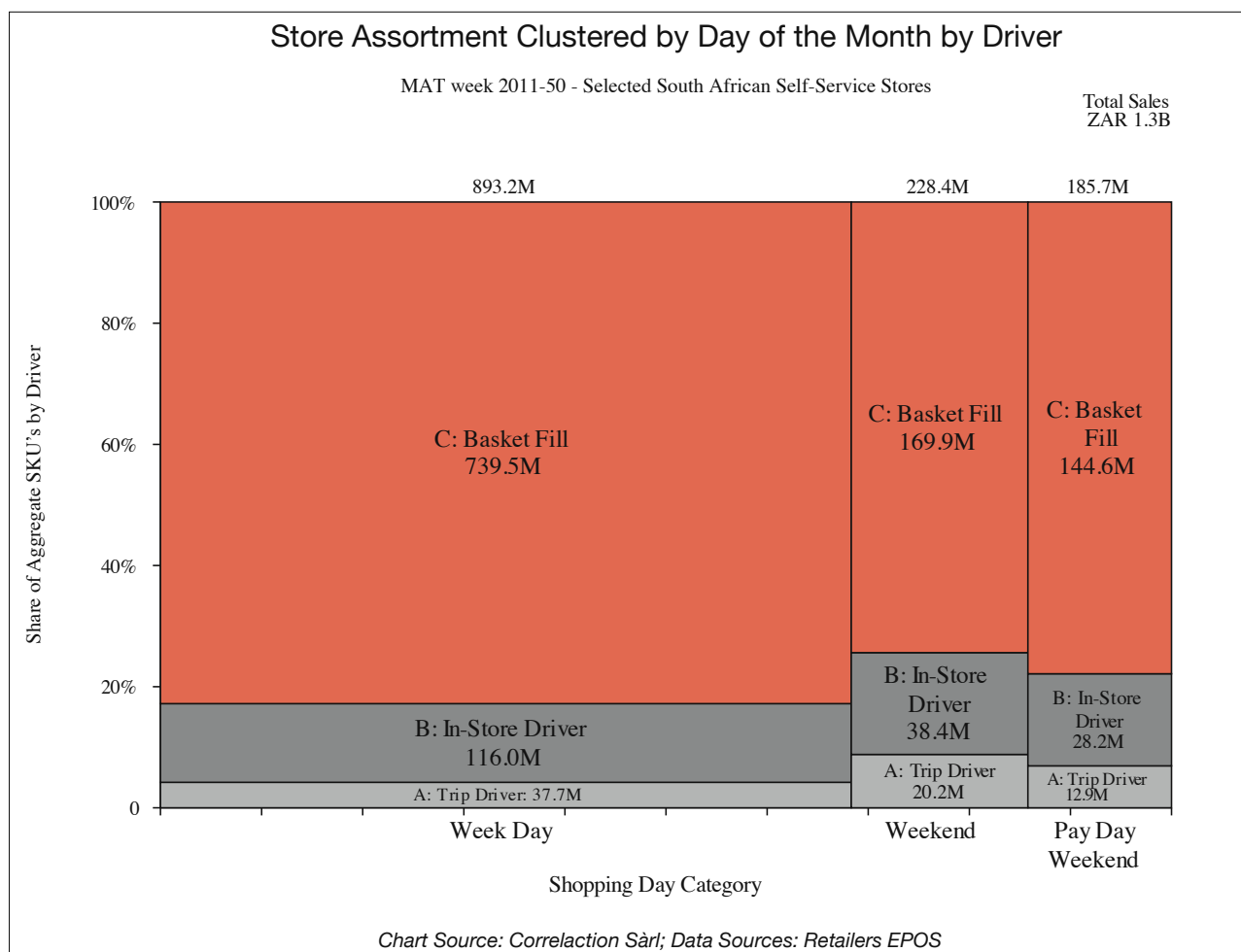
Chart Source: Shirland Ventures Limited; Data Source: Indian intercepts

Perishable products purchased in a serviced retailing environment in India are almost always procured from fruit and vegetable stands located in close proximity to neighbourhood grocers. Milk is generally procured from a deliveryman if it is not purchased from specialist outlets or self-service stores. Whilst the exact nature of non-self-service perishable product retailing differs across Cluster 1 markets, the key finding is that the trips to neighbourhood grocers are based almost exclusively on shelf-stable products.



A Neighbourhood Grocer's non-perishable grocery offer in Burkina Faso.
Photo Source: Shirland Ventures Limited

We see a dramatic change in “Trip Drivers” when we look into self-service stores. In this environment, retailers have absorbed occasionally loss-making categories in order to offer high frequency perishable categories.



Our analysis indicates that the ratio of these items, noted above by their categories, changes during the course of a month. During the week, “Trip Drivers” make up a relatively smaller part of the trip, whilst on weekends shoppers tend to shop more based on a shopping list. Also, in weekends shoppers tend to shop in groups, take more time in the outlet and have more time to consider what is purchased. It is during this weekend trip that shoppers speak of adding a couple of televised promotions to the shopping list.



*TV Promotions are particularly effective loyalty tools for channels in the EAG which offer more for the weekend shopping trip
Source: Spar South Africa 2011*

Although, it would be naïve to think that the shopper's delight in promotions is confined to the weekend. The behaviour we observe is clearly a combination of demand and supply.

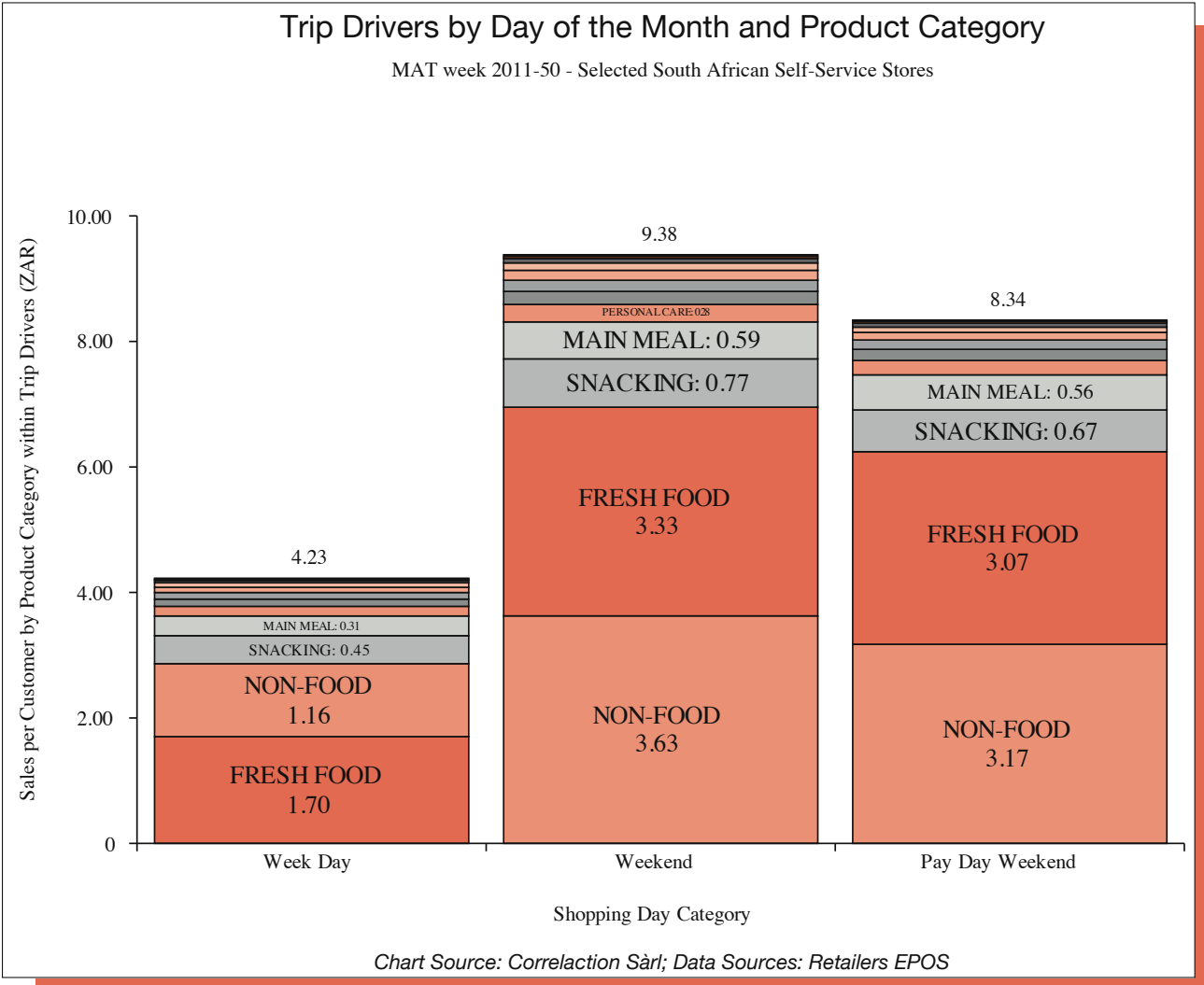


*A Shopper Reviewing Bundle Promotions in a Neighbourhood Self-Service Outlet (supermarket)
Photo Source: Shirland Ventures Limited*

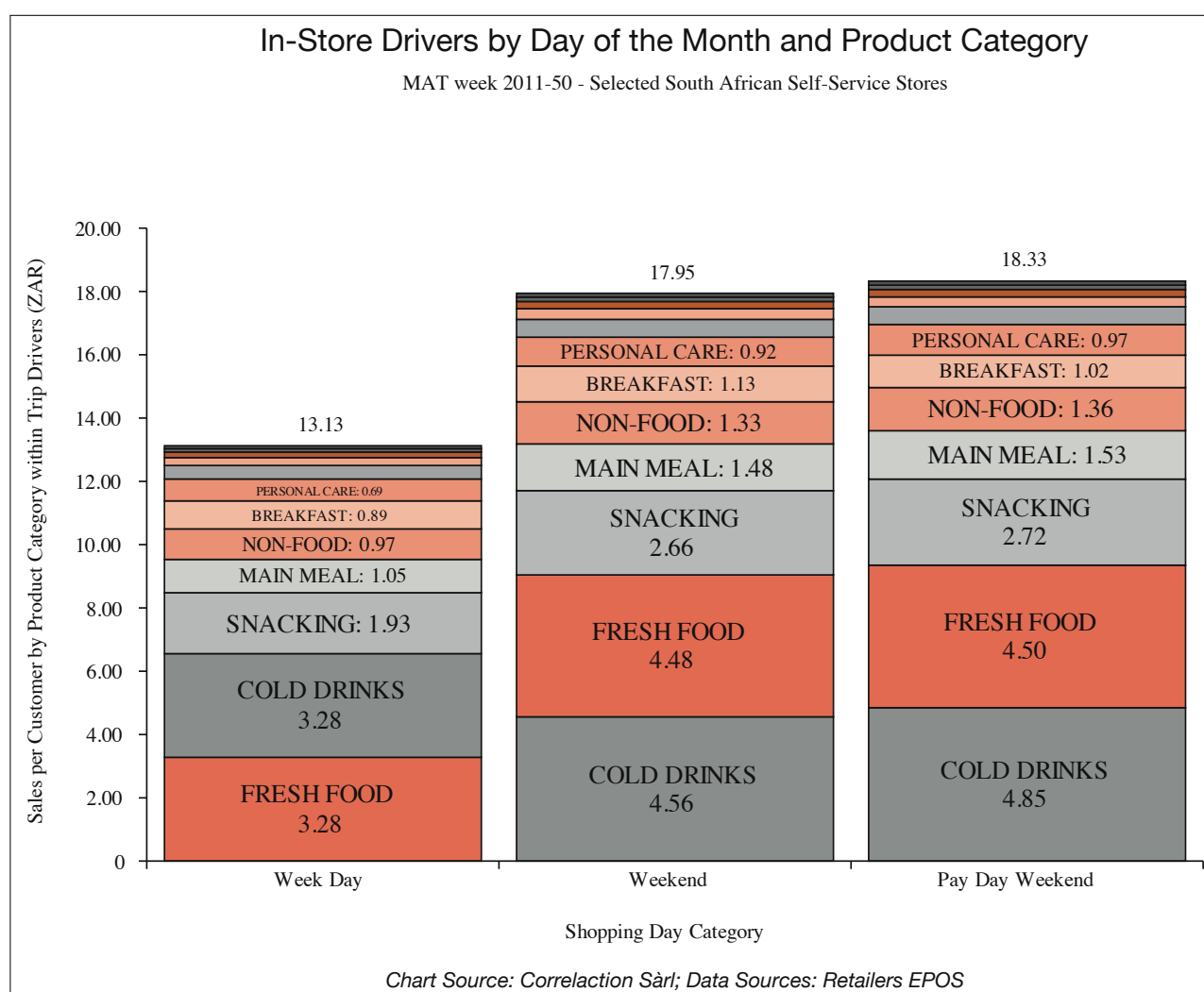
Looking at the discounter channel in Turkey we see a rare example in the region of a neighbourhood channel which entices shoppers for promotions alone on certain trips. One of our shoppers said the following:

“BIM posts the flyer on the window. Say, they sell L’Oreal cream. I go in to check those out even if I don’t have anything that need to buy. I go in to see what’s left on the shelves.”

We see that the composition of the “Trip Drivers” fluctuates during the week. Specific Fresh Foods items have the strongest pull during the week, whilst items in the Non-Food category are the primary “Trip Drivers” during weekends, as is shown in the cash contribution of Trip Drivers by ticket type below:



The “In-store Drivers” have a different profile to the “Trip Drivers”, yet still fresh food is the second category within these, strengthening the case for a focus on fresh, if a channel wants to increase its daily shopper loyalty:

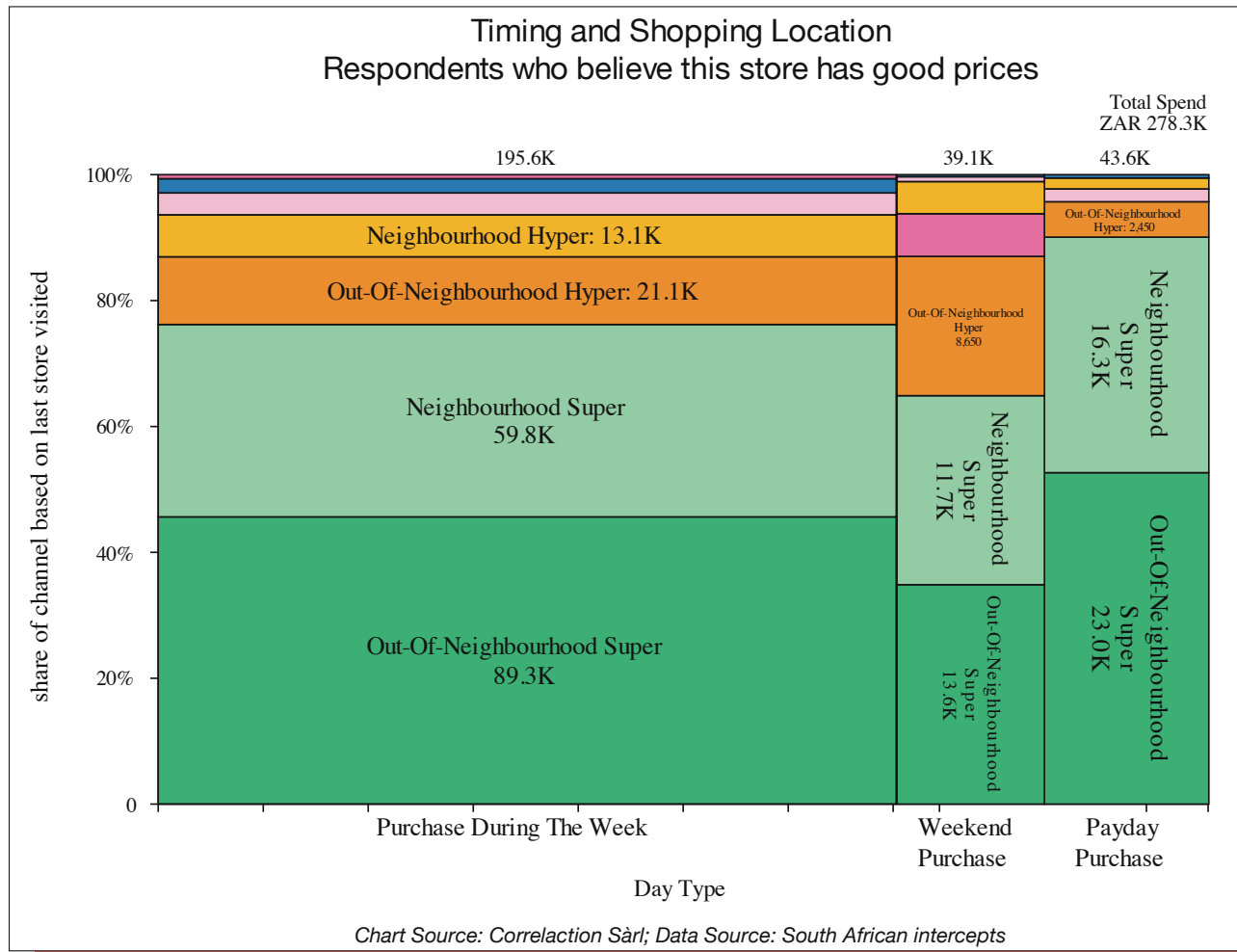


Much of this trend can be explained by the earlier references to family shopping. But, more importantly, this data confirms the importance of flexibility for channel models. Irrespective of channel, shoppers will be more attracted by a fresh food offer for time-pressured trips during the week. Whilst this trend is well recognised by supermarkets, we see opportunities for other channels in the region to increase their focus in this area to capture more mid-week trips. Sometimes the ability to take action in this area is beyond the capability of the individual storeowner. Our interviews with storeowners in South Africa indicated that the weakness of Serviced Convenience channels is partially due to an inability to effectively service the weekly need for perishables. This is something a number of storeowners knew and understood. Yet, it was down to the decisions of their wholesalers as to whether or not this gap could be closed.

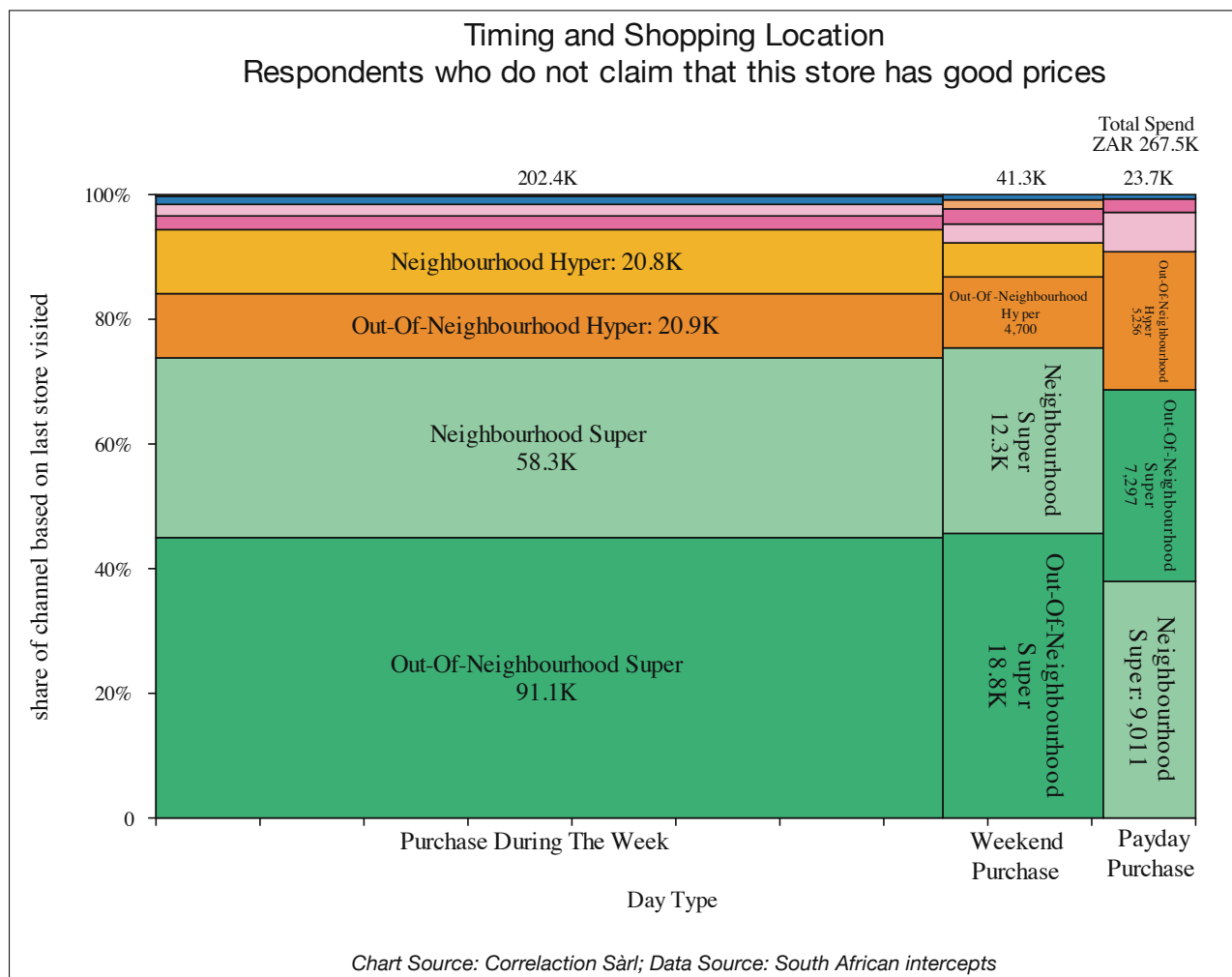
Another aspect of this dynamic is the change by income group. Whereas by definition vast swathes of the mass market have similar demands, we did observe differences at the extremes which have implications for loyalty. In South Africa for example, the wealthiest households consistently purchased baskets that include Health and Beauty products and alcohol on the weekends. By contrast, we saw far less consistency in these items being purchased amongst lower income groups. Across the Eurasia and Africa region we observed increasing interest in a wider assortment of goods, particularly in health and beauty as incomes rose. The availability of this category in each channel had a distinct loyalty effect for the wealthiest consumers.

THE ROLE OF PRICE AND ITS VARIOUS ELEMENTS IS RELATIVE

Price sensitivity is always a central part of loyalty work, no matter the region. In our surveys, 75% of shoppers across SECs in India indicated that price was important in their selection of their particular outlet. Amazingly, there was no difference by outlet as all shoppers claimed that their selected outlet fit their pricing needs. In South Africa, 50% of the shoppers we surveyed across locations and income groups indicated that price was the most important reason why they had selected the grocery outlets where they had just made a purchase.



However, the other 50% showed a remarkably similar choice of channels, with the main difference being those who value prices willing to drive longer distances to an out-of-neighbourhood super during a payday weekend:



As with India, there was very little variation in response across income groups and store types. Given that there is almost no variation across store types and shopper types, we can assume that the concept of the “best price” is one which shoppers use to rationalise their choice of outlet. However, as all shoppers across outlets seem to indicate that their choice represents the “best price” we can also assume that there are huge inconsistencies in the rigour which shoppers apply to this concept. This paradox of price importance and large variations in what makes channel acceptable reveals that price is a complex issue with a number of meanings. Simply understanding that price is important is not enough to guide our loyalty efforts.

At its most basic, pricing is about **affordability**. The main attraction of neighbourhood grocers in India and much of the same channel across the region is that the pack sizes carried within the stores are small and tailored to the purchasing power of the poorest consumers. 66% of shoppers surveyed in India indicated that they could always afford to purchase what they needed in these outlets.

MAIN QUESTIONNAIRE	Total				
Q10_1:-Association Statements	Hypermarkets	Shopping Malls/ Supermarket	Neighbourhood Self-Service	Kirana Store	E-Commerce/ Online Grocery Store
Total	1,767	1,767	1,767	1,767	1,767
1-These stores have special offers & discounts	47%	50%	30%	40%	1%
10-I can always afford to purchase what I need in this store	27%	29%	33%	66%	1%

Source: Shirland Ventures Limited

No other channel scored at more than half of this level. We have similar support from our work in South Africa and the rest of the region. Although, shoppers in South Africa and other Cluster 2 markets often claim to be aware of the premium that they pay per unit for the affordable pack sizes.

Clearly the other aspect of affordability in India and many of the other Eurasia and Africa markets is the **availability of credit**. Whilst credit is not offered in all Neighbourhood Grocers and Serviced convenience outlets in the region, notably absent in Russia, it is a critical loyalty driver when available. Part of this relates to the early discussion of monthly pay cycles. In India, South Africa, Saudi Arabia and other countries of study the neighbourhood grocer or serviced convenience owner ensures that the shopper can always purchase if they settle their bills at month's end. This is a service provided without interest. This service is critical for the main shopper who has the safety and comfort of not always having to transact at the point of sale. It also creates a comfort that allows husbands, children and houseworkers to shop on behalf of the household without having to carry cash. Our survey in India indicated that 50% of shoppers to these stores were not the primary household shopper.

The strength of credit as a loyalty driver is changing in Eurasia and Africa. Whereas much of this system is still down to the written book as pictured earlier, **electronic payment systems** are being developed which make it easier to offer this service. The MPesa system is one of a couple standards making their way across Africa where it allows individuals to wire money to each other via mobile phones. Merchants who sign up to the MPesa system act as neighbourhood cash machines where there is often none present. Whilst not exactly credit, this cash management system helps these stores to capture additional loyalty providing that they can bear the cost and risk of acting as a bank.



Retailers Across Kenya Advertise the Acceptance of MPESA to Entice Shoppers Who Might Not Otherwise Have Access to a Cash Point
Image Source: Nakumatt website

Similarly, as governments across Eurasia and Africa move to electronic benefit payment systems, some retailers are acting as payment points with extremely successful results—particularly in rural areas.

As household wealth increases in Eurasia and Africa, the concern about affordability is replaced by the desire for a **good deal**. The small pack sizes central to the bazaars, maandis and open markets across large parts of Eurasia and Africa are complemented by promotions and offers on larger SKUs.



The Hustle and Bustle of an Open Market in West Africa Where Small Pack Sizes for Groceries Are Commonplace
Photo Source: Shirland Ventures

Bargaining in the open market and bazaar simply becomes structured in self-service environments. Shoppers speak of the same satisfaction. It is a mistake to say that the self-service environment removes the thrill of bargaining in the region.



Promotion in a Neighbourhood Self-Service Store
Photo Source: Shirland Ventures Limited

We have already spoken about the importance of **promotions** varying by time of the month. There is universally a strong desire for promotions in self-service stores across the markets. They are effective loyalty tools with obvious risks if poorly managed.

Everyday price comparisons by shoppers become more important as catchment areas develop. Price comparison concerns emerge when there are different channels in the shopper's possible repertoire. We see a particular intensive focus on the comparison of everyday prices in shoppers who have time to do the work to compare. Therefore, channels that disproportionately service, because of location or offer, family shoppers, family shopping occasions and or shoppers who receive some kind of assistance will have to be more sensitive to everyday pricing.

"Shopping for me is both happiness and attention because you need to check the prices. In the past, I just used to get what I needed. I understand it now that I am at home. I think shopping requires a lot of care and attention. I mean comparing prices. The same product sells for different prices at different places."

Turkish Shopper

"I started following prices after I left work because I had less money."

Turkish Shopper

SELF-SERVICE VERSUS PERSONAL ATTENTION AND DELIVERY

Perhaps one of the greatest loyalty paradoxes in Eurasia and Africa is the battle between the serviced grocery channels and the self-service models. In whichever market we study, the majority of shoppers uniformly appreciate the service provided by their local neighbourhood grocer or serviced convenience outlet. Moreover a majority of shoppers in markets like India or Egypt or a large minority of shoppers in markets like Turkey say that they also value the delivery services offered by these formats. Yet at the same time, we see consistently across the region that as people become wealthier, the desire for self-service shopping grows. We see in our research that self-service is connected to perceptions of freedom to spend and discover which are values that become increasingly important with economic mobility. The research from Egypt suggests that delivery is more prevalent among women who are married with children and choose to stay at home. The irony is that as women in Egypt enter the workforce and see a rise in disposable income with less time available in theory for shopping, they actually have a lower preference for delivery. At the same time, at the extreme end of the income spectrum, in markets like Turkey and the UAE, we see the rise of e-commerce where people desire delivery after self-service has become ubiquitous.

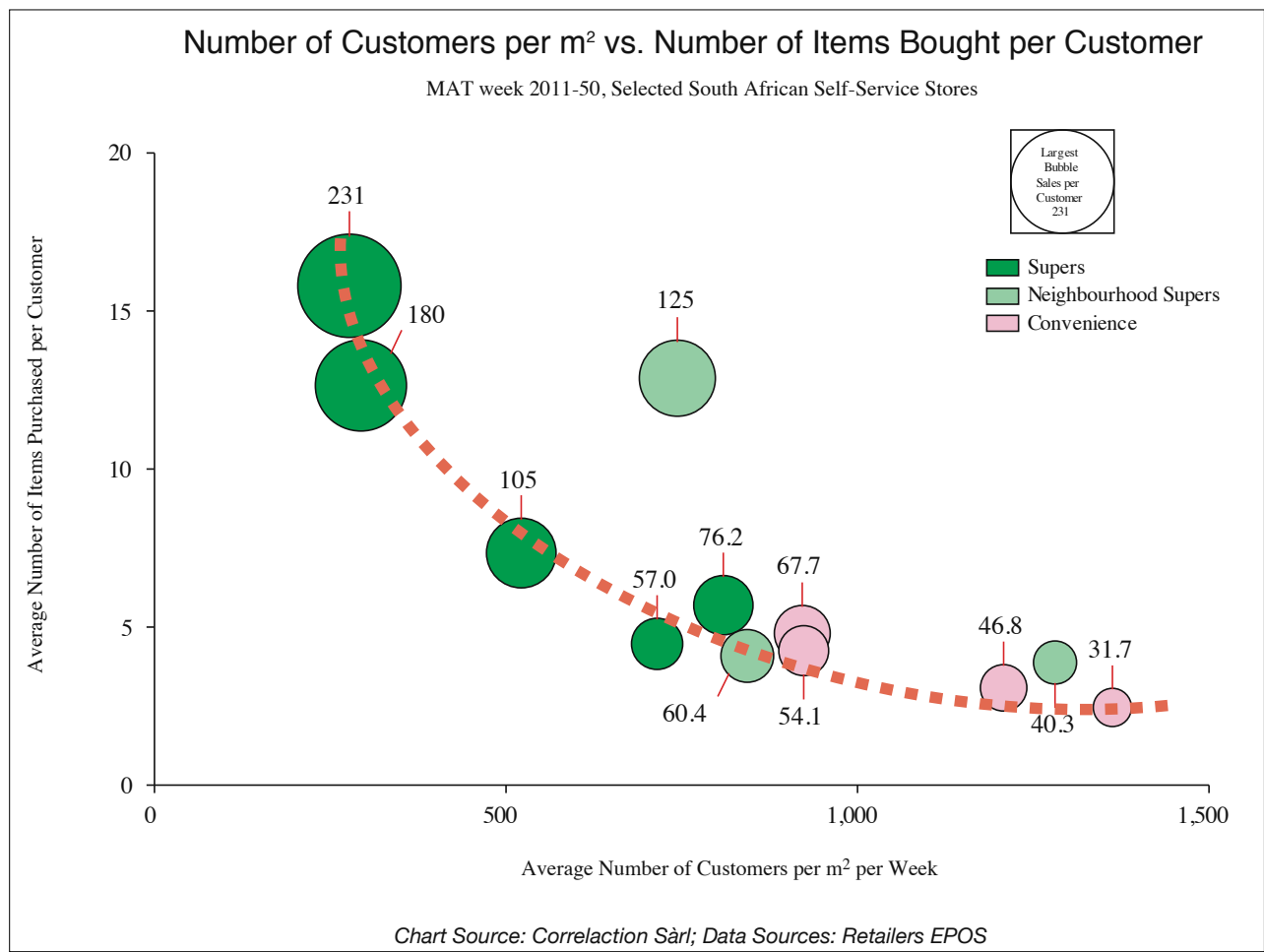
The only way to reconcile these contrasts is to isolate issues that seem to accompany the traits shoppers seem to never want to abandon. In markets like India, Turkey and South Africa we see that the practice of someone servicing you in a store, whilst often appreciated, is also accompanied by a strong feeling of distrust. There is a feeling amongst many shoppers that because they did not choose the item, there is possibly an issue with the quality or the price. Furthermore, the offer of delivery, that is very strong in the serviced channels in the region, is usually accompanied by a feeling that these stores lack choice, consistent stock, consistent quality and an ample assortment of the latest goods—particularly in fresh foods. As self-service stores increase their market share of Fresh Food purchases, the desire to select these items in-store seems to drive the incremental purchase of items which would have previously been delivered.

In India, we found shoppers speaking fondly of a new generation of serviced grocers they called Sundar Kiranas (fine neighbourhood grocery outlets). These stores were modernised outlets that attempted to combine service with freedom of choice, consistent stock, consistent quality and innovation. We see the same trend amongst hundreds of large Dukas in Kenya and hundreds of Spazas in South Africa.

It seems that the loyalty created by service and delivery is important, but only if it is accompanied by a feeling that the store offers consistent stock, quality, innovation and the freedom to choose. Otherwise, over time, the services of delivery and service become fond memories but no longer a driver of loyalty.

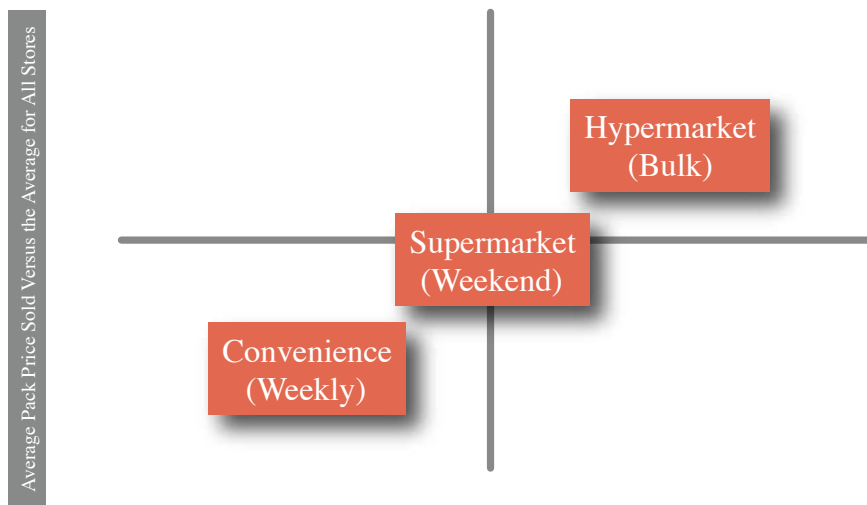
IT IS NOT WHAT THE STORE IS, IT IS WHERE THE STORE IS

A store's size and location are correlated to footfall per m² and number of items in the basket, as can be seen from this South African example:



We can see that loyalty varies by location and time along with some specific variables related to income and lifestyle. It becomes clear that for chains of retail outlets, it is very difficult to settle on a singular response, even for a channel that is in multiple locations. At a minimum, that response will have to vary by time of the month. At a maximum, that response will have to take into account the notion that each and every store is its own unique combination of loyalty which is driven more by the location than the channel model itself.

Expected Channel Split of Purchases Related to Shopping Trip Types

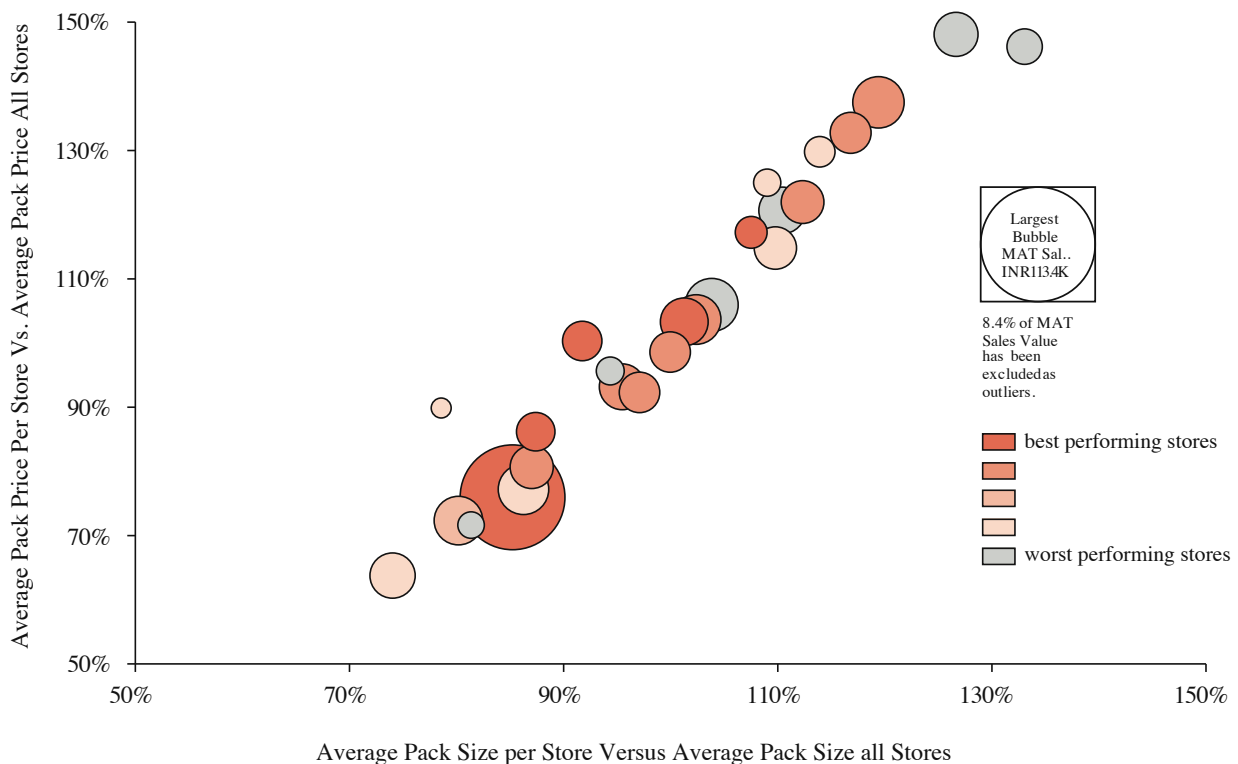


Average Pack Size Sold by Weight Versus the Average for All Stores

Note: the Y-axis reflects the average price per SKU, not per unit of measure (ml, kg)

We understand that from EPOS analysis, channels that choose to offer shoppers the choice of different pack sizes and price points will end up with a wide variation of results in a single market. Here is a snapshot of supermarkets in one city in India with widely differing levels of performance.

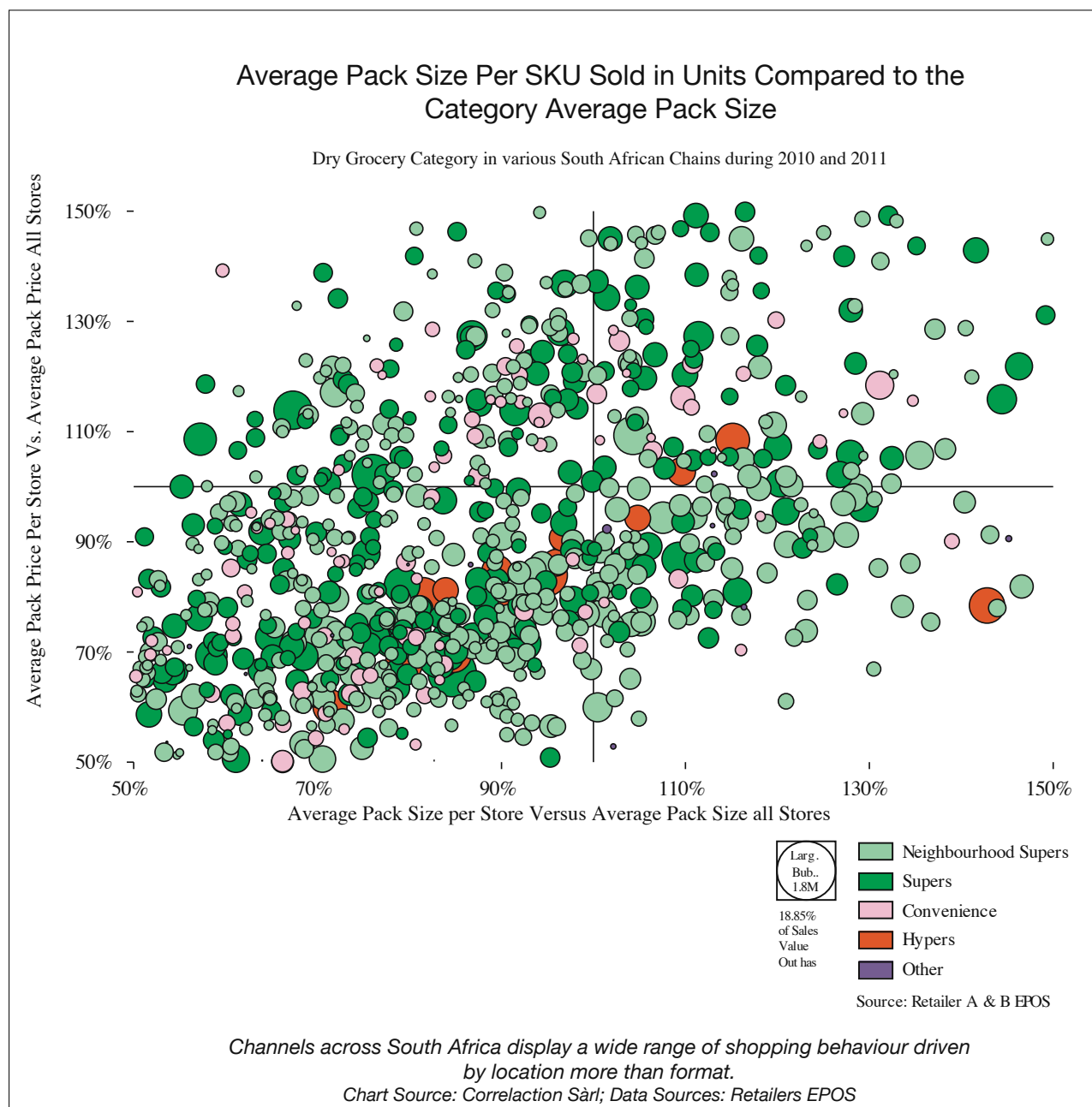
Average Pack Size and Price - Category A Coloured by Store Performance



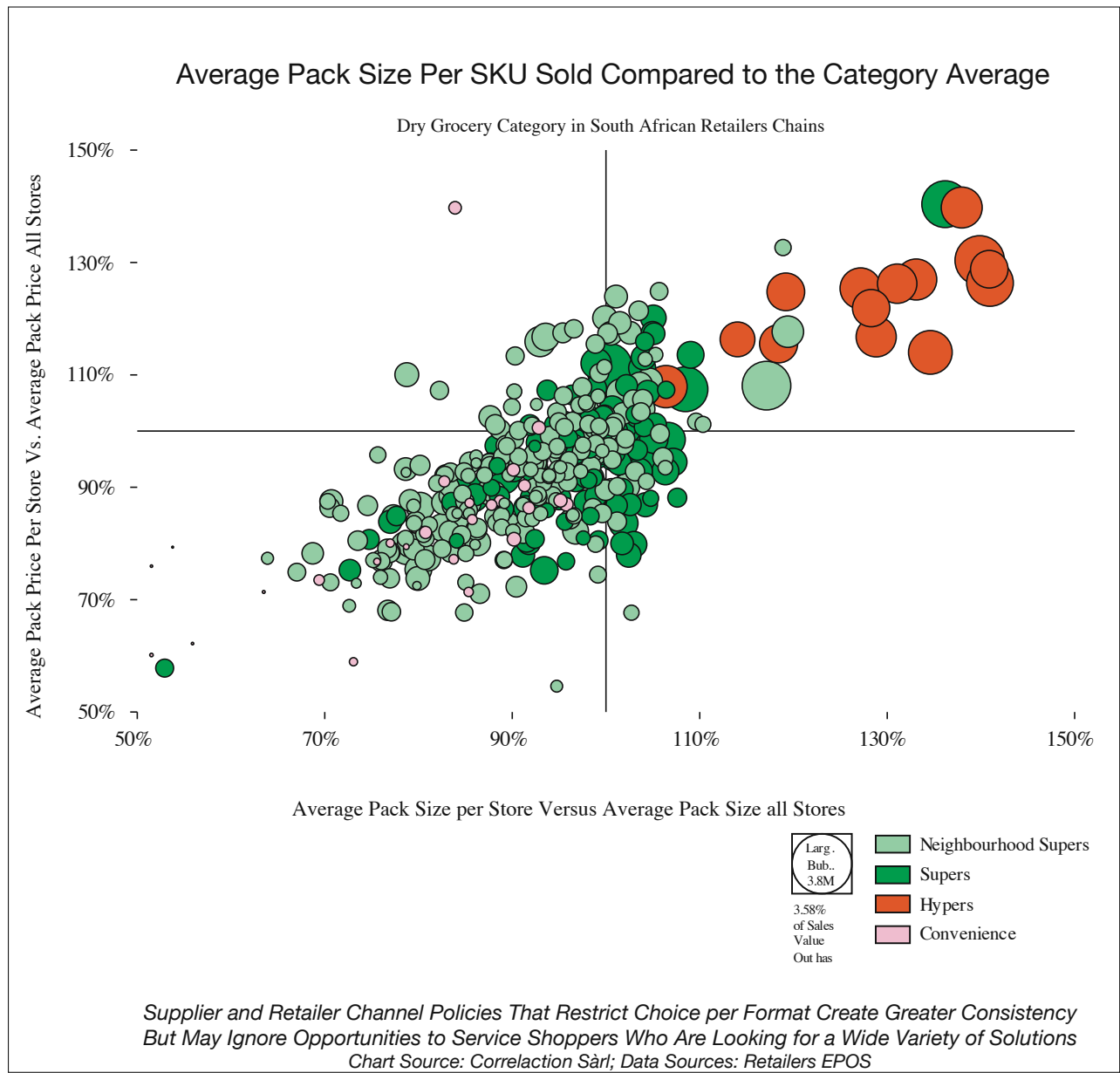
A single channel of stores, neighbourhood self-service, exhibiting a wide variation in average pack size and price point purchase within a single urban area of India.

Chart Source: Correlation Sàrl; Data Sources: Retailers EPOS

The picture becomes even more varied when we look at multiple channels across the South African market. Here we can see that channels of different store sizes and locations actually play a similar role for shoppers. There are neighbourhood self-service stores (smaller supermarkets) selling the same mix of packs and prices as large out of neighbourhood hypermarkets.



As with many aspects of loyalty, the cause of local variation is not solely due to the unique mix of demand factors in a given catchment area. The other vital ingredient is the decision by the retail and the supplier to offer a choice of solutions in a category for their shopping needs. In the case of a supplier only offering a restricted assortment in a channel or a retailer choosing to carry a limited range of products we do not see such variation.

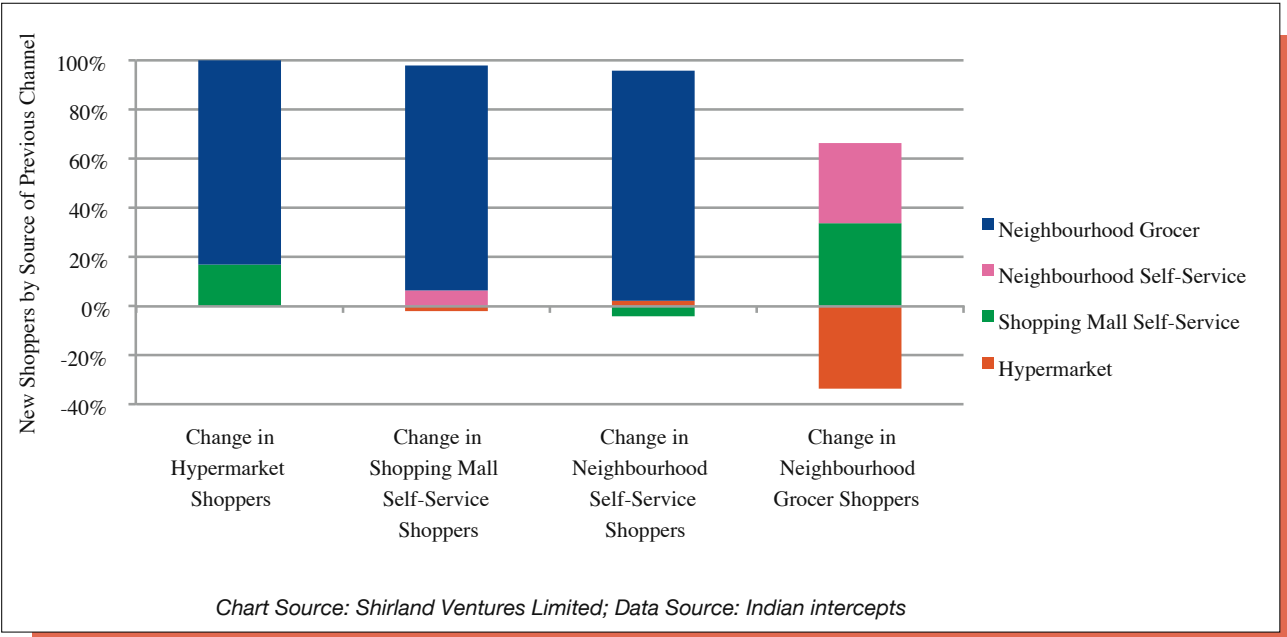


In this case it is not that shoppers suddenly reduce the number of trip types or missions to a specific outlet. Rather it is a combination of some loss of specific shopping trip types and an adaptation of the shopper to purchase the same item for multiple purposes. The benefit of such a strategy for the retailer is clearly the chance for a streamlined supply chain. The competitive risk for a retailer is that shoppers may choose to satisfy certain trips elsewhere in the catchment area if the culling is too severe.

LOYALTY CONCLUSIONS FOR KEY SHOPPER CHANNELS

The constantly changing needs of shoppers and the various ways in which critical issues like needs and price can be managed supports the ultimate channel switching conclusions we drew from the data in India and South Africa.

The simple and widely accepted assertion that there is an “inevitable” movement away from Neighbourhood Grocers to other channels in India is something we cannot refute in the aggregate. The sheer dominance of Neighbourhood Grocers in the present market means that any increase in the supply of new self-service channels will lead to an average decline in loyalty for these stores. However, when looking at specific outlets, we did find instances of shoppers switching back into Neighbourhood Grocers from self-service channels like Hypermarkets. In almost no case did we find a shopper who had entirely abandoned the Neighbourhood Grocery channel. Rather, we found that for a minority of shoppers it had become a part of the monthly repertoire rather than the place for the majority of their trips and purchasing.



In our Cluster 2 focus market, South Africa, we found a modified version of this behaviour which seems to hold true for other markets where choice is more developed. Consistently with Cluster 1 we found shoppers switching between all forms of channels freely for a wide variety of reasons. Some shoppers perceived advantages in price and promotion in supermarkets while a virtually equal number did not. In the same channel, we saw shoppers make decisions based on opposing views of proximity. The main difference is that the choice of stores in each channel meant that there was roughly an equal gain and loss for each reason mentioned.



Neighbourhood Grocers/Service Convenience

■ Basic success factors: 1) Within a 5 minute walk of your core shopper base 2) In Cluster 1 markets prioritise dry groceries with particular attention to health and beauty, household cleaners, staple grains and pulses and fats. As catchment areas become more competitive invest in refrigeration and relationships with new suppliers who can provide fresh products 3) Focus on small pack sizes as affordability is the critical price driver for your business 4) Realise that credit is a service of convenience which is critical for picking up incremental shopping trips from customers who do not carry money consistently (children, servants) 5) Evaluate your delivery service as your catchment area changes. If staple grains and pulses become a declining part of your business it may be worth changing this service.

■ Key success factors as your catchments evolve: 1) Your assortment needs to change. Fresh and perishable foods are the priority for quick trips which are most often missing today. Other high frequency purchases include refrigerated categories like chilled dairy 2) Consider reducing your credit offering to free up cash for investment. As it is not as valuable as previously, there may be much needed cash wasted in this effort 3) Evaluate your delivery service. Consider adding new categories or connecting with digital networks that can keep the relevance of this service strong as markets change.

Neighbourhood Self-Service

■ Basic success factors: 1) You offer a quality, product consistently available and well in code, generalist service combining the dry grocery offer available in other shops along with the fresh foods offered by open markets and delivery services. 2) You offer the freedom of choice that exposes shoppers with growing disposable incomes to innovative products and new categories. 3) You offer an assortment of promotions that the shopper can browse, touch and experience at their leisure allowing for moments of discovery which replace the need to haggle.

■ Key success factors as your catchments evolve: 1) As a generalist your greatest challenge is to continuously expand your assortment to meet the expanding needs of your shoppers. 2) The burden of quality is an omnipresent challenge as you strive to deliver a better customer experience without the costs associated with overstocking, spoilage and wasted space 3) With limited space to offset the margin pressure on your core assortment, the development of exclusive offers in the form of categories, SKUs or experiences is critical.

Out of Neighbourhood Self-Service

■ Basic success factors: 1) You offer a wide range of products within critical categories like Fresh Foods, Health and Beauty and non-Food compared to other channels 2) You have a strong promotional agenda that is well advertised and differentiated from the market. 3) You offer an assortment of promotions that the shopper can browse, touch and experience at their leisure allowing for moments of discovery which replace the need to haggle.

■ Key success factors as your catchments evolve: 1) Become a generalist as your catchment areas evolve. Recognise that more shoppers are going to use you as a neighbourhood store. 2) Change the emphasis of your promotions and possibly layout to maximise potential for the top-up weekly trip where your traditional offer is less distinguished from the competition. Fresh food categories will be critical for your success.

KEY LEARNING POINTS FROM CHAPTER 2

Growing household wealth fuels the growth of retail markets, yet leads to a reduction in channel loyalty.

Increasing shopper expenditure attracts new stores opening in a catchment, thus decreasing average shopper loyalty in this catchment area. We found shoppers to be uniformly curious about new outlets and see the growth in the number of outlets in a catchment area as the biggest challenge for loyalty. At the same time, wealthier shoppers can afford higher levels of mobility, which causes catchment areas to expand, as travel is measured in minutes, not in metres. The wealthiest shoppers are gaining the freedom to purchase various quantities regardless of the time of month – where and when it suits them. Thus retailers who open outlets in lower and middle income areas will generally achieve greater levels of loyalty, regardless of channel type, than retailers targeting the highest income catchments.

Overall channel loyalty, as measured by market share, includes the effect of opening of new stores in a market. However, like-for-like sales growth driven by increasing loyalty to an individual store is a more consistent measure of actual shopper behaviour.

Indeed, market share evolution mixes the impacts of both new stores opening and shopper loyalty evolution. Store opening can result in increased market share although the like-for-like shopper loyalty is flat or declining.

Catchment shopper drivers determine performance delivery store by store, and are only loosely correlated to store format.

Shoppers are very different, as are their needs, by catchment area – and their trip behaviour within this catchment area is very different in the course of a pay cycle. A generalised approach to formats driving overall channel loyalty does not answer shopper needs in specific catchments. When de-averaging shopper needs by their specific catchment areas, there is more similarity across channel format types within a specific catchment type, than within channel types across catchments. Consequently, retail formats have to drive performance bottom-up from the individual store level, as opposed to just offering an average, top-down solution.

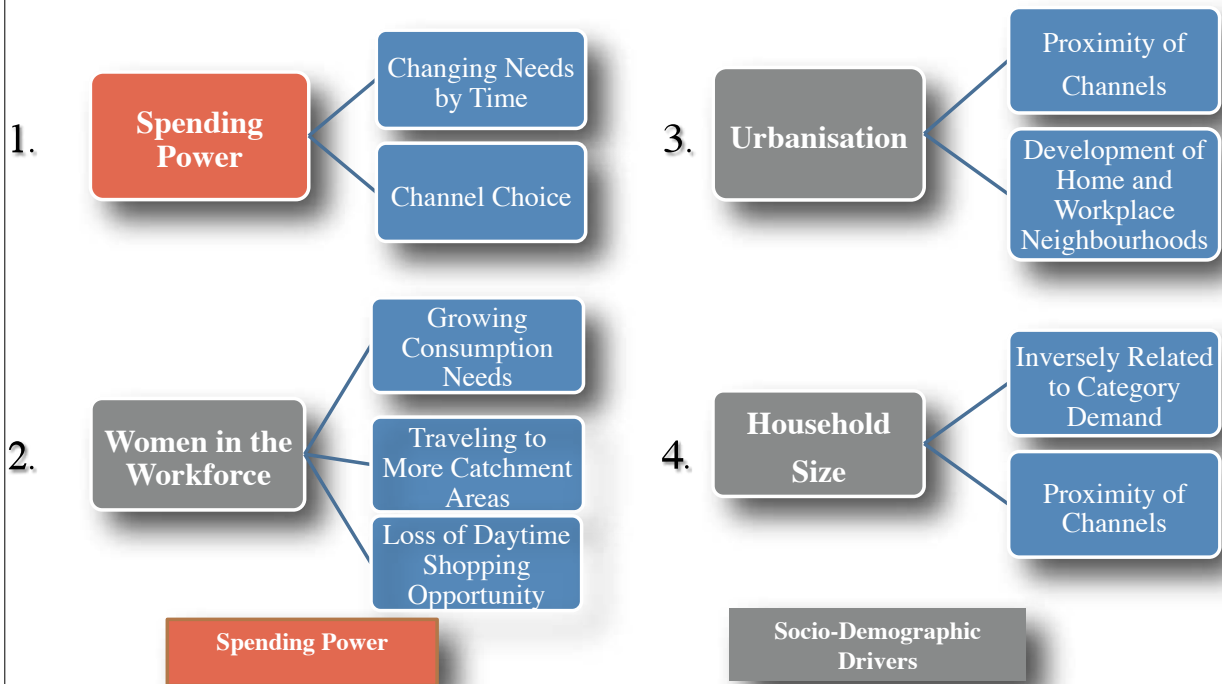
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ONVERSELY, RETAIL DYNAMICS WILL SHAPE SHOPPER LOYALTY ACROSS CATCHMENT AREAS IN THE COMING YEARS

Market Drivers which are closely correlated with catchment area drivers, determine continuous growth opportunities for different channels in different geographies

The previous chapter examined loyalty drivers that we can observe in specific catchment areas. As we have concluded, ultimately the loyalty to a channel is about loyalty to individual store locations, which often exhibit wide differences in terms of specific shopper composition and loyalty drivers. In developing a national market forecast, we therefore have the challenge of aggregating the factors which we observe shaping loyalty at a catchment area level, into something we can measure and project at a national level. In order to achieve this goal, we have taken a number of global drivers of consumption, called “Market Drivers” and identified their causal relationship to the shopper loyalty concepts we examined at a catchment area level.

Forecasts for Change in Market Drivers Can Therefore Be Used to Predict Future Channel Loyalty

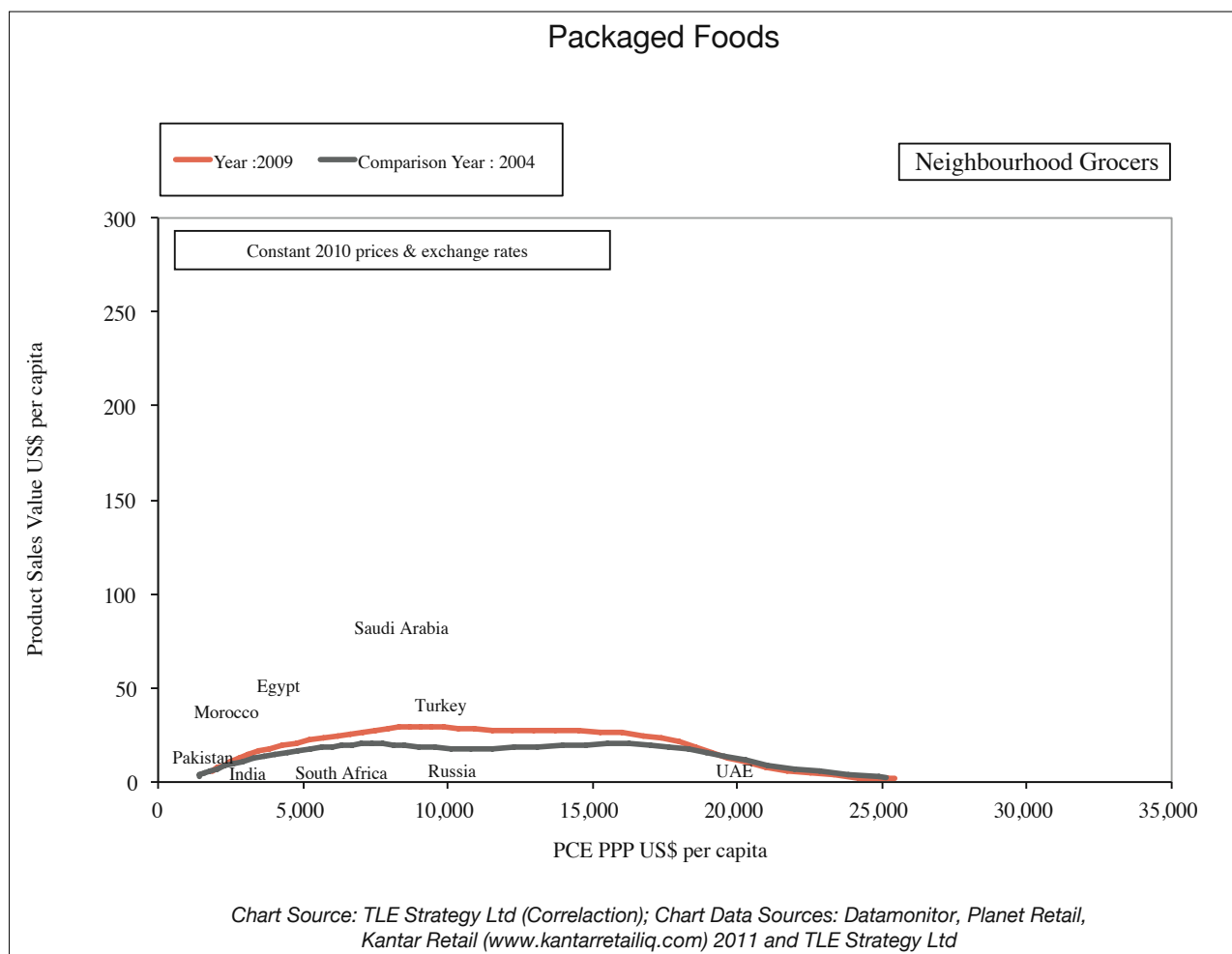


NB: We have integrated the number of women in the workforce, household size and urbanisation into one group: Socio-Demographic Market Drivers.

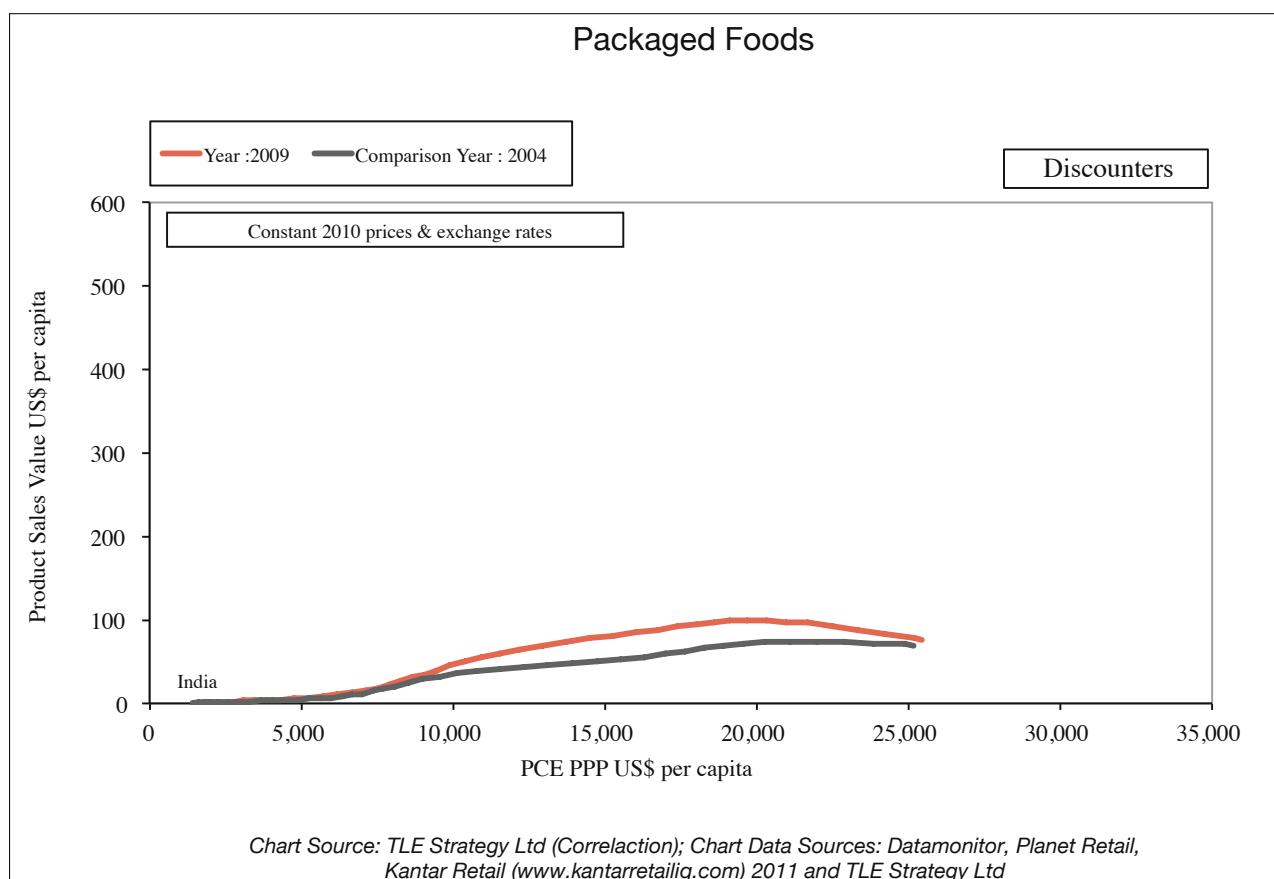
As the slide illustrates, each of these Market Drivers is connected to a number of catchment area loyalty factors. We can therefore analyse the change in these market drivers to forecast channel evolution. We have developed correlations for each channel in each market of study. Below we will share highlights to illustrate the dynamics behind each of the drivers.

CHANGES IN SPENDING POWER...

...are strongly correlated with the loyalty development of different channels as spending power attracts investment and wealthier households expand the number of categories purchased in the course of a month. Amongst the correlations we have identified, we find that Neighbourhood Grocers develop as individuals move from a purchasing power of less than USD 1,000 annually towards USD 5,000. From USD 5,000 to USD 20,000 of expenditure we observe a plateau in the value of the channel. At the very highest levels we see a decline. Whereas neighbourhood grocers initially benefit from the growing consumption power of their shoppers, we find that these channels tend to struggle as the wealthiest shoppers are no longer tied to shopping within the immediate confines of their home and workplaces.



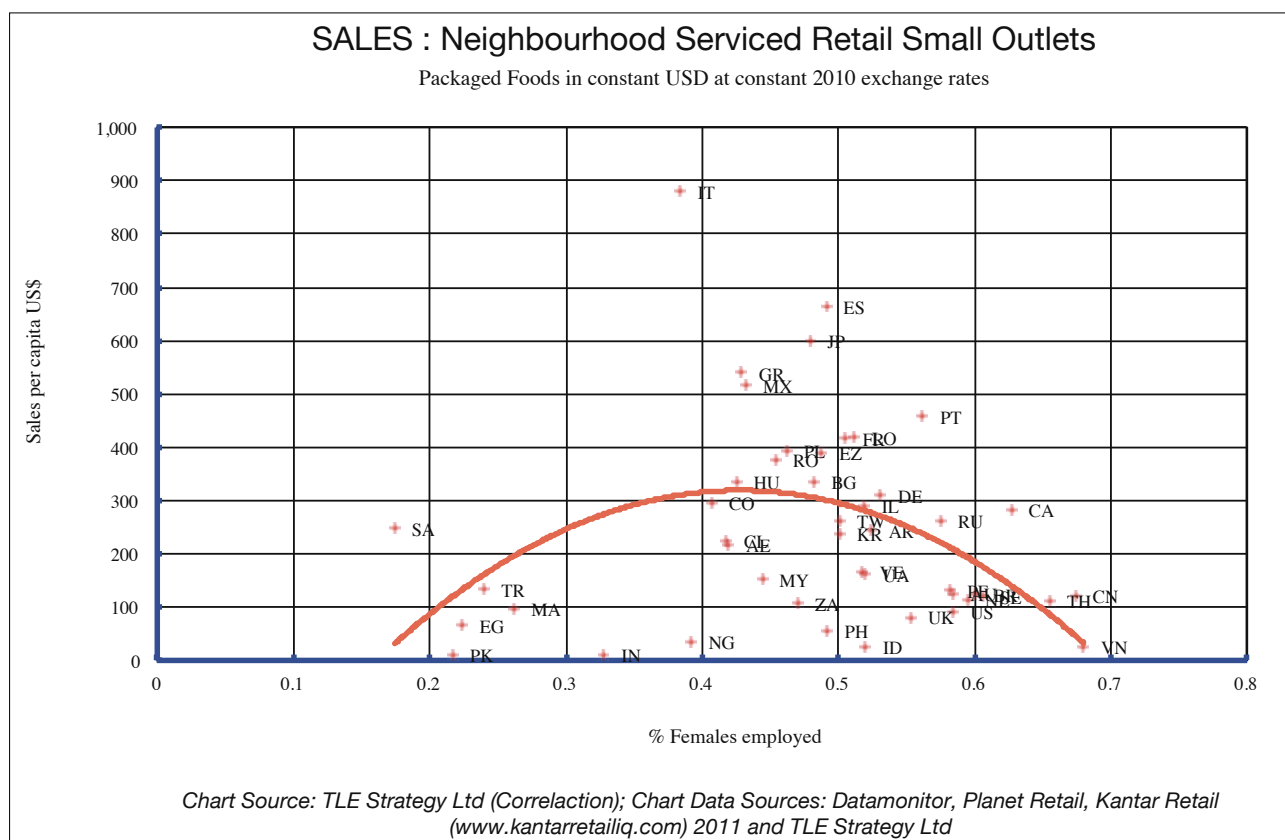
Looking further ahead, we can also see that the travails of Neighbourhood Grocers are not purely the consequence of changing consumption patterns amongst shoppers. We also can see that as wealth develops, new formats and concepts enter the neighbourhood to compete for the local expenditure which was formerly the exclusive preserve of the neighbourhood grocer.



One such channel is the discounters which as previously discussed are generally perceived to be a neighbourhood self-service offering with a twist. The mere presence of discounters is not enough to explain the loyalty shift. We also see that as households get wealthier, there is a tendency to have less time at home to receive deliveries, a greater desire for self-service, a desire for innovation and generally a trend to purchase bigger pack sizes which can last for up to a week.

THE GROWING NUMBER OF WOMEN IN THE EURASIA AND AFRICA WORKFORCE...

...will certainly reshape grocery shopping dynamics. Although this phenomenon is closely correlated with the development of spending power, there are some unique dynamics on their own which create different and unique channel loyalty relationships. As the number of women in the workforce increases, we see a decline in the time available for home meal preparation, shopping time in general and a growing preference for personal beauty products which all influence the choice of channels. We also see a strong desire to move to self-service. Despite the wealth of affection shoppers in the region express towards the established relationship and services offered by their neighbourhood grocer, the drive for freedom of choice seems to trump those desires.



We can see that the rise of female employment initially benefits Small Serviced retail outlets - which are called Neighbourhood Serviced Convenience stores in later stage markets. However, there is a steep decline in this sector as employment goes above 50% of the female population in a market.

SALES : Neighbourhood Self-Service Small Outlets

Packaged Foods in constant USD at constant 2010 exchange rates

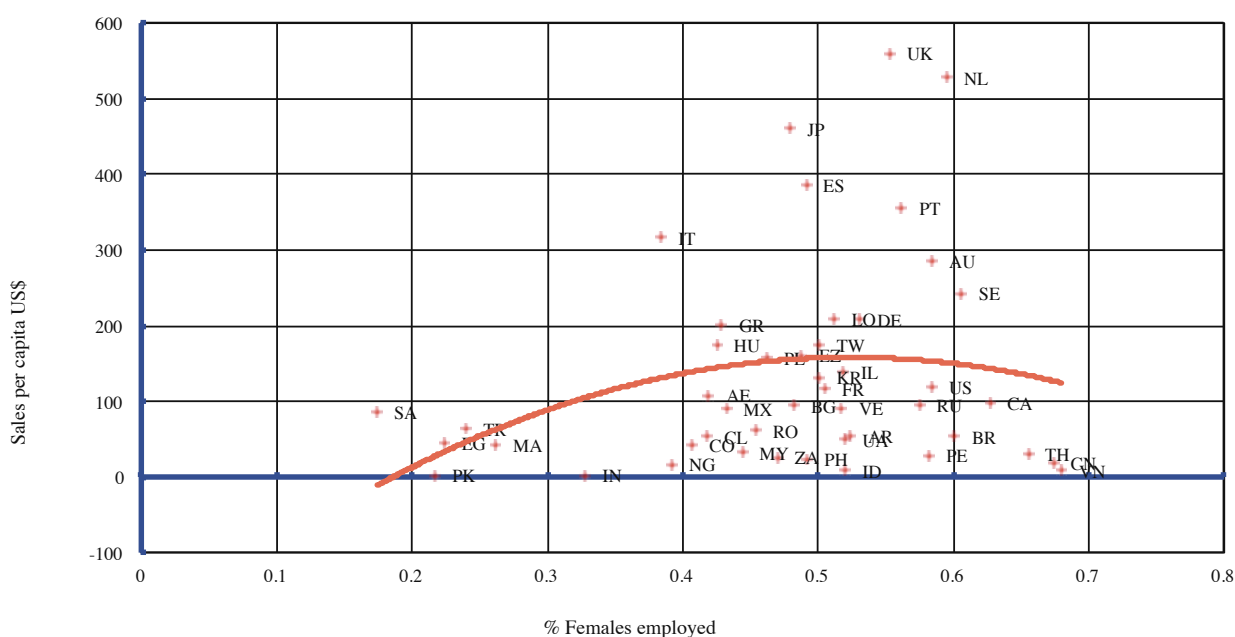


Chart Source: TLE Strategy Ltd (Correlation); Chart Data Sources: Datamonitor, Planet Retail, Kantar Retail (www.kantarretailiq.com) 2011 and TLE Strategy Ltd

At the same time, there is an almost linear growth in the rise of small neighbourhood self-service outlets as female employment increases - although at the extreme end of the spectrum this growth tapers off, largely due to other channels absorbing a share of the neighbourhood trip.

HOUSEHOLD SIZE...

...is another factor driving some loyalty changes. There is a common belief that large households prefer shopping in big out-of-neighbourhood stores. However, the data suggests that this love of large stores is more apparent in 2 person households. We see a strong decline in sales of out-of-neighbourhood stores as household sizes approach 4 and 5 people. Much of this is correlated to the spending power of households. There is a very strong relationship around the world between household size and income meaning that the majority of 4 and 5 person households have less spending power than those with 2 to 3 occupants.

SALES : Out of Neighbourhood Self-Service Outlets

Packed Foods in constant USD at constant 2010 exchange rates

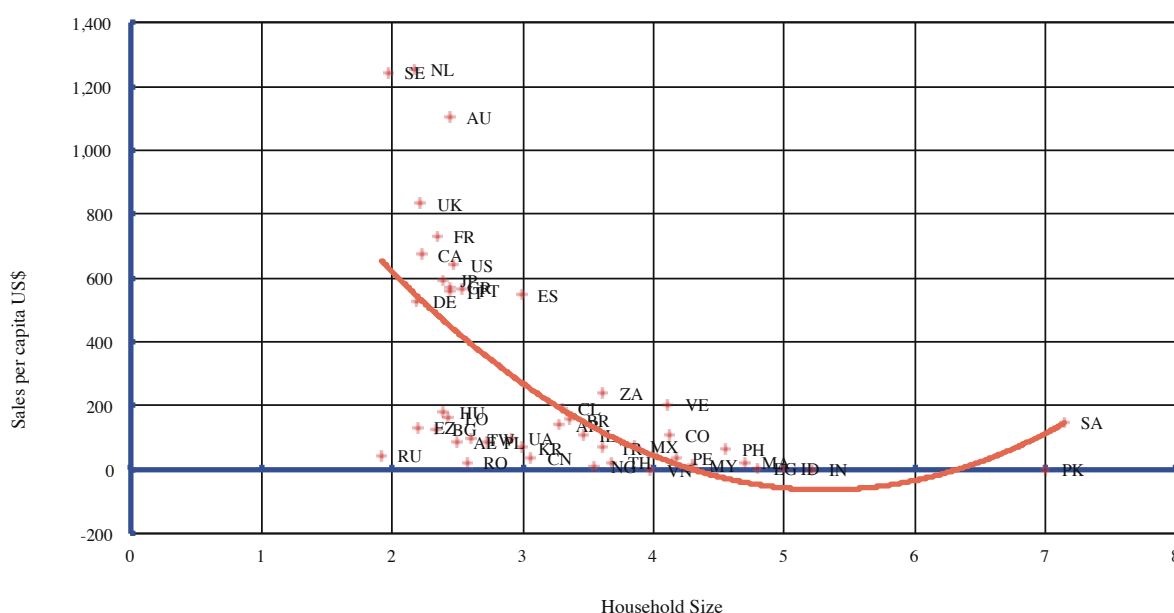


Chart Source: TLE Strategy Ltd (Correlation); Chart Data Sources: Datamonitor, Planet Retail, Kantar Retail
(www.kantarretailiq.com) 2011 and TLE Strategy Ltd

But, this also suggests that the large family shopper is not necessarily the target for big out of neighbourhood outlets. Rather, it is 2-3 person households with spending power, who can travel across a wide number of categories. In both India and South Africa our research indicates that 65% to 70% of shopping trips across channels are done for families. In other words, family shoppers in Cluster 1 markets do not necessarily gravitate to one channel or another.

For many of the reasons previously mentioned, neighbourhood grocers thrive with larger households. Despite their small size, the focus on credit, proximity and smaller pack sizes make these outlets an ideal choice for large families who are generally on tighter budgets due to the already mentioned points about income. In addition, we find a large number of shoppers who use credit at neighbourhood grocers are in fact children who are shopping on behalf of the family. This model seems more conducive to larger families where the “purse owner” is less likely to do the shopping.

SALES : Neighbourhood Grocers

Packed Foods in constant USD at constant 2010 exchange rates

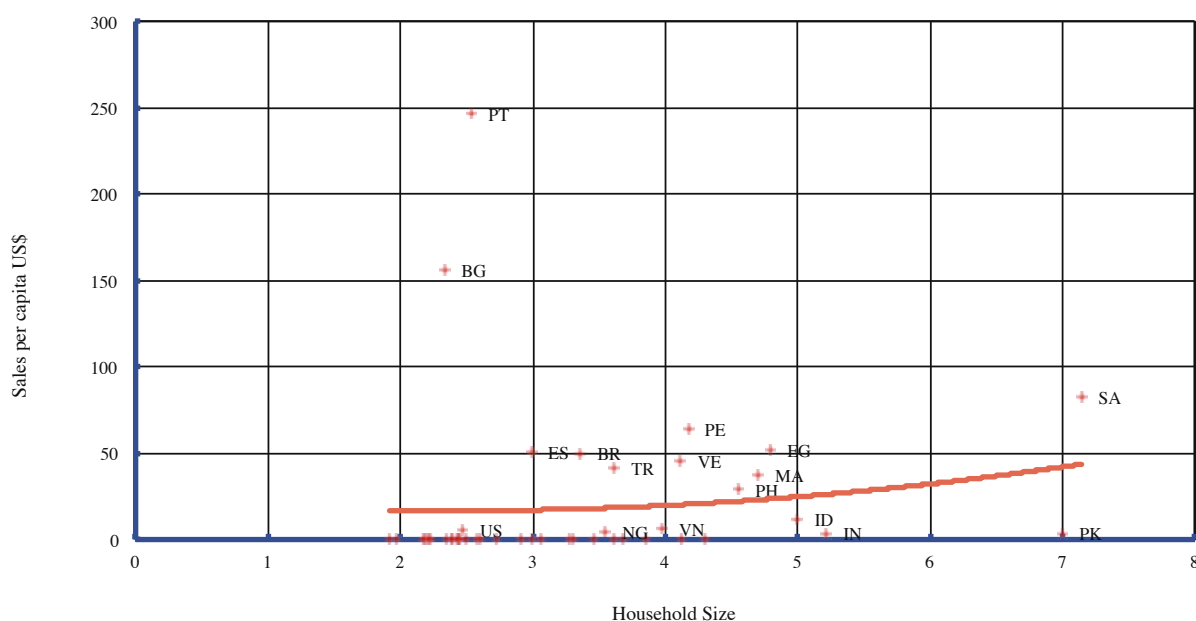


Chart Source: TLE Strategy Ltd (Correlation); Chart Data Sources: Datamonitor, Planet Retail, Kantar Retail
(www.kantarretailiq.com) 2011 and TLE Strategy Ltd

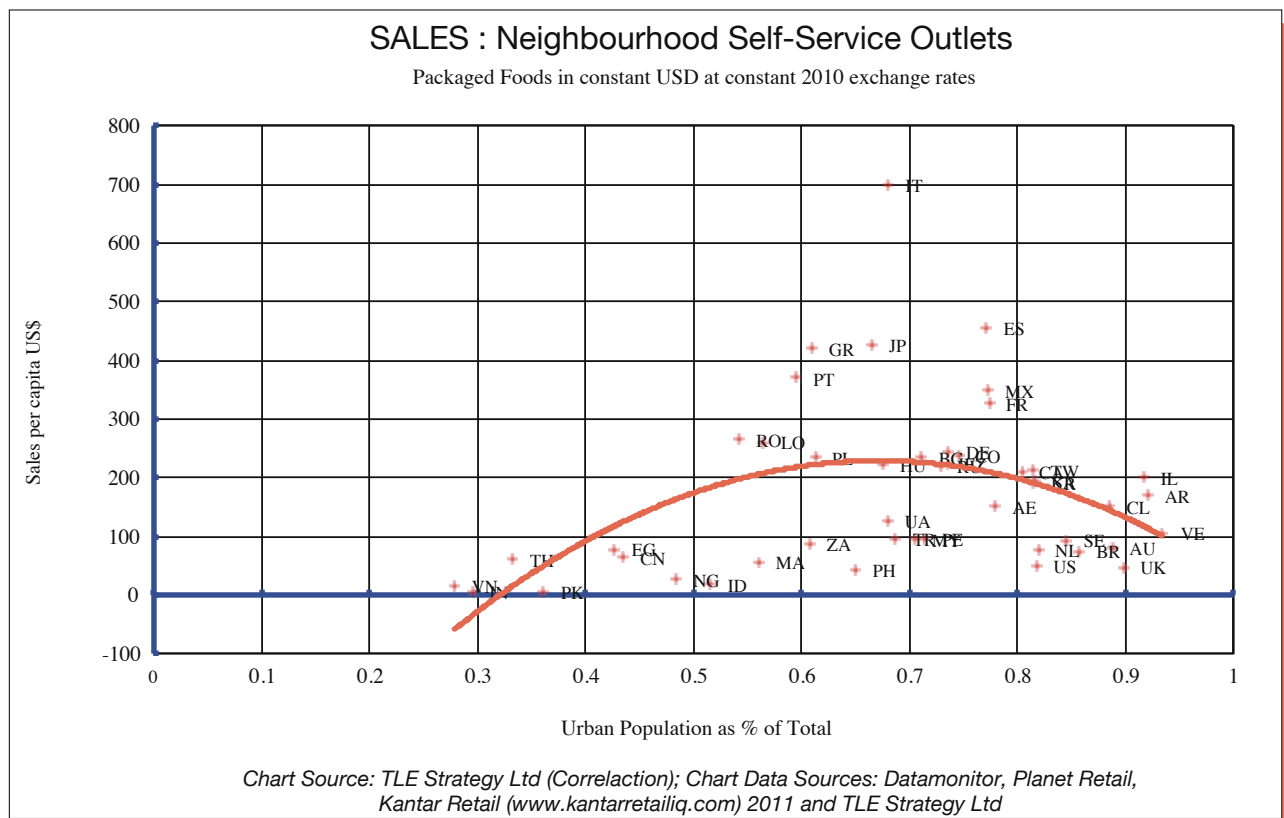
Although household size is correlated with income, we find that mid-sized family households show a different shopping preference from single households and large households as our data discusses when looking at who shops for whom at which channels.

URBANISATION...

...is a factor that is most closely associated with an increase in the aggregate spending power available in a catchment area. Population density allows for the profitable development of big box stores. As such, where these big stores were mostly out-of-neighbourhood at first, urbanisation moves them to the neighbourhood, or more correctly moves the neighbourhood to them. This in turn attracts even more investment in large formats as urbanisation makes the economics of these stores more attractive. From a shopper loyalty perspective, we find that shoppers like large and small formats almost equally if they are close. The issue is that it is usually unprofitable to build large stores close to shoppers. But, urbanisation helps to close the gap.

Across Eurasia and Africa, urbanisation is also associated with additional factors like exposure to high consumption environments, participation in the modern economy, access to infrastructure making stores more accessible and easier to locate shops near consumers.

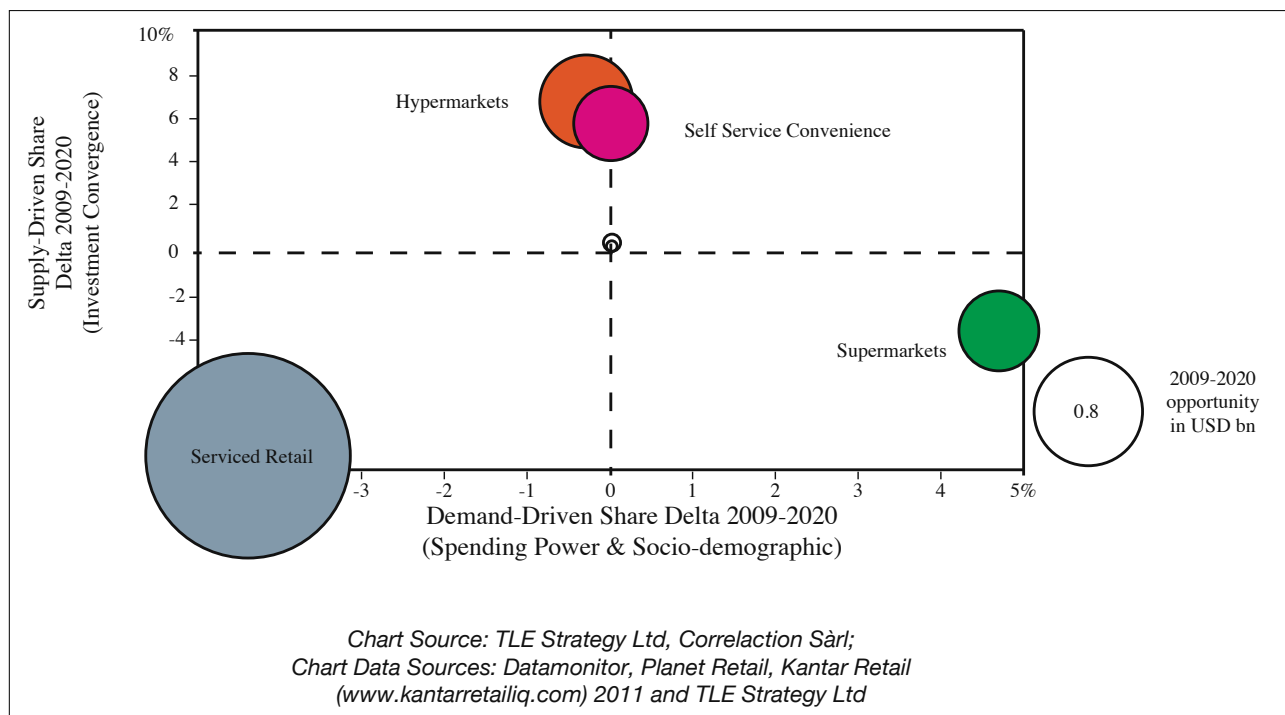
Whereas the commonly held view that density should favour small serviced outlets holds true initially, there is a point of inflection where a catchment has so many shoppers, representing such a high level of spending power per km², that larger stores move in, as shown previously - and will grow in the classic Neighbourhood Self-Service trip too:



RETAIL INVESTMENT CONVERGENCE...

...will also impact on channel development in the Eurasia and Africa region. As the forecast will show, even in constant money, virtually every channel will grow across the region – and therefore all will attract investment. As retailers will be making discrete choices in which channel to invest in which country, and will predominantly be making these choices based on their existing strengths, we expect that the biggest channel gaps will receive the biggest investment. This investment behaviour will lead to a convergence of the channel landscape over time. Whilst we cannot cover all of the aspects that guide retail investment in the course of this study, we can use our analysis to forecast where demand is likely to shape the course of investment.

Using our Market Drivers we are able to see where our 9 focus markets have channel development that differs from the expectation based on the shopper drivers. In this example from Pakistan, we have mapped the projected effect of shopper demand drivers (Spending Power and Socio-demographic Drivers) on channel share against the projected impact of retailers investing in business models where they believe they can make a higher Return on Investment:



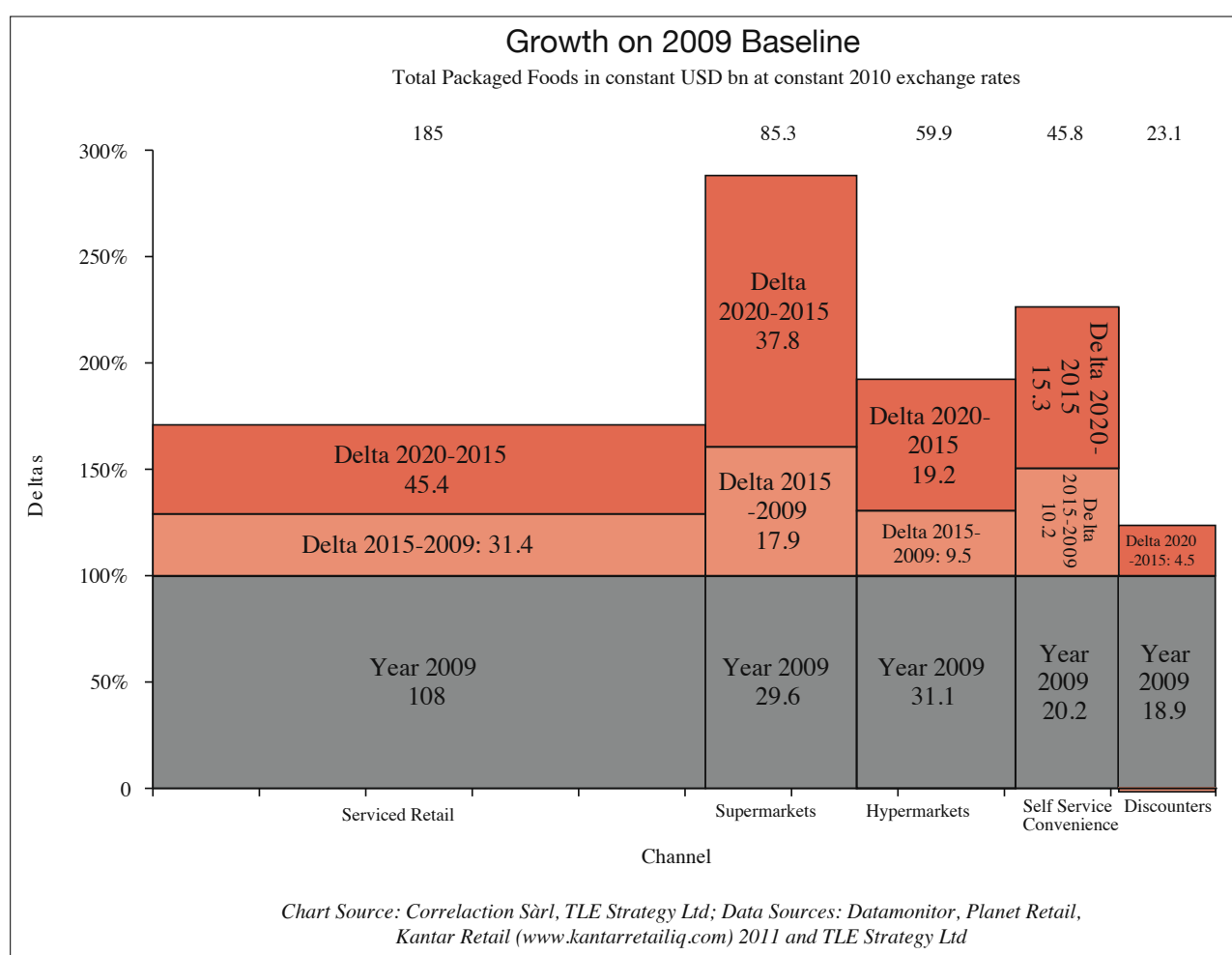
Purely based on demand, the Pakistani market is likely to favour Supermarkets, with Serviced Retail losing share (but still representing the largest growth opportunity in constant money, represented by its bubble size). However, in the specific retail development phase Pakistan is in, our forecast suggests that retailers will divert some of their investment away from Supermarkets into Hypermarkets, as this channel delivers immediate scale to an expanding retailer, enabling higher RoI's early on. Also, the projected investment in satisfying demand in the Supermarket channel will be so high that the competitive landscape will become crowded, triggering differential retail investment in Self-Service Convenience where RoI's are likely to be higher.

Because we do not have forecast assumptions for critical areas like regulation, land costs and fuel, we cannot confirm in absolute terms which channels will be the best option from a Supply perspective. However, we can conclude that Supermarkets will be an attractive option to satisfy demand, whilst other channels may generate higher RoI's in different stages of a retailer's development.

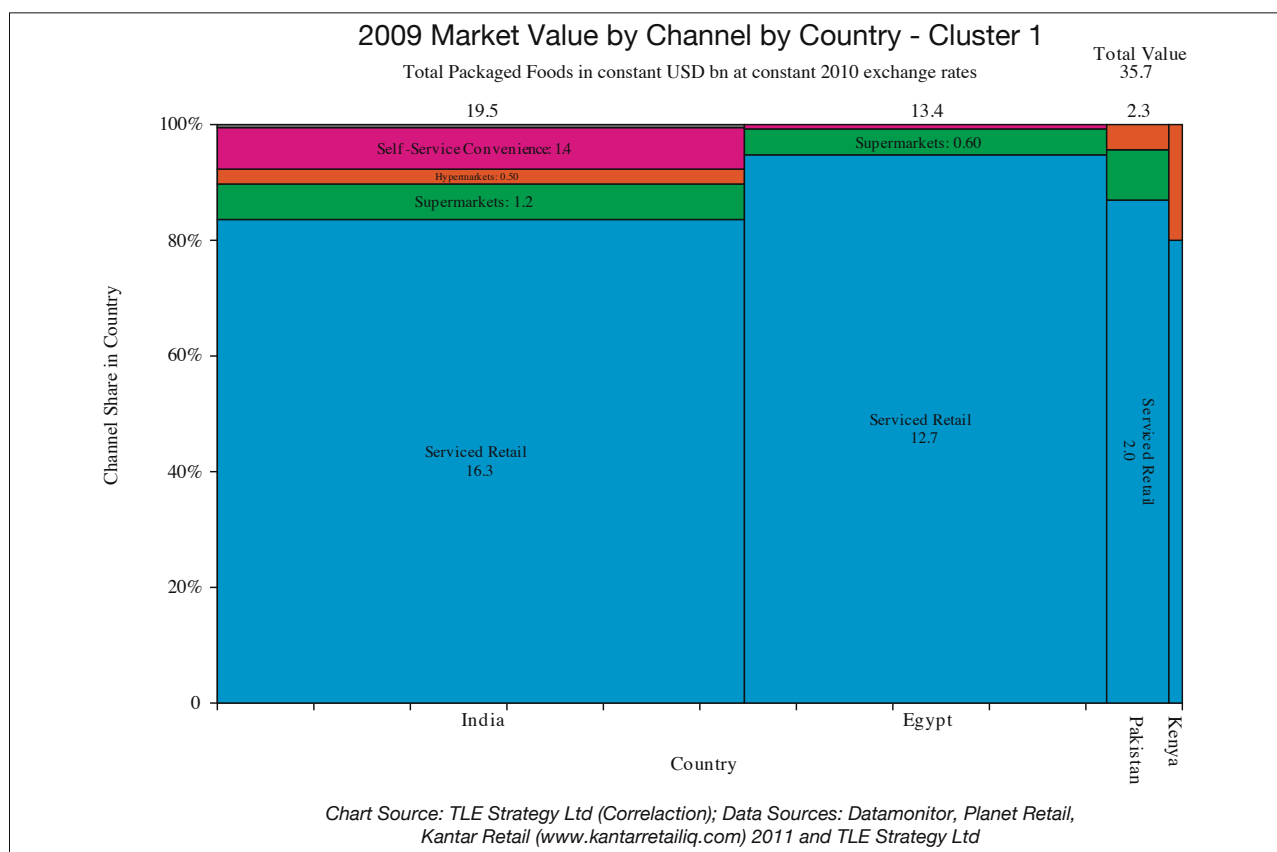
A STEADY EVOLUTION OF THE MARKET DRIVERS...

... allows us to project the gradual development of channels based on the growth in underlying demand and the investment opportunity related to large gaps in satisfying these emerging shopper needs. We have applied an iterative approach, where we start from the impact which Spending Power Drivers have on both market size and channel shares, then add the impact of Socio-Demographic Drivers on these, and subsequently assess the effect of Investment Convergence, where we have assumed a conservative, slow and steady convergence. This approach allows us to forecast the iterative sources of channel growth, both in absolute value and in share terms - and whilst in many cases in our forecast, the (iterative) impact of a Market Driver on channel value growth is positive, sometimes its impact on channel shares is negative as other channels are forecast to grow faster based on the application of this Market Driver. All of our forecasts have been made in constant money (= constant USD at constant 2010 exchange rates), which excludes the effect of inflation; growth rates in current money are therefore likely to be higher.

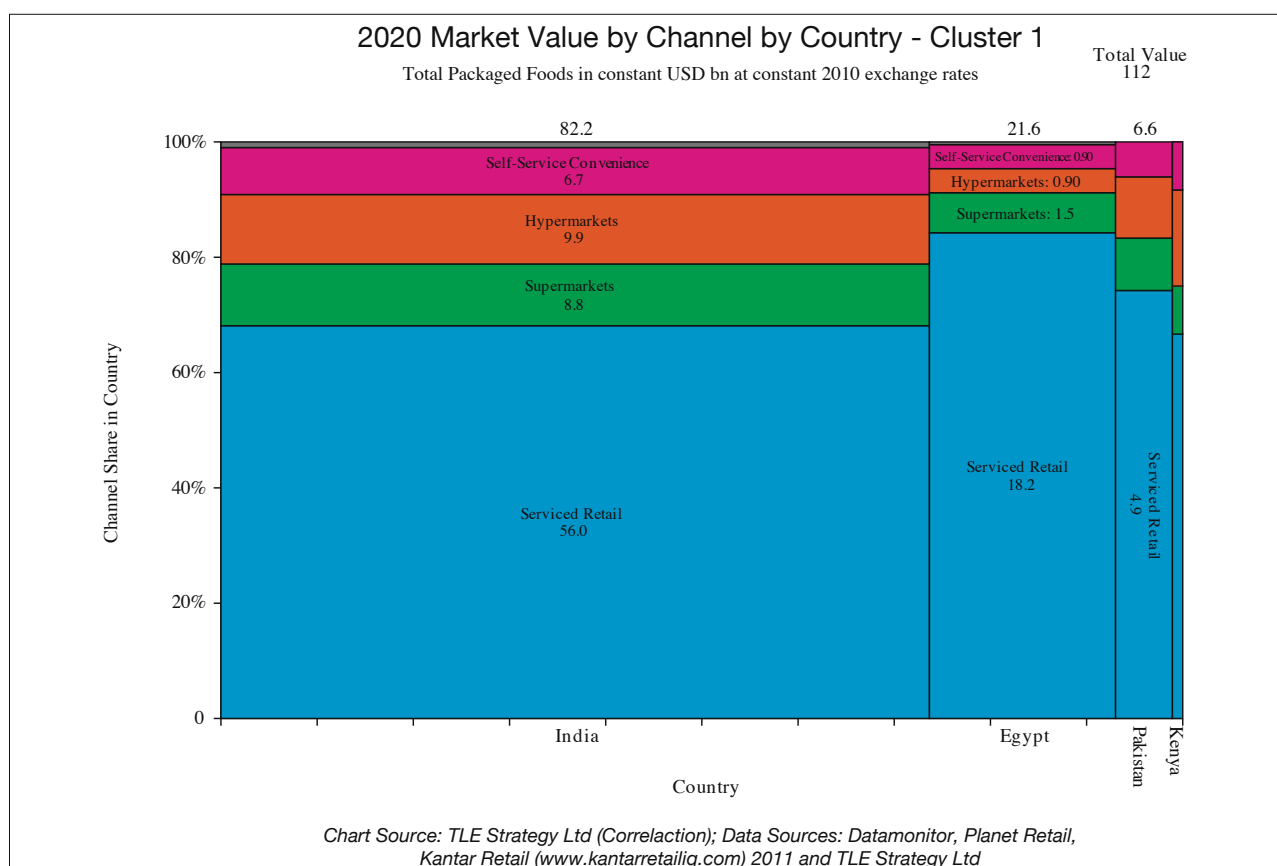
What is clear across our 9 Cluster markets is that every channel will grow in aggregate, albeit at different rates – and that this growth is forecast to accelerate between 2015 and 2020. In this chapter we will review the forecast implications for each of the market clusters.



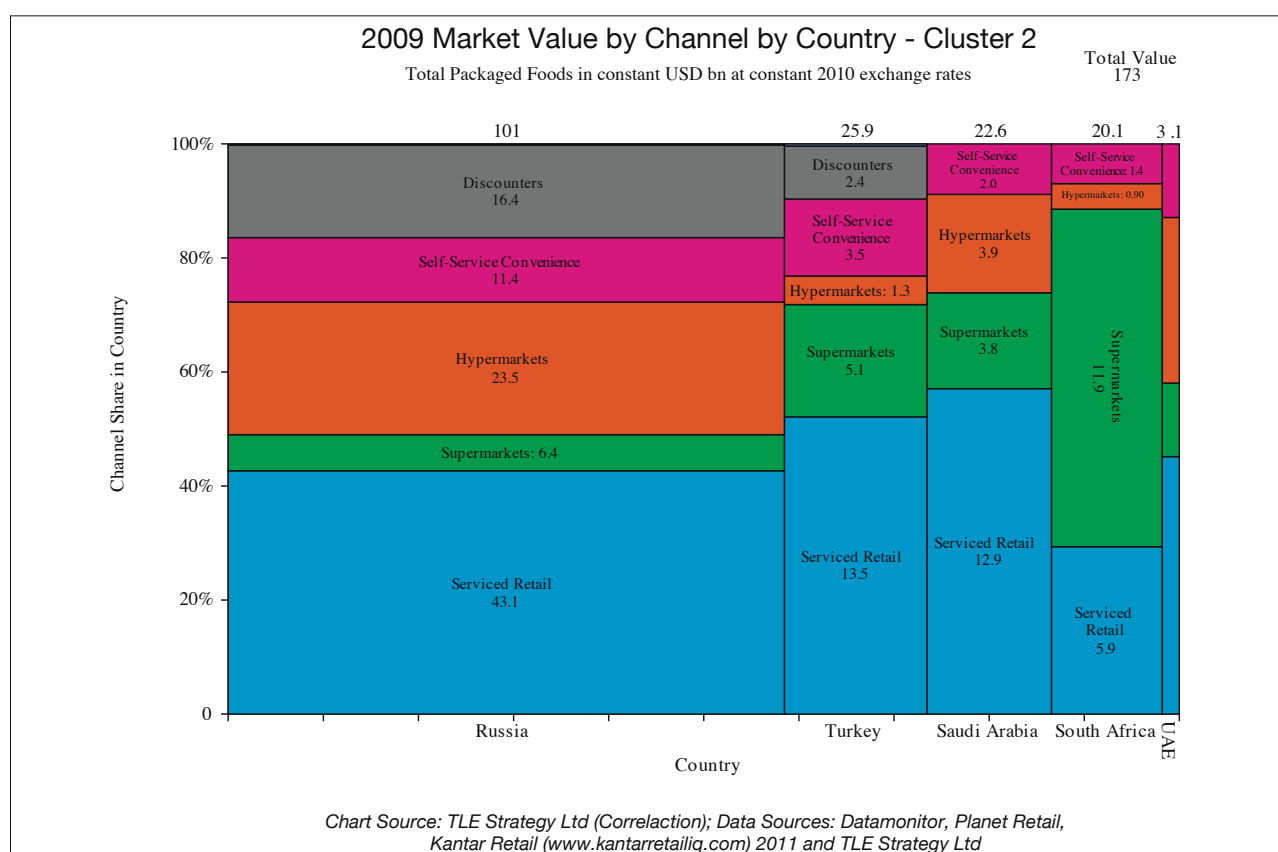
The Cluster 1 markets (India, Egypt, Pakistan and Kenya) are currently dominated by a large neighbourhood serviced retail sector (both Neighbourhood Grocers and Serviced Convenience). This sector comprises 80% to 90% of the grocery markets in these countries today.



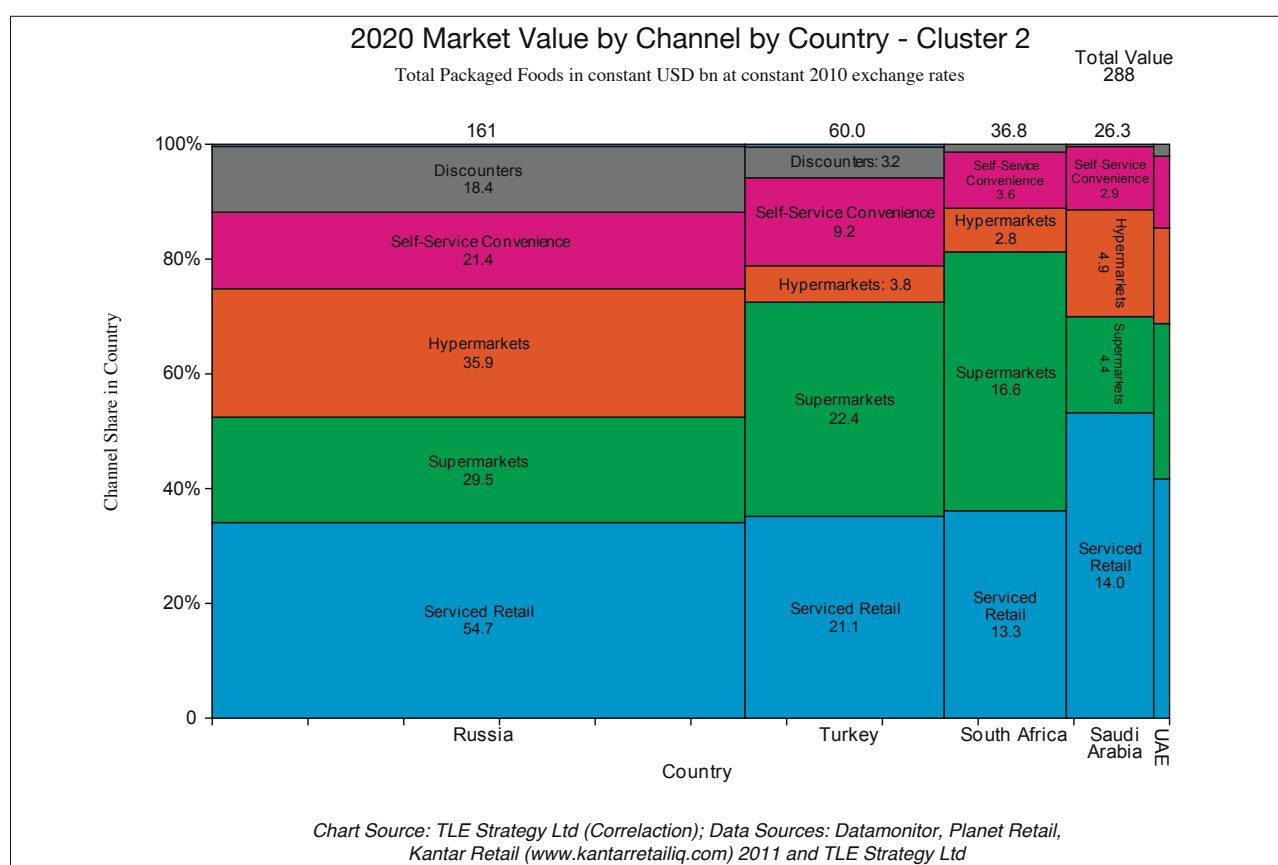
By 2020, we expect a growth in self-service formats across the Cluster 1 markets. This growth will in no means eliminate the Serviced Retail sector. In fact, that sector is still set to comprise the majority of these retail markets. However, the shift in Household Wealth, Women in the Workforce, Urbanisation and Household Size favours the development of new channels to satisfy emerging shopper demand.



As we can see, the Cluster 2 markets are already in a very different state of market development. Whilst the Serviced Retail sectors are still very large in these markets, generally the largest channel, they are no longer the majority. We see a large mix of self-service channels in both neighbourhood and out-of-neighbourhood formats.



By 2020, we expect the general trend of self-service retail growth to continue. However, within this dynamic we expect to market growth above the average for both discounters and supermarkets.



Yet, Market Drivers do not always evolve in harmony, creating the opportunity for discontinuous share gains by retailers who seize the advantage

Most forecasts are based on an extrapolation of the status quo ante, and by necessity do not take into account different scenarios, resulting from either discontinuous change, or caused by an underlying driver changing more rapidly than predicted. In most cases, this is perfectly OK: in periods of relative stability, applying this so-called “gradualism” will generate a set of forecasts which will be approximately right, and can be used as a basis for business planning. We are confident, given the inclusion of a number of different drivers and then applying a multiple regression of these drivers, that our forecasts for the Cluster 1 and Cluster 2 markets will reflect the reality of the 2015 marketplace: “Retail Gradualism”.

Examples of gradualism include:

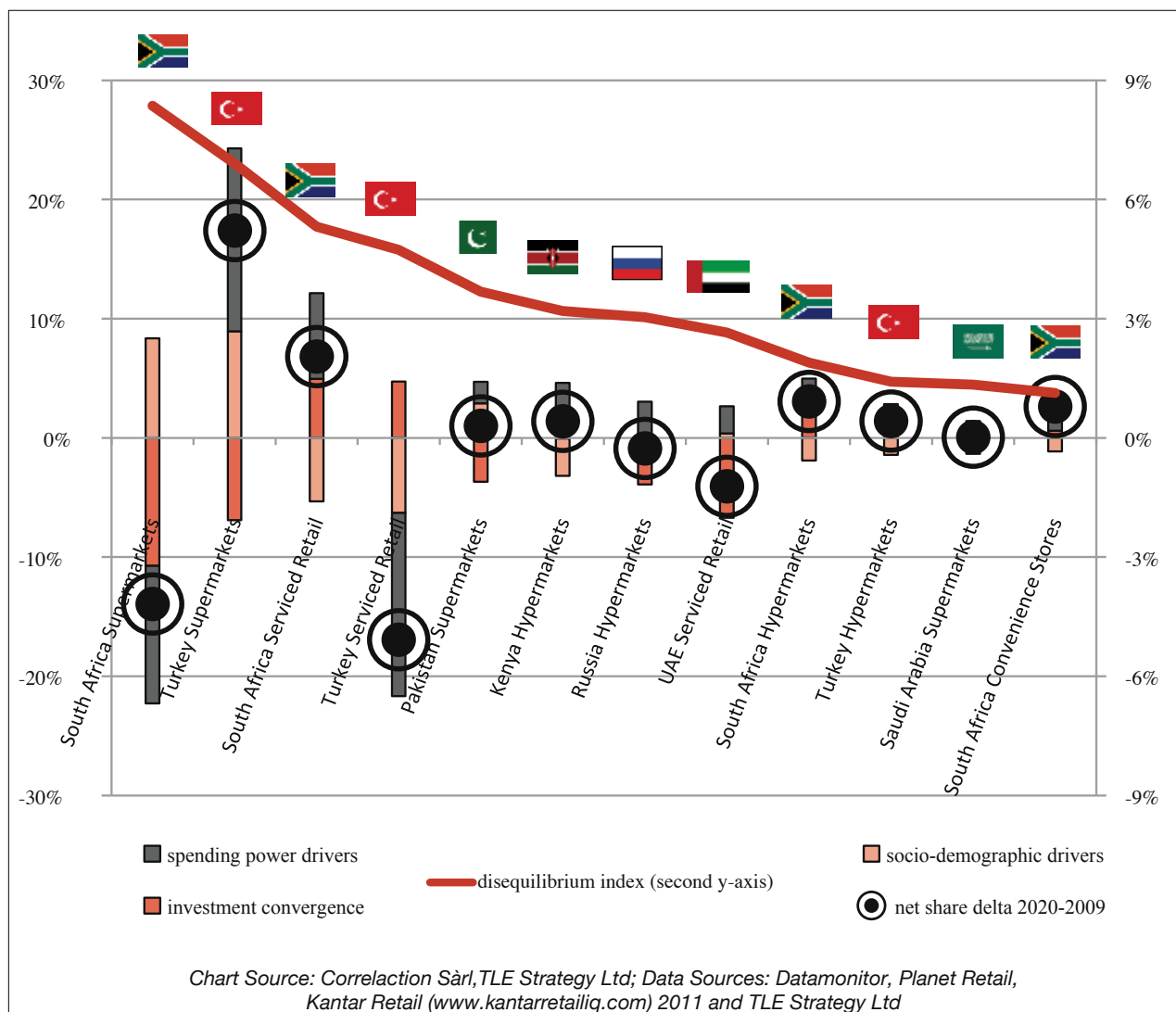
- **Supermarkets and Hypermarkets in India** have been growing by opening new stores – the growth in spending power is so great that each new store has been additive. The pace of growth has been set by the ability to execute investments, and is forecast to continue apace: *change is constant and gradualism can continue*
- **Hypermarkets in Kenya** have also been growing by opening new stores – socio-demographic drivers have supported the format as it has offered Kenyans a practical “everything under one roof” shopping opportunity. The constant rate of change within this channel may continue for some time, but is slowly nearing saturation: *gradualism is good enough for now, but finite*
- **Supermarkets in South Africa** have been growing at a constant pace, notably by conversion of independent neighbourhood stores into franchised supermarkets. Like-for-like sales performance in franchised supermarkets has been outstripping chain-owned supermarkets, adding to the rate of growth. Whilst this change has been constant and gradual in the last decade, yet there are strong indications that this will not continue in the current: *gradualism is no longer good enough*

However, informed by a large body of academic and business research into the concept of disequilibrium (see Appendix 1 for reference), we predict that in a number of markets, the level of imbalance will become so significant that gradual growth will be punctuated by periods of rapid change, where retailers redefine the rules of the game for themselves: “Punctuated Retail Equilibrium”. Global examples of punctuated equilibrium include:

- Inventory and margin pressures drove Zara to develop a short-cycle, localised production process which allowed for rapid reaction to sales trends. As consumers became wealthier and more exposed to fashion trends that were accelerating due to the growth in digital media, Zara was able to pioneer a fast-fashion merchandising concept which redefined the balance between haute couture and high street clothing retailing. Shoppers suddenly had access to high fashion at reasonable prices with the notion of scarcity and temporariness of style. Zara took this concept into spaces that were normally occupied by premium clothing brands and disrupted the channel balance.
- Tesco in the UK took an opportunity to purchase a small convenience store chain in the UK as a means to scale a theory it had been testing on small store distribution. Within a matter of 12 months the acquisition reshaped the expectations for neighbourhood convenience stores and supermarkets. The resulting growth by Tesco and the quick reaction of its competitors has forever changed the channel loyalty models for supermarkets and convenience outlets in the UK.
- A number of retailers in Russia, Ukraine and Poland developed efficient centralised distribution systems which could be applied to thousands of small corner shops that were part of the old Communist grocery retailing system. These distribution systems and operating practices allowed for a unique combination of modern self-service outlets with low prices. This development restricted the growth opportunity for self-service supermarket and convenience store models leading to discount channels that are considerably larger than ever seen at a comparable stage of market development.

MARKET DRIVERS DO NOT ALWAYS EVOLVE IN HARMONY...

...as in a number of channels within our markets, one of the Market Drivers actually works against the others, causing a dynamic conflict. This conflict or disequilibrium implies a volatile situation where actions taken by retailers could potentially lead to a radical shift in channel development – we have identified 12 channels where this disequilibrium is (statistically) significant. Notably, 10 of these 12 channels in significant disequilibrium are in Cluster 2 markets, and only 2 in Cluster 1:



Retailers will face different investment choices in different markets: is it better to invest in disruption or simply follow the momentum of the market – or both? We believe that, in the majority of Cluster 1 channels, the underlying market growth opportunity is simply too strong to require disruptive thinking – just working to keep up with demand will be disruptive enough. However, in some markets in Cluster 2, the pent-up levels of disequilibrium are so significant in aggregate, that we expect to see the period between now and 2020 to be punctuated by spells of rapid change, where one or two retailers will redefine the rules of the game:

Incremental CAGR Opportunity from Creating Disruptive Change, vs. Underlying Organic Total Market CAGR 2009-2020

Total Packaged Foods in constant USD bn at constant 2010 exchange rates

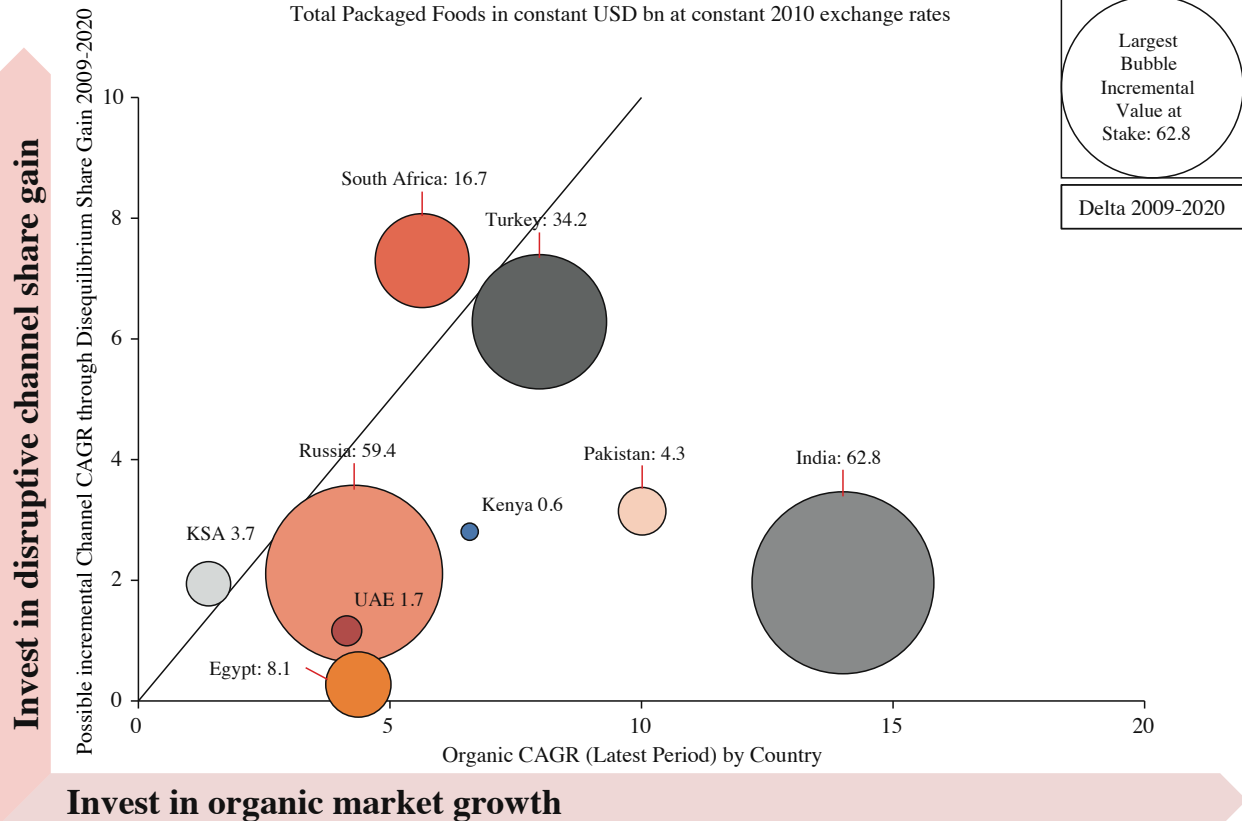


Chart Source: Correlaction Sàrl, TLE Strategy Ltd; Data Sources: Datamonitor, Planet Retail, Kantar Retail (www.kantarretailiq.com) 2011 and TLE Strategy Ltd

Notably in South Africa and Turkey, a retailer choosing to disrupt the status quo in one channel could generate incremental growth through share gain much greater than that generated by increasing demand in the market. As a consequence, we believe that the likelihood of “Punctuated Retail Equilibrium” in these markets is too high not to happen in some shape or form between now and 2020. We will be witnessing significant discontinuities as savvy retailers will find ways to set new rules for themselves, and thus for the market, making the shopper the ultimate winner. We have included specific forecasts per country in Appendix 2.

ADVANCES IN TECHNOLOGY COULD BE A GAME-CHANGER...

... as these will reduce the supply chain cost of de-averaging. Minimum Efficient Scale (the smallest scale where competition on price is feasible) will continue to go down across the supply chain; (access to) bandwidth will explode in the Eurasia and Africa region; and data processing speed will multiply tenfold towards the end of the plan period.

Digital technology will reduce scale benefits – at the same time, it will increase scope benefits, making the management of supply chain complexity a source of competitive advantage – the balance between shopper choice and retailer complexity will progressively favour the shopper as the cost of catering to a wide variety of needs is reduced.

There is budding evidence of this in the Eurasia and Africa region. We have observed some retailers starting to de-average their approach to category management, targeting their in-store offer to a specific catchment area, and posting superior like-for-like sales as a consequence. At the same time, targeting a more specific shopper group is already a given in other forms of retail, like Fashion, in parts of the Eurasia and Africa region. Lastly, retailers can expand their target to include loyalty drivers which currently belong to another channel – whilst in some of our markets this could favour specific Self-Service channels, in most this will enable the Serviced Convenience value chain to offer shoppers what they need, when they need it, at the right price.

Gaining and maintaining shopper loyalty will therefore no longer just be a *game of averages* – rather it will be about creating competitive advantage through efficiently satisfying *discrete shopping needs*.

Furthermore, the advances in digital technology will enable e-tail specialists to design a profitable business model (particularly given the low labour cost in large parts of the region), bypassing the often inconsistent postal systems. The question is not whether e-commerce will grow, but which players will take the initiative?

For a complete view of digital trends which may reshape retailing, please refer to the upcoming CCRRC Asia report on this topic.



The fledgling e-grocers in India have developed cash on delivery models to overcome the low penetration of credit and debit cards that might otherwise be a barrier to e-commerce.



There are 156 million people in Eurasia and Africa currently on Facebook without taking into account other smaller Social Networking sites. E-commerce efforts are spreading in the region to Facebook as they have elsewhere.



The growth of Social Networks in Africa is not restricted to platforms like Facebook. Mxit is a social network that works on feature phones and smart phones which has more than 50 million users (although primarily in South Africa) across 5 African countries.



Smartphone market share is growing rapidly in Eurasia and Africa as a proliferation of models at lower price points with cheaper data plans move into the markets. As elsewhere, e-tailers are looking to use this change to facilitate m-commerce.



Some e-commerce efforts in India seek to use small retailers as the point for distribution. This limits the complexity of downstream logistics which are a huge barrier in the market.

INVESTMENTS IN CHANNELS ATTRACT INVESTMENTS IN MANUFACTURING...

...which will impact on the in-store offer, notably in Private Label. Particularly in Cluster 2 markets, we observe that excess capacity caused by increasing production efficiencies has already been taken over by PL manufacturers, and these manufacturers will further build both capacity and capability based on latent demand – both within their markets and beyond, as trade barriers will come down over time.

It is clear that the growth of discounters in the region is highly dependent on supply of consistent quality Private Label. A number of successful Discounters are already in evidence in Cluster 2 markets – and shoppers will refer to specific items they can buy in these stores, thus turning good quality Private Label into a Trip Driver.



Dost was Turkey's first private label brand launched by the retailer BIM in 1997. The success of this effort has seen vertical integration between retailers and manufacturers in Turkey. Picture Source: BIM reports



Private label is already on the agenda for chain retailers across India with some staple foods categories seeing shares of up to 50% in some retail chains. Picture Source: Shirland Ventures Limited

We have also observed that what we believe is the new wave of Private Label, which maximises scope benefits as opposed to just scale benefits, is already making inroads in parts of the Eurasia and Africa region. In this “Exclusive Brand” proposition, performance is managed by SKU, by store, by month – and is often brand leader in these stores. Whereas these brands may not appear very high up the standard national market share charts, they do answer specific shopper needs quite successfully in-store.

KEY LEARNING POINTS FROM CHAPTER 3

Market Drivers, which are closely correlated with catchment area drivers, determine continuous growth opportunities for different channels in different geographies.

Spending power drivers are strongly correlated with channel development as growing consumption attracts investment. Moreover, *socio-demographic drivers*, e.g. household size, urbanisation and the percentage of women participating in the workforce, are shown to either accelerate or decelerate these channel dynamics, often very significantly. Thirdly, capital investment behind discrete channel-country combinations is correlated with their differing levels of expected Return on Investment, thus triggering cross-country investment choices and causing in-country *Investment Convergence* over time.

The aggregate momentum from Market Drivers represents “*Retail Gradualism*.” The size of the market will grow for each channel in a market based on the steady evolution of these Market Drivers.

Market Drivers do not always evolve in harmony, creating the opportunity for discontinuous share gains by retailers who seize the advantage.

In some markets and channels, Market Drivers actually work against each other, thereby over time increasing the sensitivity for radical change (representing “*Punctuated Retail Equilibrium*”), thus offering retailers the opportunity to grow through *disruptive channel share gain*. We expect that advances in technology will reduce the supply chain cost of de-averaging. This will progressively enable individual retailers to trigger these disruptions – whether it is by targeting their in-store offer for a specific catchment area, targeting a more specific shopper group, or expanding their target to include loyalty drivers which currently belong to another channel. Gaining and maintaining shopper loyalty will no longer just be a *game of averages* – rather it will be about creating competitive advantage through efficiently satisfying *discrete shopping needs*.

C ONCLUSION

INVESTING IN SHOPPER-DRIVEN GROWTH WILL DELIVER SUPERIOR RETURNS

Eurasia and Africa is the world's grocery retail land of plenty: every channel will grow through 2020

The Eurasia and Africa region will be the most vibrant and dynamic retail environment in the world in this decade. Millions of shoppers will enter the market, and millions more will enjoy increasing spending power. As a consequence, every channel will grow, in every market, and every channel will attract investment.

Growth and investment will already increase market turbulence in its own right - and where Market Forces are moving in opposite directions, increasing turbulence even further, opportunities for disruptive share gain will become ever more attractive.



Growth is generated in each neighbourhood: it's not what the store is, it's where the store is

The challenge for all retailers in the region will be to make this investment work in each neighbourhood. Just as shoppers will spread their growing spending power across multiple missions, channels will increasingly fulfil multiple roles. Understanding and applying the shopper loyalty drivers revealed in this study, catchment by catchment, will enable superior returns on investment.



True shopper loyalty has to be earned, time after time, in each and every shopping trip

Shopper needs vary by trip, and will evolve over time. So too must stores: the future belongs to those retailers whose channel strategy is delivered by shopper need-driven supply chains – as opposed to their supply chains delivering against average shopper needs.

A PPENDICES

APPENDIX 1

GRADUALISM, DISEQUILIBRIUM AND PUNCTUATED EQUILIBRIUM IN RETAIL DYNAMICS

Rik Bosman (Correlaction Sàrl), February 2012

THE ACADEMIC BACKGROUND

In 1942, Schumpeter^[1] offered an alternative theory to economic development that initially received little acclaim, as it was drowned out by Keynes, but which in combination with advances in other fields (notably evolutionary biology) is regarded as more relevant than ever in modern market dynamics^[2]. Schumpeter postulated that innovation and technological advancement are the critical components of healthy, “dynamic disequilibrium”:

The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U.S. Steel illustrate the same process of industrial mutation – if I may use that biological term – that incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in...

Every piece of business strategy acquires its true significance only against the background of that process and within the situation created by it. It must be seen in its role in the perennial gale of creative destruction; it cannot be understood irrespective of it or, in fact, on the hypothesis that there is a perennial lull...

In 1972, paleontologists Eldredge and Gould published “punctuated equilibria, an alternative to phyletic gradualism”^[3], in which they effectively debunked the Darwinian concept of slow, steady and gradual evolution. Their tenets for the concept of phyletic “gradualism” were:

1. *New species arise by the transformation of an ancestral population into its modified descendants*
2. *The transformation is even and slow.*
3. *The transformation involves large numbers, usually the entire ancestral population.*
4. *The transformation occurs over all or a large part of the ancestral species' geographic range.*

Eldredge and Gould go on to establish that most species will exhibit little net evolutionary change for most of their geological history, remaining in an extended state called stasis. Whilst in periods of relative stasis the concept of gradualism might hold, it does not explain why so much diversity exists in life^[4]; the theory of Punctuated Equilibrium proposes that, when significant evolutionary change occurs, it is generally restricted to rare and geologically rapid events of branching speciation.

In 1984, Nobel laureate Prigogine published, together with Stengers "order out of chaos"^[5], in which they apply Eldredge and Gould's concept of punctuated equilibrium on many other fields, from the rise of factories, in the wake of a Newtonian clockwork universe, to the present evidence of feedback, instability, perturbations, and chance at work in complex systems. The ultimate aim is to prove that under certain "far-from-equilibrium" states, a system may become self-organizing - thus achieving order out of chaos (source: Kirkus Reviews^[6]).

From Prigogine on through the '90's, a significant number of management writers and scholars explored the combination of Schumpeterian constructs with contemporary biological evolutionary theory into the punctuated equilibrium model of discontinuous change (Astley, 1985; Tushman and Romanelli, 1985-1994; Meyer et al., 1990; Gersick, 1991; Limerick and Cunningham, 1993; Wollin, 1999), leading to the conclusion that systems may be relatively stable for protracted periods, but punctuated by short spells of rapid change.

D'Aveni's body of work^[7] goes on to identify what this means to actors in a competitive arena, leading to a simple message: "do unto yourself before others do unto you". Progressively through his books and publications (culminating in *Beating the Commodity Trap*, published in 2010^[8]), D'Aveni argues that turbulence creates different competitive environments, which are characterised by different patterns of disruption. D'Aveni identifies four different competitive environments: equilibrium, fluctuating equilibrium, punctuated equilibrium, and disequilibrium; each of these drive different competitive models.

THE APPLICATION IN RETAIL DYNAMICS

Most forecasts are based on an extrapolation of the status quo ante, and of necessity do not take into account different scenarios, resulting from either discontinuous change, or caused by an underlying driver changing more rapidly than predicted. In most cases, this is good enough: in periods of relative stability, applying gradualism will generate a set of forecasts which will be approximately right, and can be used as a basis for business planning. We are confident, given the inclusion of a number of different drivers and then applying a multiple regression of these drivers, that our forecasts for the Cluster 1 and Cluster 2 markets will reflect the reality of the 2015 marketplace: "Retail Gradualism".

However, given the large body of academic and business research into the concept of disequilibrium, and moreover given the facts that:

- a. significant investment will be made in the region, in and of itself triggering turbulence in the market, and
- b. the region is predicted to increase its ability to process data, both by exploding (access to) bandwidth and by data processing speed multiplying tenfold towards the end of the plan period,

we predict that in a number of markets, the level of imbalance will become so significant that we will see periods of rapid change, where retailers redefine the rules of the game: "Punctuated Retail Equilibrium". This tenet may have a significant impact on some of our markets in Cluster 2 (notably South Africa, Turkey), but also in Cluster 1 (Pakistan) – and whilst we may choose to disregard the possibility of the recent political Punctuated Equilibrium in Egypt (effectively lowering the reliability of predictions based on gradualism) being repeated in other parts of our region (in Saudi Arabia and the Gulf, as well as in Russia), the likelihood of macro disruptions impacting on the retail environment in these markets is significant. We therefore believe that the concept of Punctuated Retail Equilibrium is highly relevant for our region, notably in the second half of the plan period.

1. Schumpeter: *Capitalism, Socialism and Democracy* (Harper, 1975) [orig. pub. 1942]
2. McCraw: *Prophet of Innovation: Joseph Schumpeter and Creative Destruction* (Harvard 2007)
3. Eldredge & Gould: *Punctuated equilibria: an alternative to phyletic gradualism* (Freeman 1972)
4. Dekkers: (R)Evolution: *organizations and the dynamics of the environment* (Springer 2005)
5. Prigogine & Stengers: *Order out of Chaos* (Bantam 1984)
6. <https://www.kirkusreviews.com/book-reviews/ilya-isabelle-stengers-prigogine/order-out-of-chaos-the-evolutionary-paradigm-an/#review>
7. D'Aveni: *Hypercompetition* (Simon & Schuster 1994)
8. D'Aveni: *Beating the Commodity Trap* (Harvard 2010)

APPENDIX 2

2015 and 2020 MARKET FORECASTS BY COUNTRY

As previously noted on page 75, all of our forecasts have been made in constant 2010 US Dollars with the Packaged Foods group of categories as the basis for comparison and modelling.

Using constant money is a common practice in long-term modelling exercises which removes the distorting effects of inflation. Whilst this methodology allows us to understand the underlying changes in channel development, it will differ materially from actual results in a number of countries included in this study where inflation is expected to remain in the high-single digits from now until 2020.

Similarly, focusing on Packaged Foods gives us a consistent basis on which to model loyalty across channels in the markets of Eurasia & Africa. Other Fast Moving Consumer Goods categories like Health and Beauty and Household Chemicals have a less consistent presence across channels which would bias our results. Similarly, all manner of Fresh Foods distribution, which represents a significant portion of grocery purchases, is unevenly distributed across channels. However, it should again be noted that the absolute values in our market forecasts will differ from commonly used measures which look at the total retail market or total FMCG growth.

Cluster 1 countries

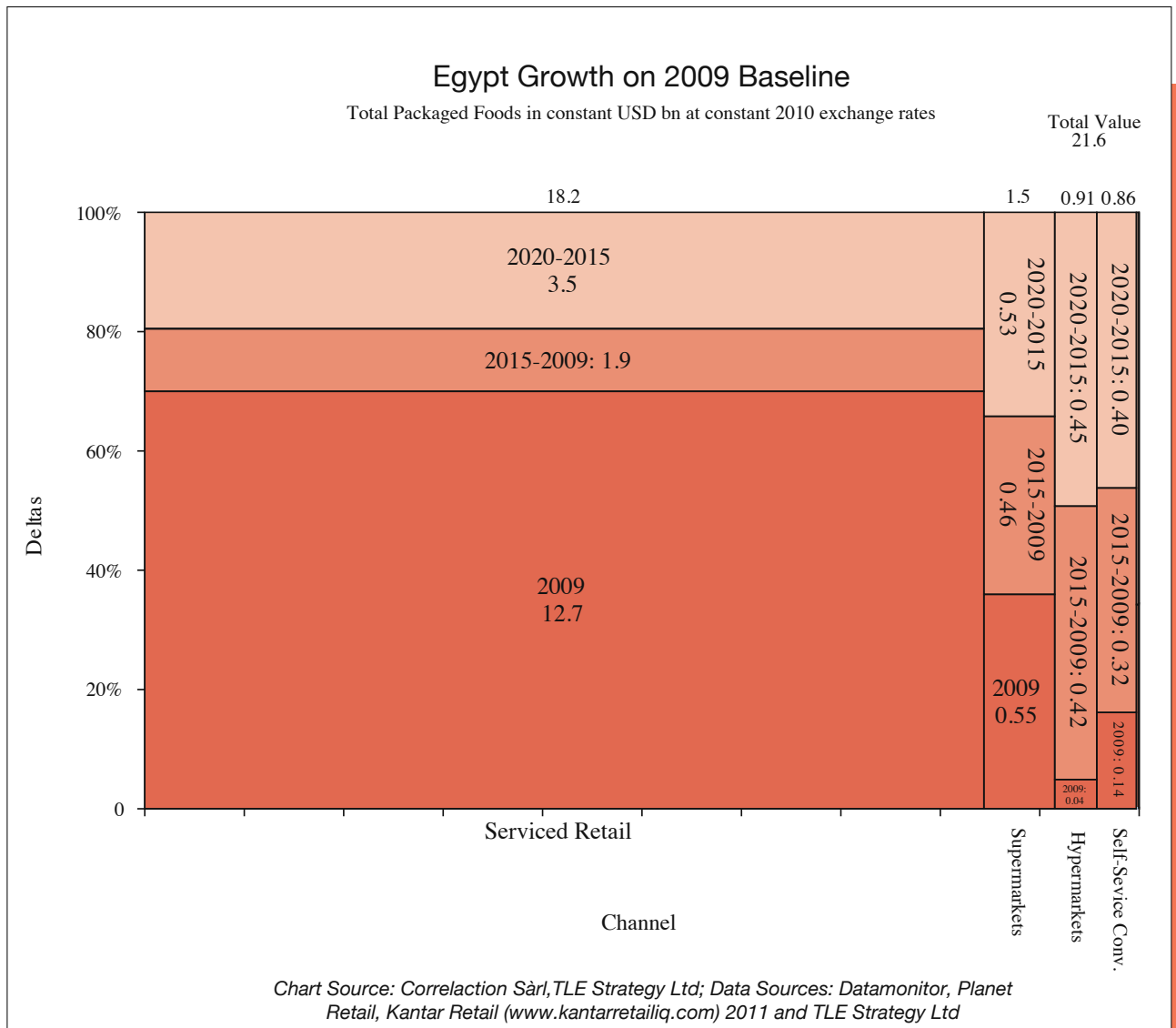
- Egypt..... pages 90 - 93
- India..... pages 94 - 96
- Kenya..... pages 97 - 100
- Pakistan..... pages 101 - 104

Cluster 2 countries

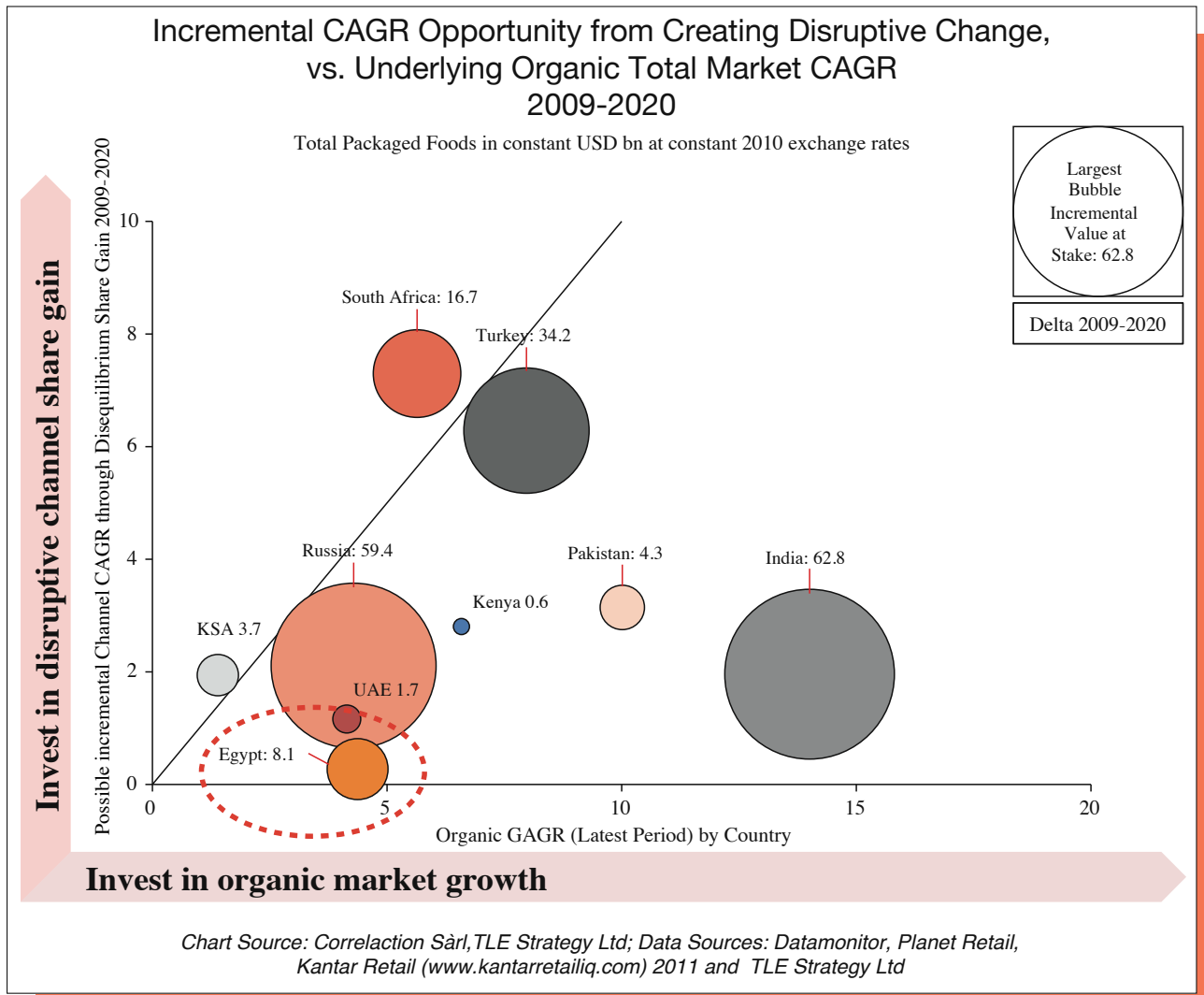
- Russia..... pages 105 - 108
- Saudi Arabia..... pages 109 - 112
- South Africa..... pages 113 - 116
- Turkey..... pages 117 - 120
- UAE..... pages 121 - 124

Cluster 1: Egypt

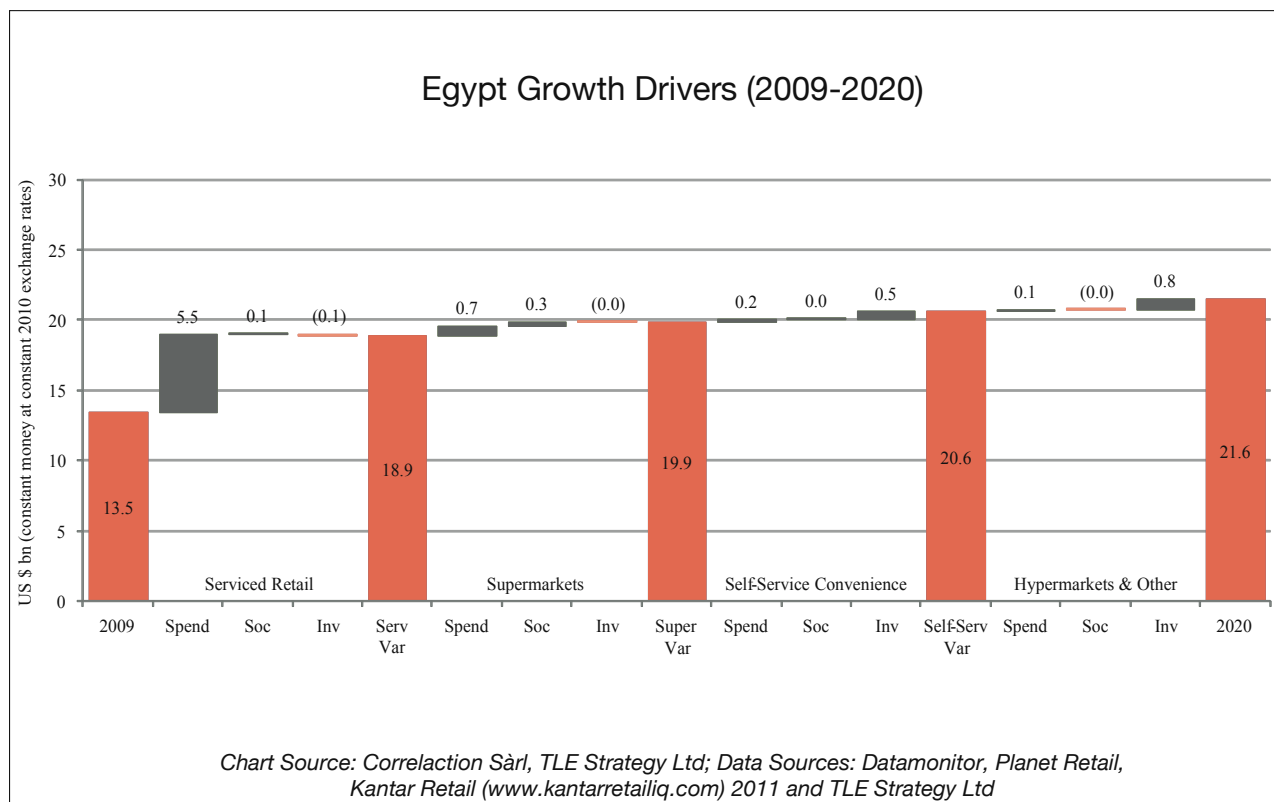
The Egyptian retail market for dry groceries is forecast to grow at 4.4% CAGR in constant money to 2020, with Self-Service channels outpacing Serviced Retail growth – although this channel is still forecast to grow at a respectable 3.3% CAGR in constant money overall, even accelerating in the second half of the forecast period:



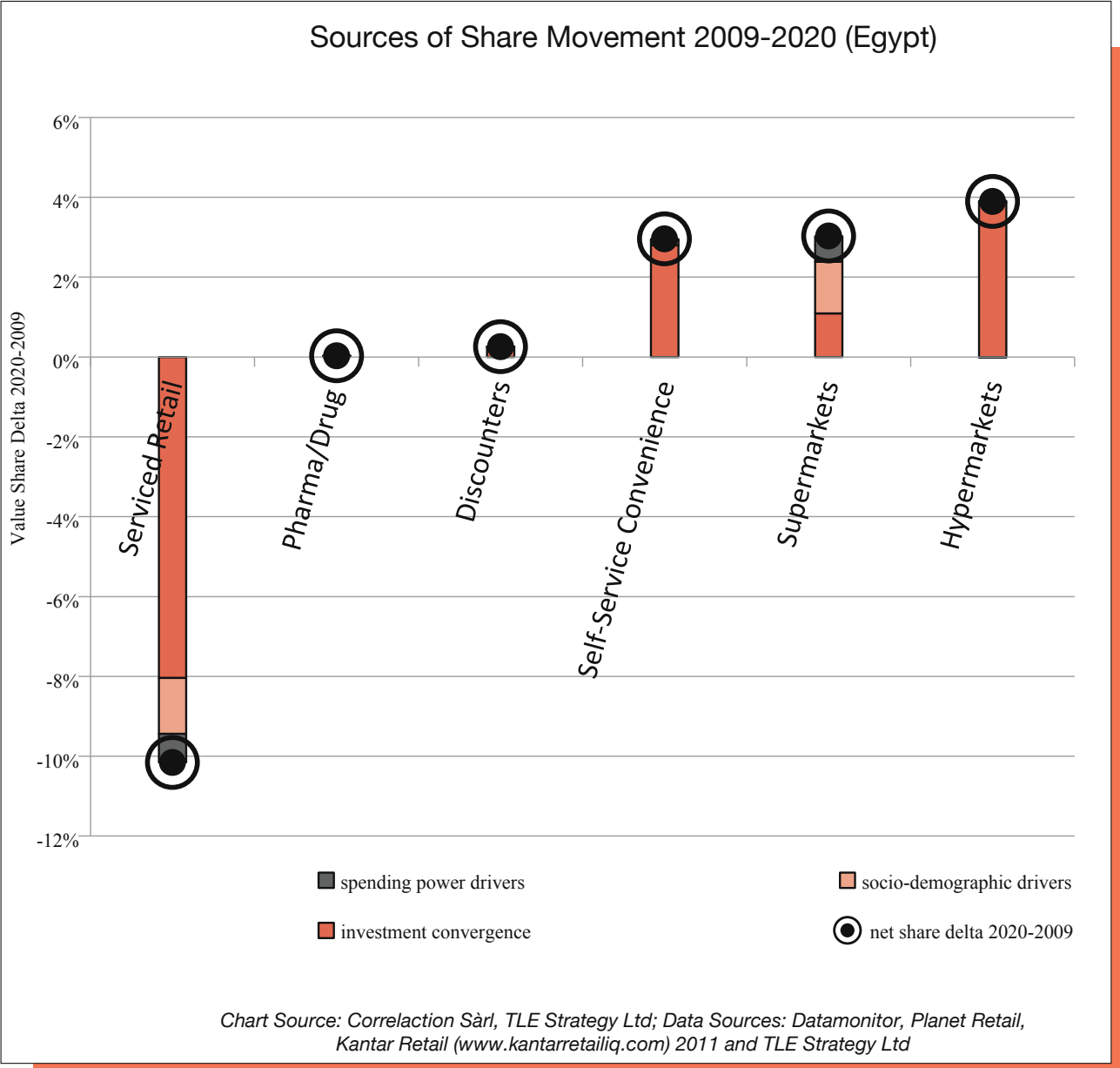
Our forecast for channel development in the Egyptian market is limited to our model focusing on Market Drivers (described in detail in Chapter 3 of the report) only. Therefore, the disruption caused to the market by recent political turmoil has not been taken into consideration. Based on the Market Drivers prevalent in Egypt, we conclude that within our 9 focus markets, Egypt is the least likely to witness any punctuation of the market equilibrium:



Egypt is therefore a prime case of Retail Gradualism – and the steady growth in market value is generated for the most part in Serviced Retail. Having said that, the growth rates in Self-Service will be much higher, with the underdeveloped Self-Service Convenience market attracting incremental investment through Investment Convergence:



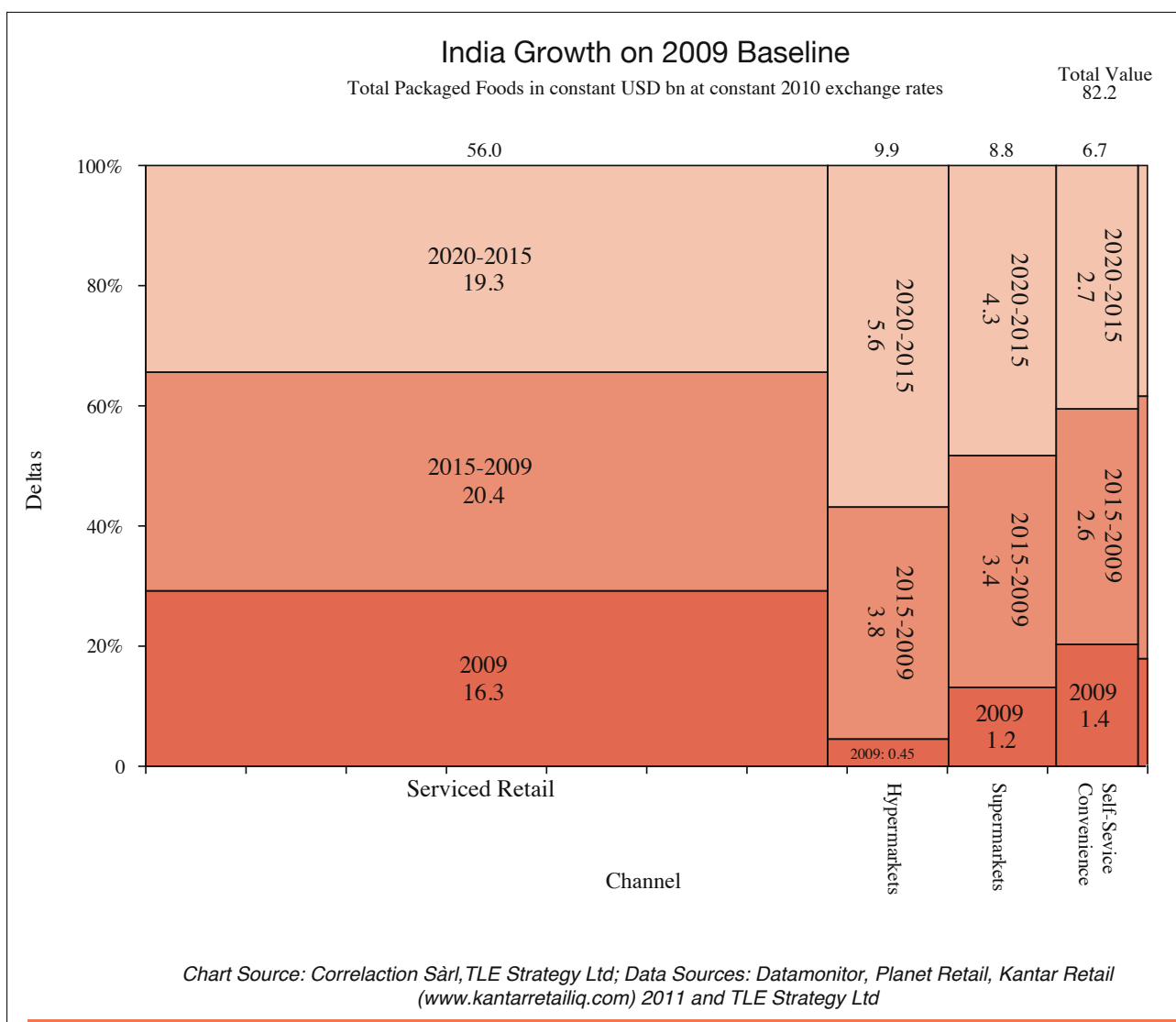
Whilst the Serviced Retail segment is forecast to generate 67% of market value growth in constant money terms, it does so from an existing base of 84% of the total market – and is consequently forecast to lose share:



The share gains of Self-Service Retail correspond to the remaining 33% of market value growth, of which Self-Service Convenience represents slightly less than a third. This is notably interesting because this channel globally tends to be smaller in size, and trailing the development of “big-box” channels.

Cluster 1: India

The evolution of the Market Drivers in India suggests that, within our focus markets, India will be the fastest growing retail market in dry grocery, at a staggering 14% CAGR in constant money to 2020:



In the case of India, our overall conclusion that “every channel will grow” does not do justice to the massive opportunities for growth in each Indian retail channel – the Serviced Retail channel, with a CAGR in constant money of 12%, is forecast to more than triple towards 2020 (whilst the total market is forecast to more than quadruple!).

As with Egypt, it is important to note that our forecast results from the evolution of Market Drivers, and excludes the implications of events like regulatory change which could have profound implications for the Indian retail landscape during the coming years - whether it is about opening the market to foreign investment, unifying taxation rates and policies across states or implementing new hygiene and business regulations. The limited scope of our forecast therefore excludes the regulatory factors currently spurring rapid growth in the self-service Cash & Carry channel in India. This channel is benefitting from the regulations restricting FDI into India in two ways: 1) It is the only legal conduit for direct ownership by foreign retailers looking to enter India with majority control 2) It is a channel which targets the serviced retail trade which remains insulated from change by a number of regulatory restrictions.

Like Egypt and other Cluster 1 markets, the Indian opportunity for organic growth far outweighs the opportunity for market disruption in retailing channels. However, unlike Egypt, the pace of growth itself in India is expected to create its own turbulence, as the investment required to support and sustain incremental channel capacity will create issues for retailers. We can already observe the strains on retailers across channels in India as they try to develop self-service channels to accommodate burgeoning demand. This is in part due to an as yet inconclusive search for the appropriate balance, particularly in large format self-service channels, between the short-term profit derived from retailing and the potential to value the longer-term potential for property appreciation.

Incremental CAGR Opportunity from Creating Disruptive Change, vs. Underlying Organic Total Market CAGR 2009-2020

Total Packaged Foods in constant USD bn at constant 2010 exchange rates

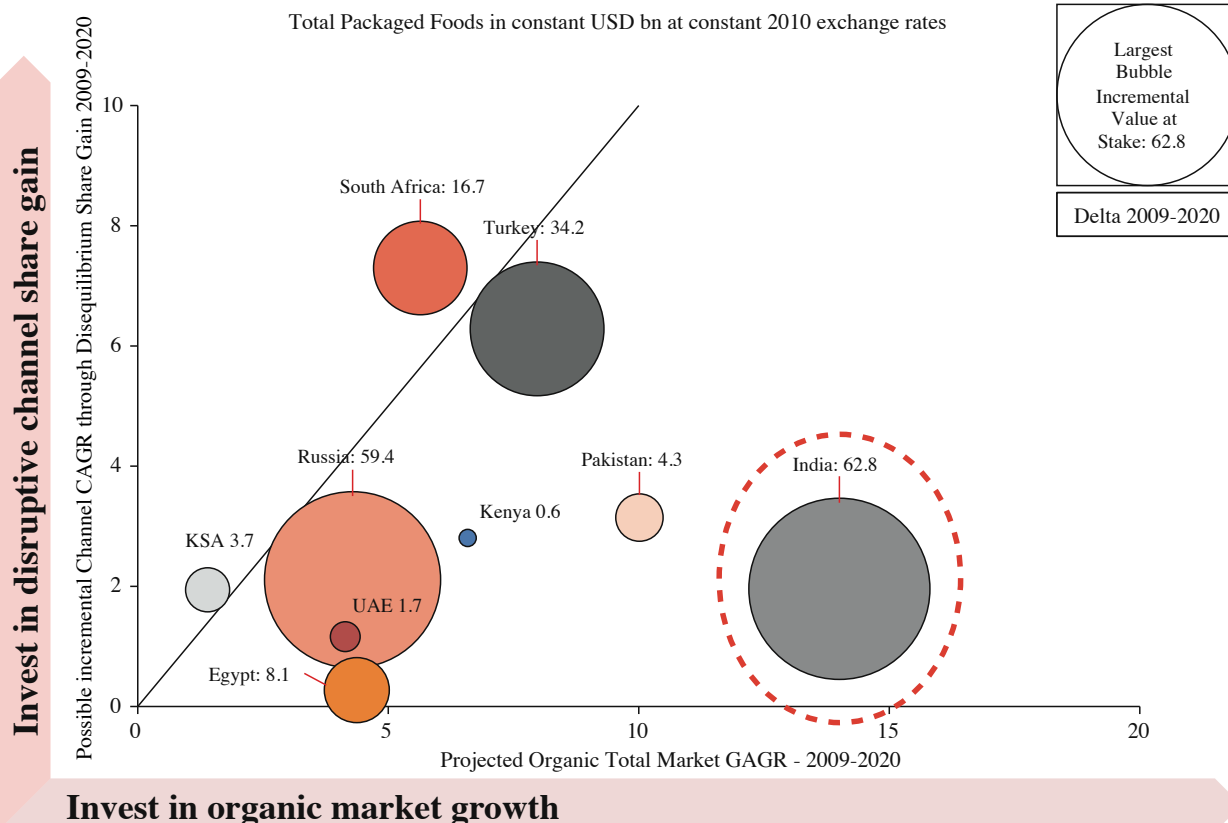


Chart Source: Correlation Sàrl, TLE Strategy Ltd; Data Sources: Datamonitor, Planet Retail, Kantar Retail (www.kantarretailiq.com) 2011 and TLE Strategy Ltd

Across the board, channels are set to grow – and the leading channel in terms of market value growth remains Serviced Retail, responsible for 63% of market value growth:

India Growth Drivers (2009-2020)

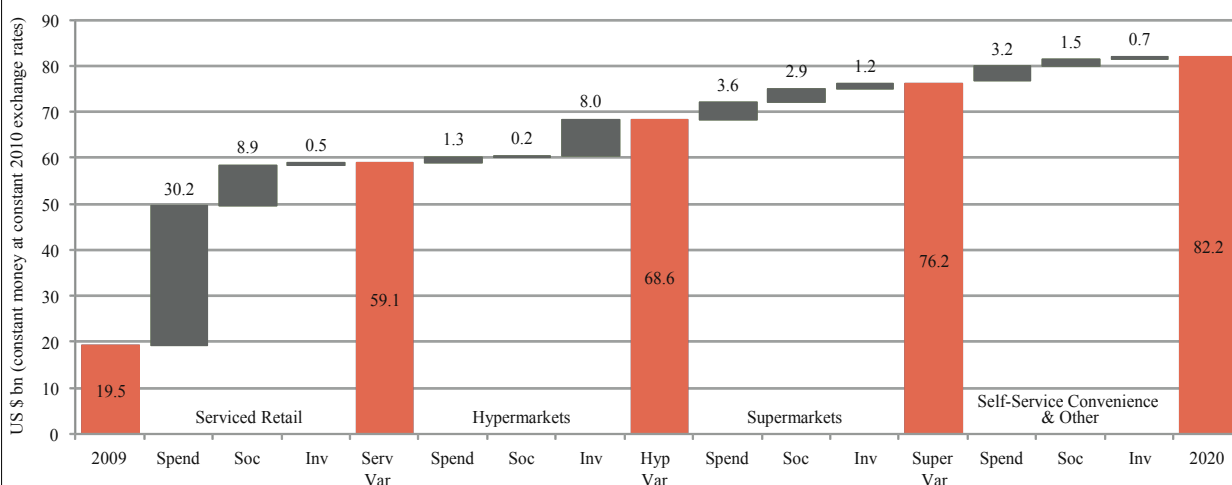
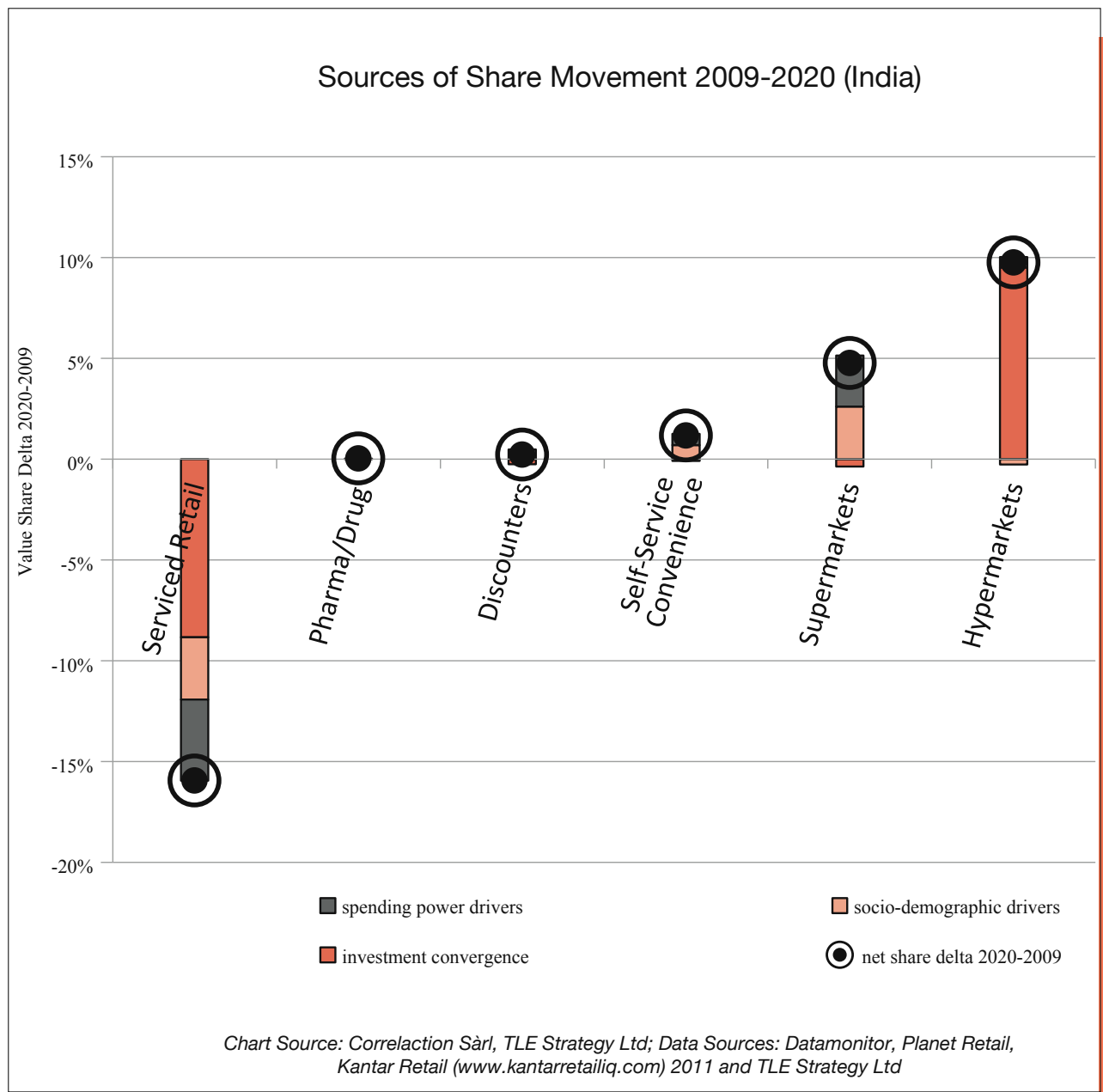


Chart Source: Correlation Sàrl, TLE Strategy Ltd; Data Sources: Datamonitor, Planet Retail, Kantar Retail (www.kantarretailiq.com) 2011 and TLE Strategy Ltd

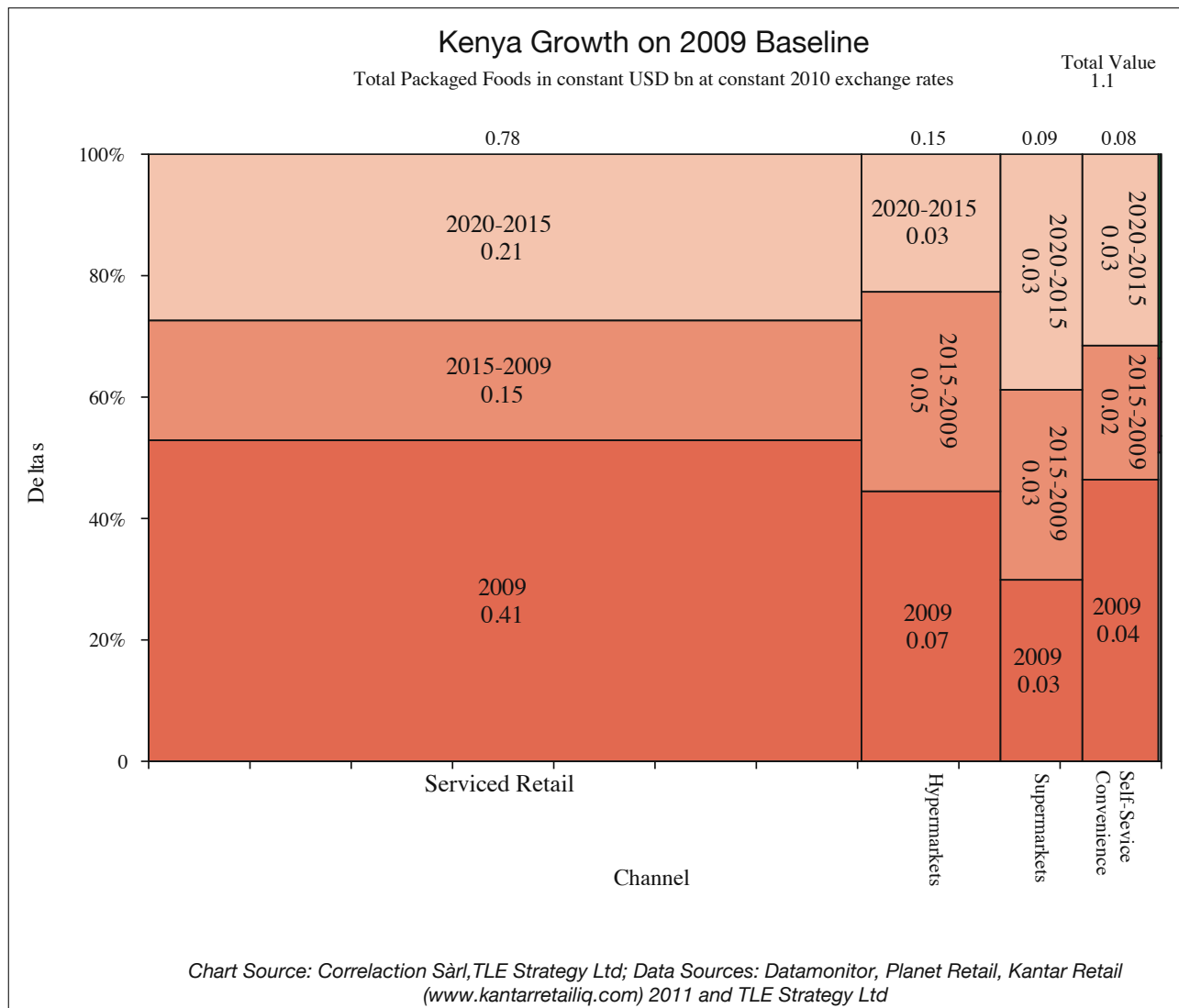
As Serviced Retail starts from 84% of the market, this channel is nevertheless forecast to lose share to Self-Service channels. Our forecasts predict Hypermarkets to benefit mostly from Investment Convergence, whilst Supermarkets are growing mostly based on Spending Power and Socio-Demographic drivers.



Having said that, we expect the increasing market turbulence caused by continued, massive investment by these channels to meet demand to create a fragmentation of optimal store size depending on catchment area dynamics, which consequently could lead to a redefinition of store roles to shoppers. This is particularly likely in the Indian market environment, where extrinsic factors like regulation make the idea of “perfect competition” even less applicable than in other markets in our study.

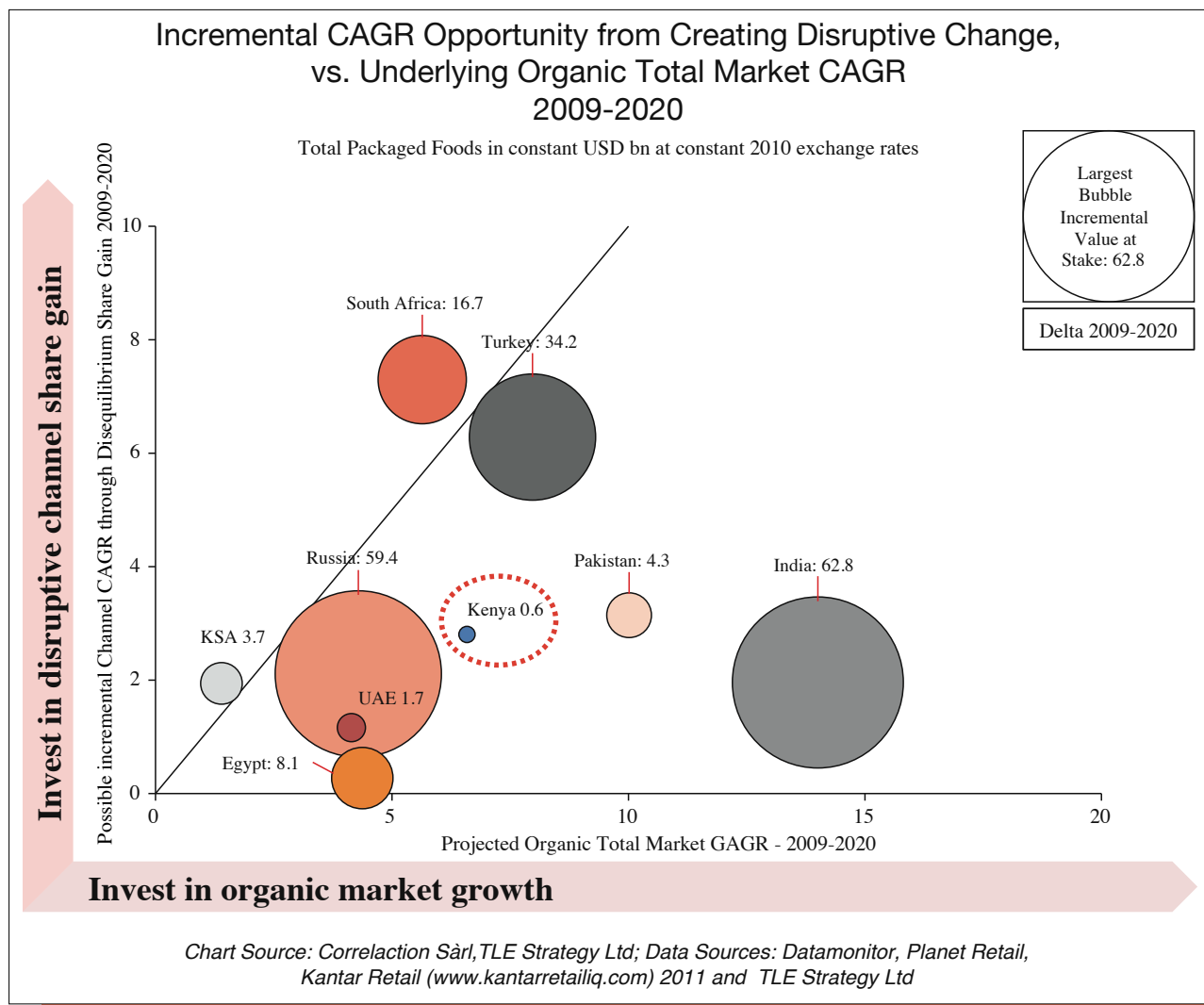
Cluster 1: Kenya

The Kenyan market is set to be one of the faster growing markets in the region between now and 2020, with a CAGR of 6.6% in constant money. Again, as in Egypt and India, growth in the Serviced Retail channel is outstripped by Self-Service channels, and is forecast to grow at 6.0%.

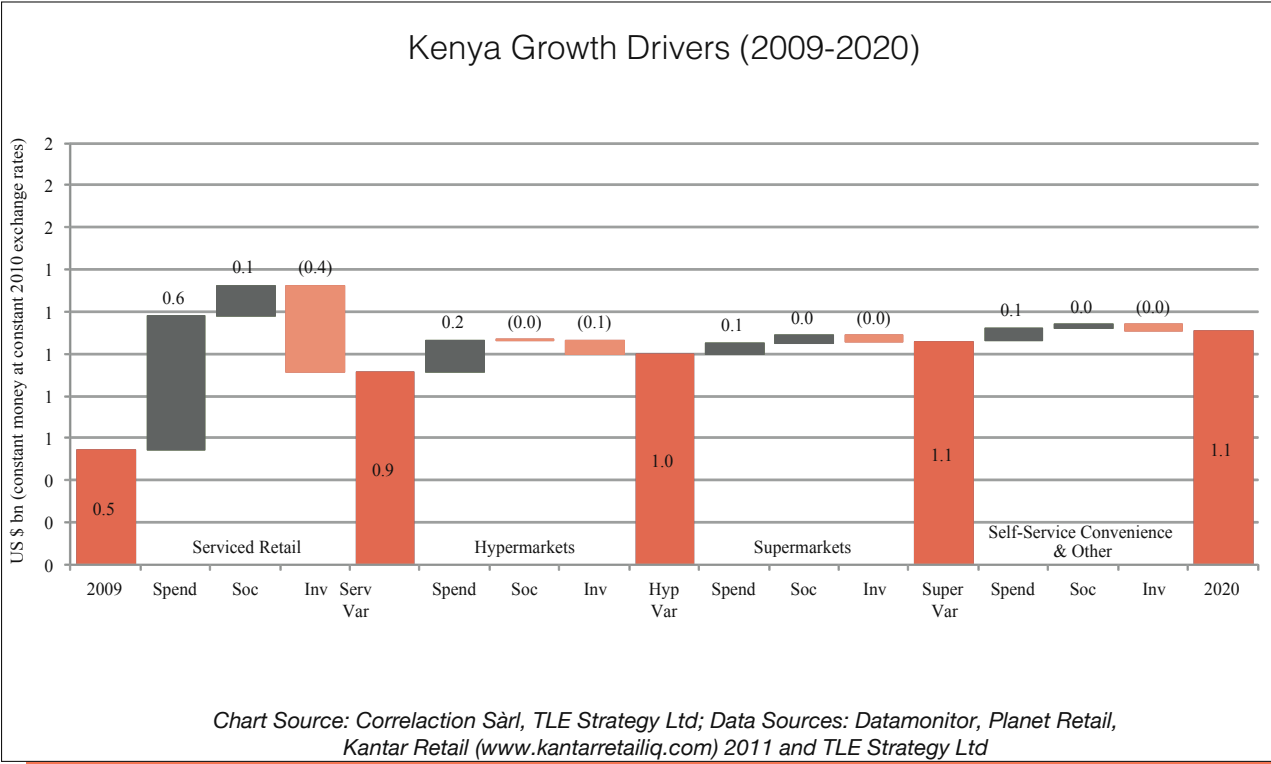


Compared to other Cluster 1 markets, we forecast the growth of Hypermarket to be higher than average, but only just: at 7.6% CAGR, Hypermarkets are forecast to trail Supermarkets, growing at 12%. This is confirmed by our observation that, recently, new store openings in Kenya have tended to favour smaller store sizes.

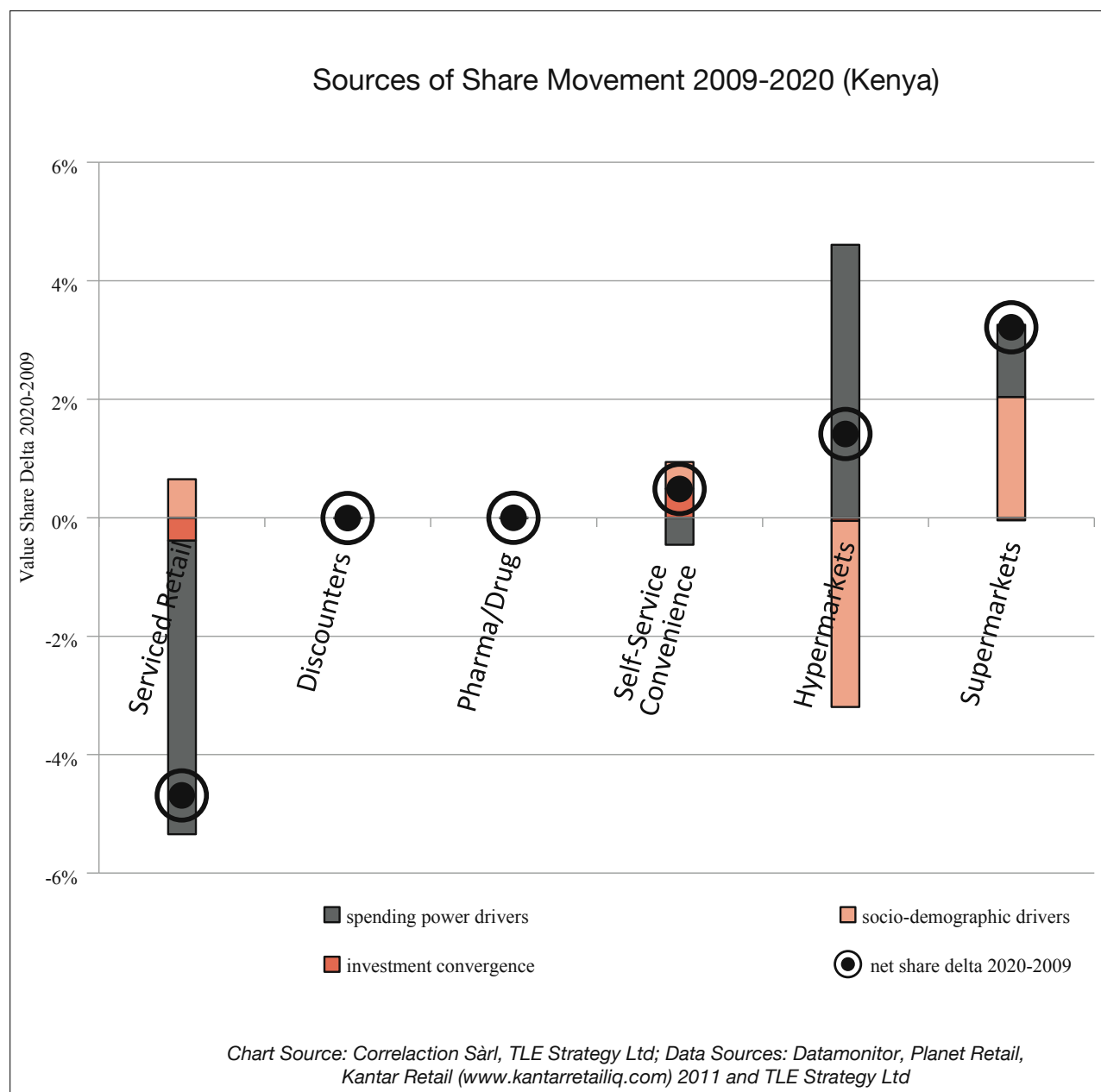
As with the other Cluster 1 markets, the opportunity for organic growth largely outweighs the opportunity for investment in disruptive channel growth.



That said, the generalisation of organic growth being superior to disruptive growth is less true for Kenya when we look at specific channels. Unlike other Cluster 1 markets, we see a significant conflict between the Market Drivers in spite of across the board growth. All of the channels are under pressure from Investment Convergence, suggesting that Kenyan retailers are likely to invest outside Kenya's borders at a higher rate than within.



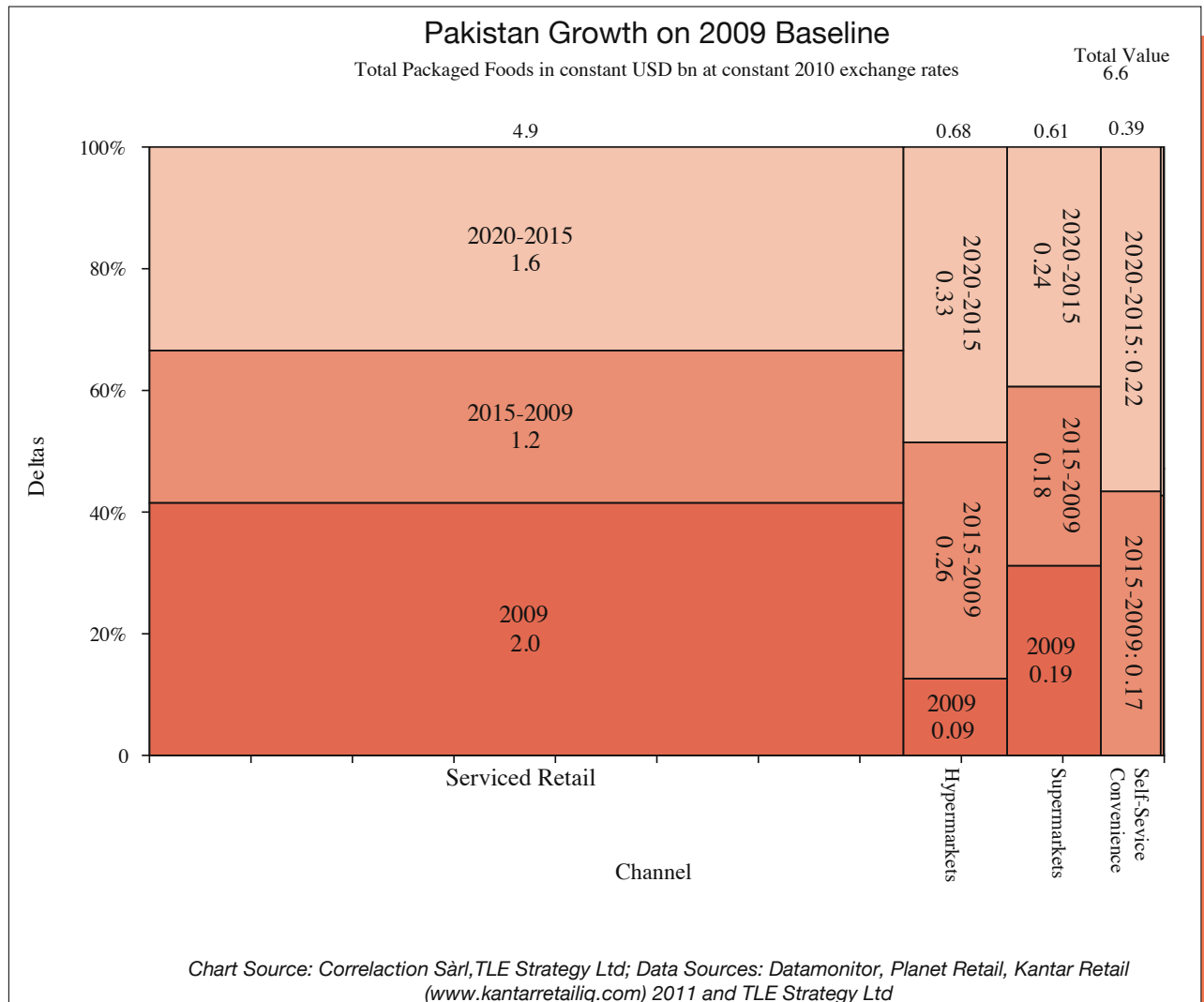
Again, Serviced Retail is the biggest source of retail growth, at 66% of total market value growth, albeit from a base of 75% of the market in 2009. Even though Kenyan Hypermarkets are forecast to be the next growth contributor, growing share and capturing 15%-points of total market value growth, they rank 6th in our 12 channels where the likelihood of Punctuated Retail Equilibrium is statistically significant.



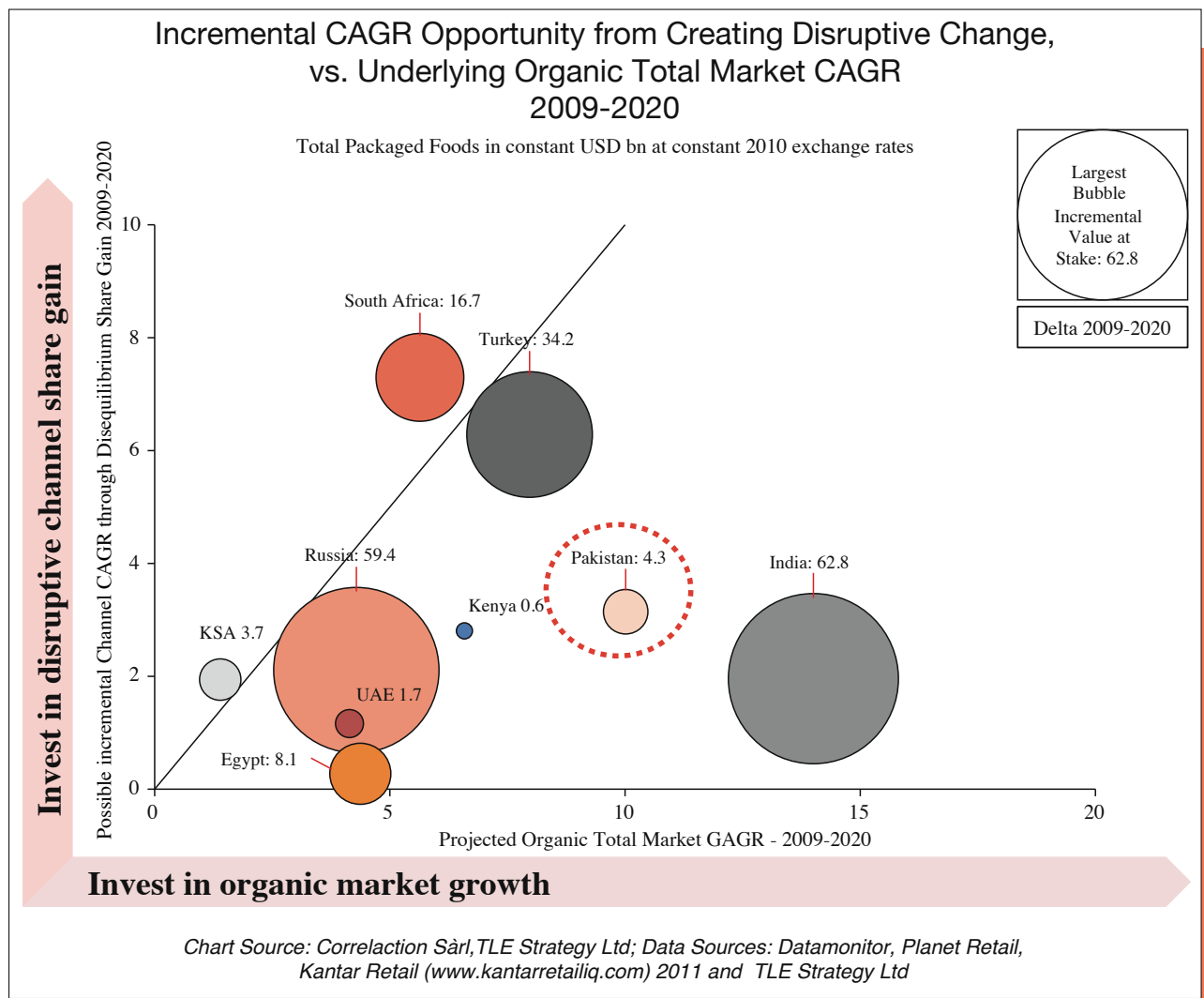
Whereas Spending Power drivers are very positive for Hypermarkets, Socio-Demographic drivers pull the channel in the other direction – which could provide an opportunity for operators in Hypermarkets to differentiate the channel proposition towards their shoppers’ differing needs, and thus punctuate the apparent equilibrium to increase share. Interestingly, our forecast suggests that the negative impact in market value of Investment Convergence mentioned above is very similar across channels, thus having very little effect on channel share gains and losses.

Cluster 1: Pakistan

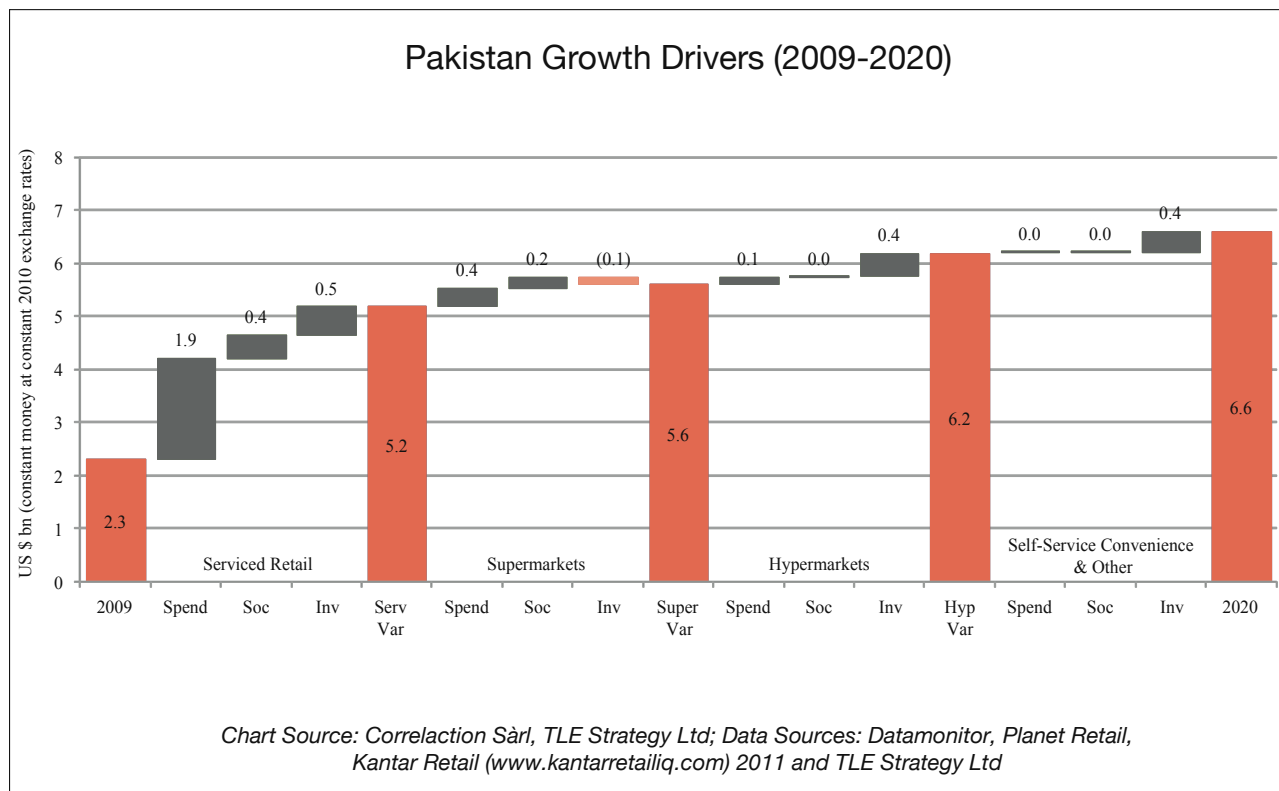
Pakistan is forecast to generate the second highest growth rate amongst our focus markets. At 10% CAGR in constant money to 2020, Pakistan will attract significant retail investment to satisfy growing shopper demand – and yet again, Serviced Retail will generate the great majority of this growth in value, growing at 8.3% CAGR:



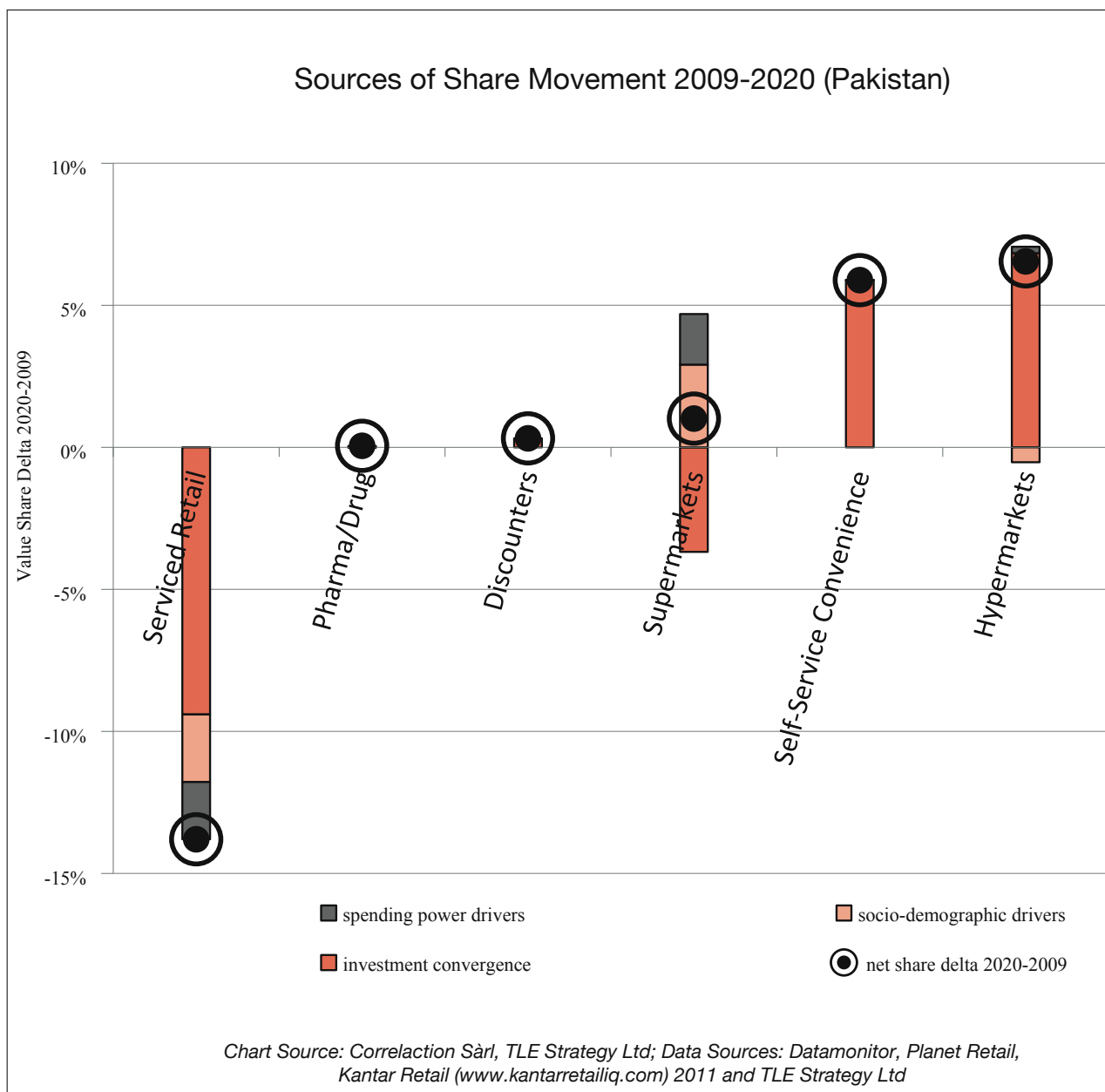
However, whereas the growth in Self-Service retail will outstrip this (altogether respectable) Served Retail growth, the differences between different Self-Service channel growth rates are forecast to be quite remarkable, with Supermarkets “only” growing at 11% CAGR, and both the bigger Hypermarket format growing faster at 21% CAGR and Self-Service Convenience at an astounding 180%. As a consequence, and fuelled by its overall market growth rates, Pakistan is the highest-ranking candidate within our Cluster 1 markets to live through a possible spell of Punctuated Retail Equilibrium:



The Market Drivers at play in Pakistan are positive virtually across the board, largely driven by the growth in underlying demand almost trebling the market, in itself already creating turbulence. However, investment in the Supermarket channel is predicted to be reduced somewhat, favouring other channels, notably the Hypermarket and Self-Service Convenience channels:



The consequent incremental share gains and losses caused by all the investment taking place to satisfy surging shopper demand suggest that Pakistani Supermarkets are in a significant state of disequilibrium, ranking 4th in the 12 channels we identified in the region:

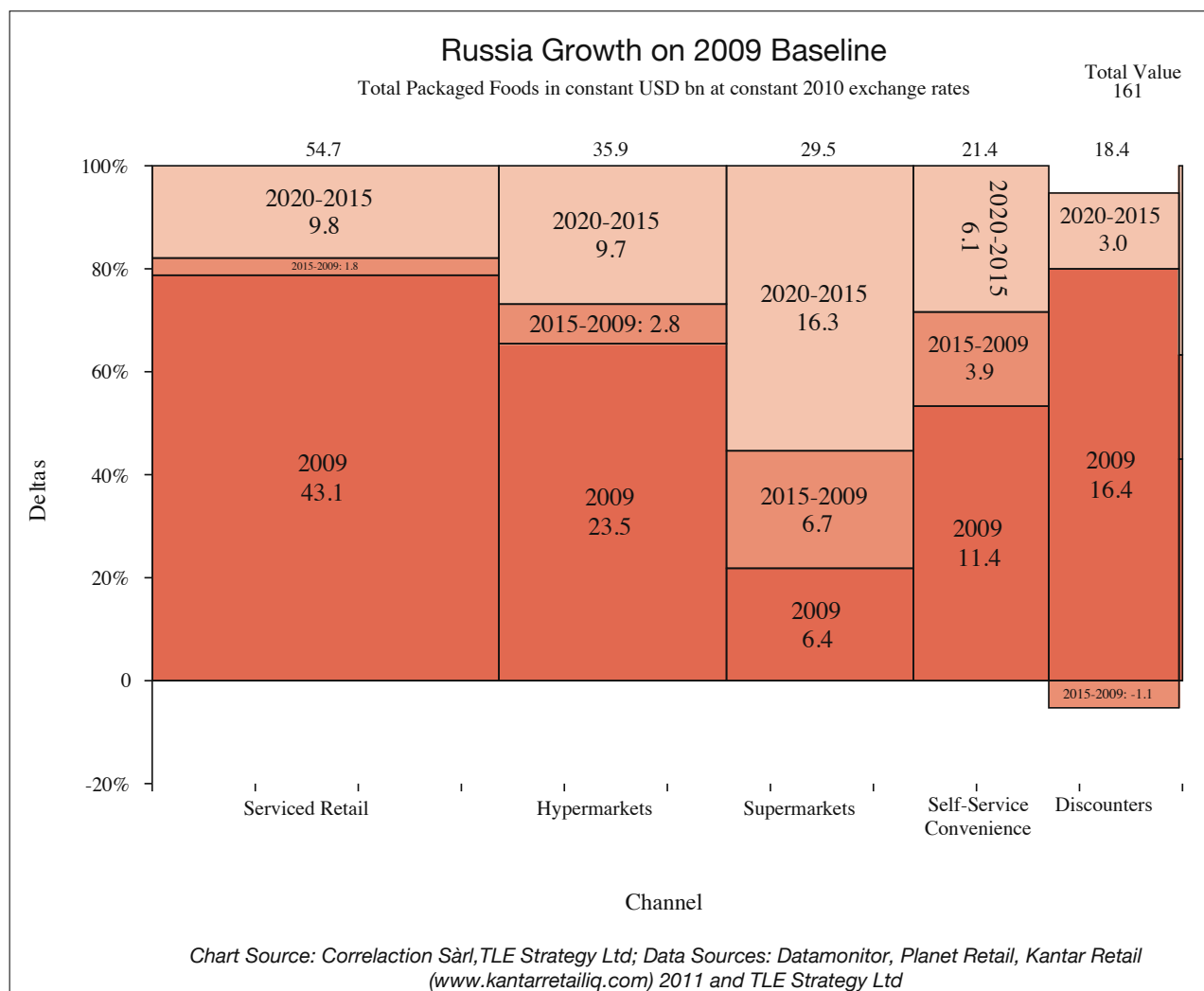


Even though Pakistani Supermarkets will continue to attract significant investment in constant money terms, as shown above, our forecast suggests that differential, disproportionate investment will favour both the bigger and the smaller Self-Service formats adjacent to this channel, negatively impacting Supermarket share. On the one hand, as retailers invest in expansion, they are likely to favour large formats like Hypermarkets and Cash & Carry to generate immediate scale, whilst on the other hand the demand-driven Spending Power and Socio-demographic drivers will attract so much investment in the Supermarket channel that retailers will want to diversify away from this channel into Self-Service Convenience as they seek to consolidate higher Returns on Investment.

Therefore, a Supermarket operator able to generate superior RoI's in this channel, based on a differentiated shopper offer (or simply based on aggressive exploitation of first mover advantage) can trigger a disruption in the market – but so can operators in adjacent channels, encroaching upon the traditional Supermarket role. We therefore expect that the Pakistani retail environment will see sharp changes in shopper loyalty as retailers adjust to a fast-growing, and rapidly changing market.

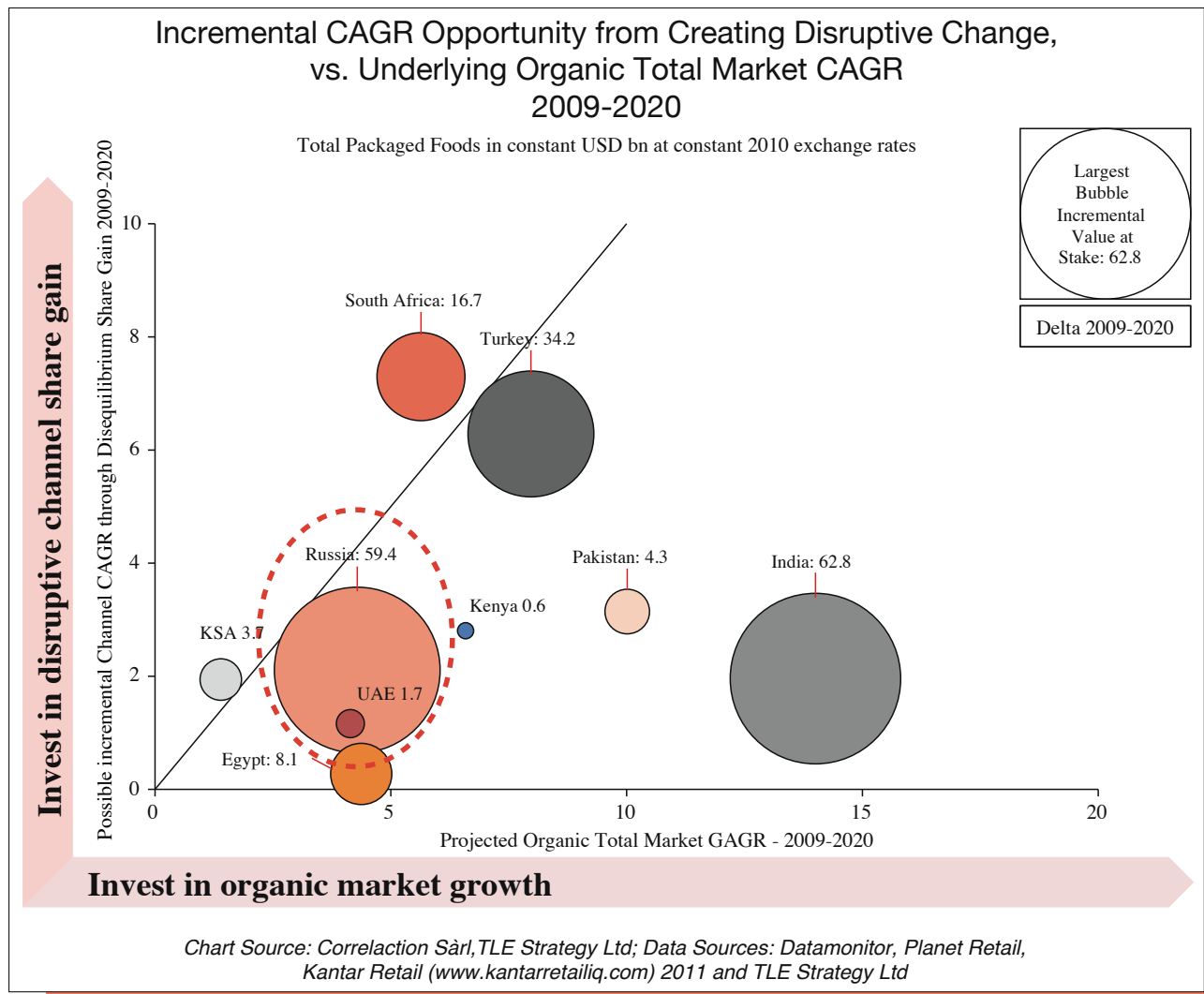
Cluster 2: Russia

The Russian market for dry groceries is predicted to grow at 4.3% CAGR in constant money through 2020. The largest contribution to growth (39% of total market growth) is made by Supermarkets, forecast to grow at 15% CAGR in constant money – whilst the relatively large Discounter channel growth rate to 2020 is only 1.0% CAGR, with a dip in the period to 2015:



This forecast is borne out by facts on the ground, where we have recently observed Discount stores to move towards the full service Supermarket format, notably in starting to offer Fresh Foods, increasing shopper choice and thus, in fact, reclassifying as Supermarkets.

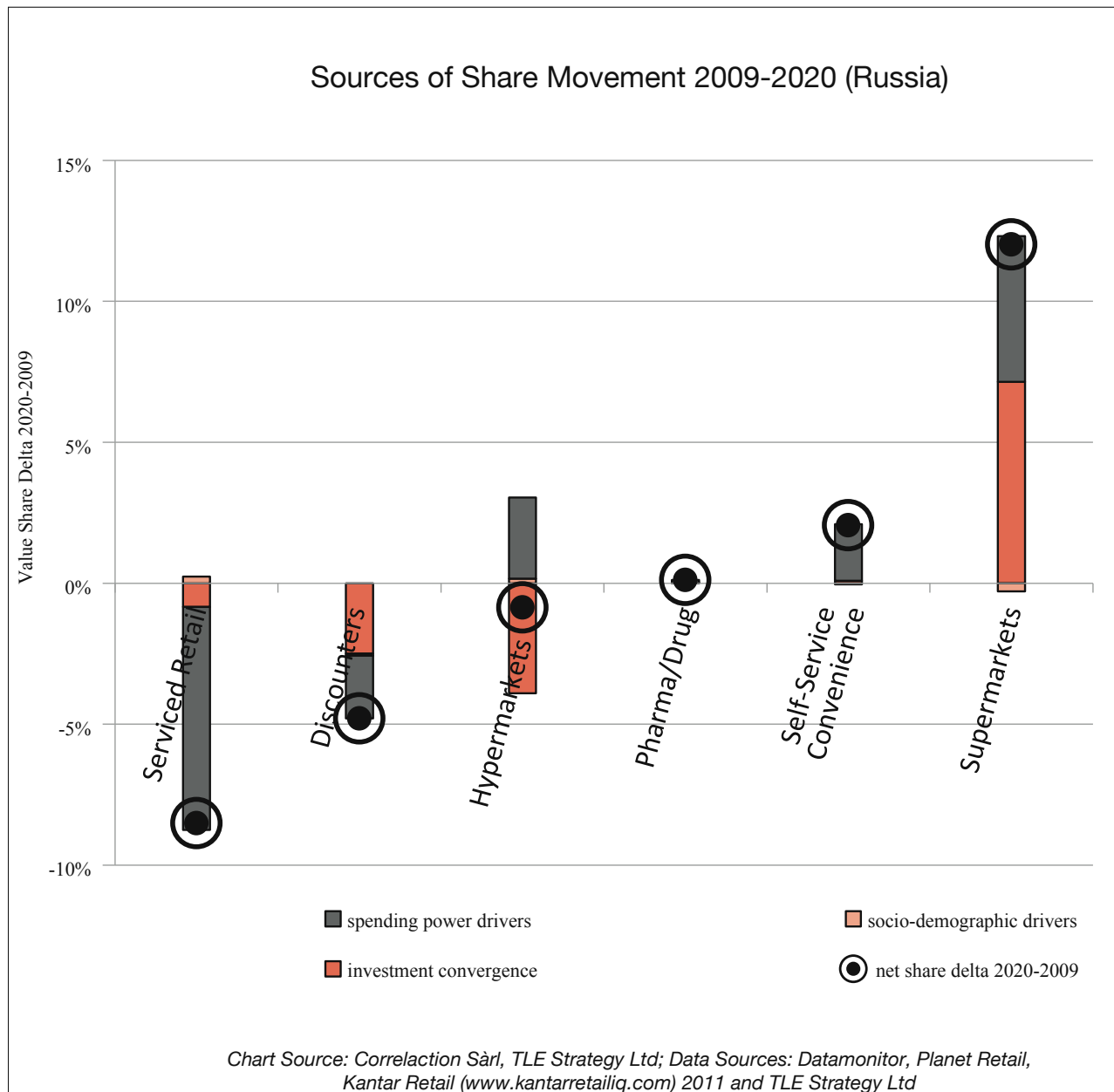
Our forecasts suggest that the Russian market has a degree of pent-up turbulence caused by Market Drivers working in opposite directions, whilst there is still a bias towards organic growth in our Russian forecast:



The forces conspiring against the continued development of Serviced Retail in Russia are across the board and well understood, although the Serviced Retail segment is still forecast to grow at 2.2% CAGR in constant money to 2020. The opportunity to gain share through a disruption of the market is evident in the faster growing Self-Service channels – with Hypermarkets and Discounters receiving relatively lower levels of investment than the rapidly growing Supermarket channel:



Although at face value, the low growth rate forecast for the Discounter channel may seem surprising, this is explained by many Discount stores moving increasingly towards the Supermarket positioning, and at some point reclassifying as such. The Market Drivers supporting this shift within Discounters and Supermarkets are all pointing in the same direction, which suggests that neither channel is in disequilibrium:

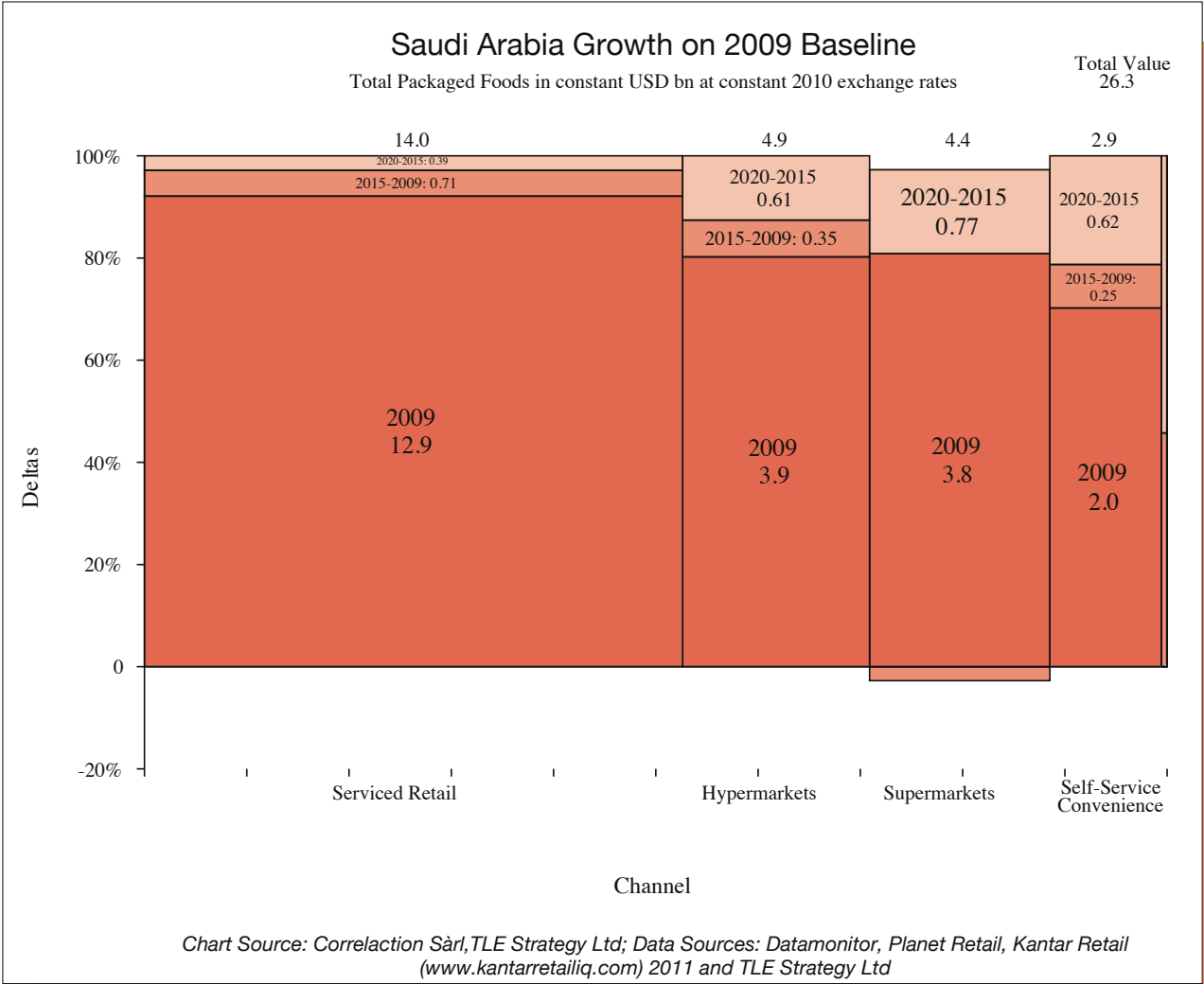


Conversely, the Russian Hypermarket channel is in a (statistically) significant state of disequilibrium, where past investment reflects the absence of “perfect competition”: some retailers built capacity in urban catchment areas ahead of shopper demand partly fuelled by the potential for an appreciation of property value. Our forecast for Russian Hypermarkets, now ranked 7th of the 12 channels in our focus markets statistically liable to disruption, suggests that, whilst Spending Power drivers are the most positive of all Russian channels, and the Hypermarket channel will thus continue to receive investment to support its projected growth, its projected share is forecast to remain virtually stable, as retailers’ differential investment are likely to have a bias towards Supermarkets, particularly in the period up to 2015.

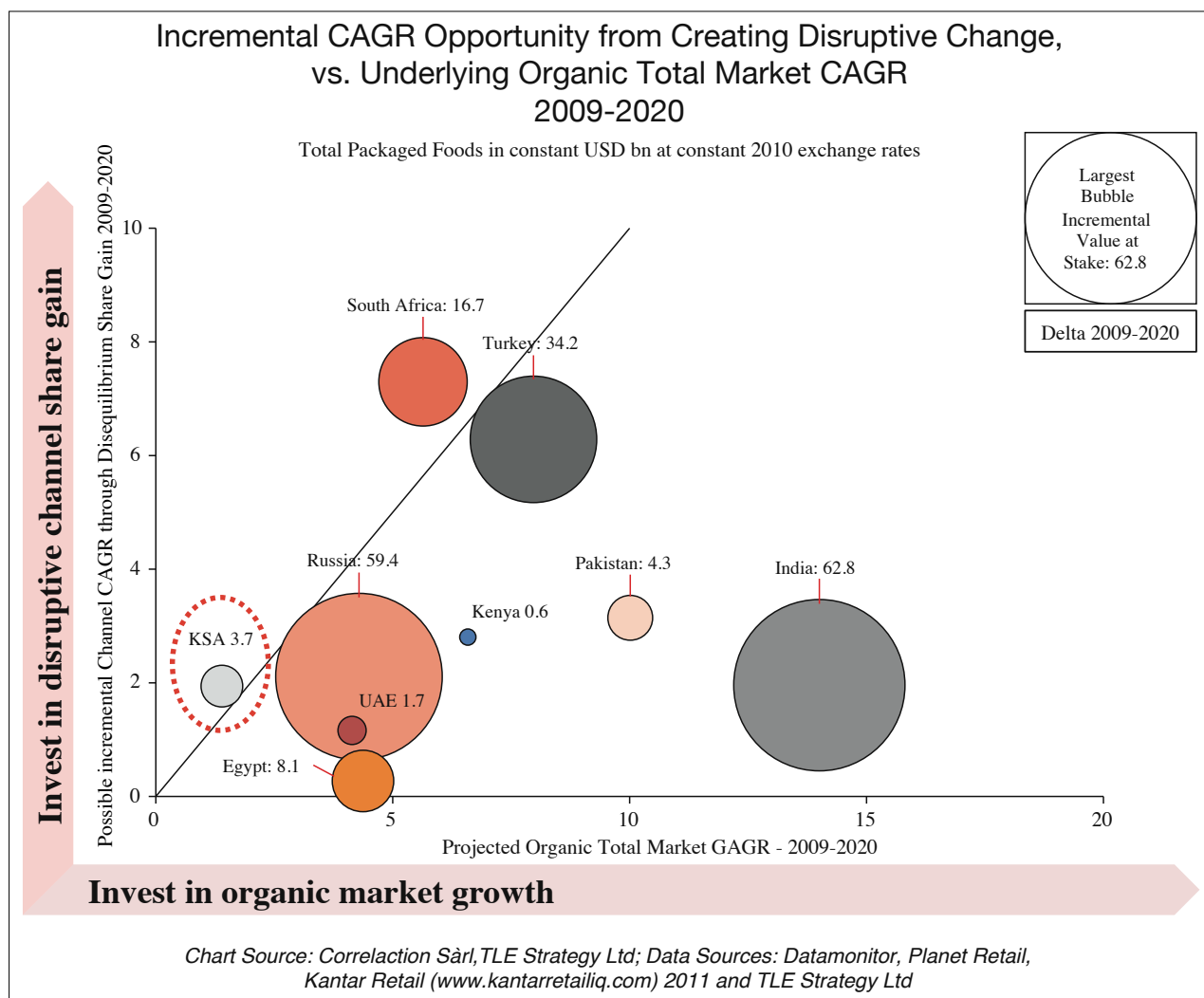
This points to a growing opportunity for individual hypermarket operators to disrupt the status quo with new shopper-driven business models. In the absence of further hypermarket channel evolution, with the compound effect of Discounters also moving towards the Supermarket positioning and ultimately blending in, the Supermarket channel is thus projected to grow well ahead of the market.

Cluster 2: Saudi Arabia

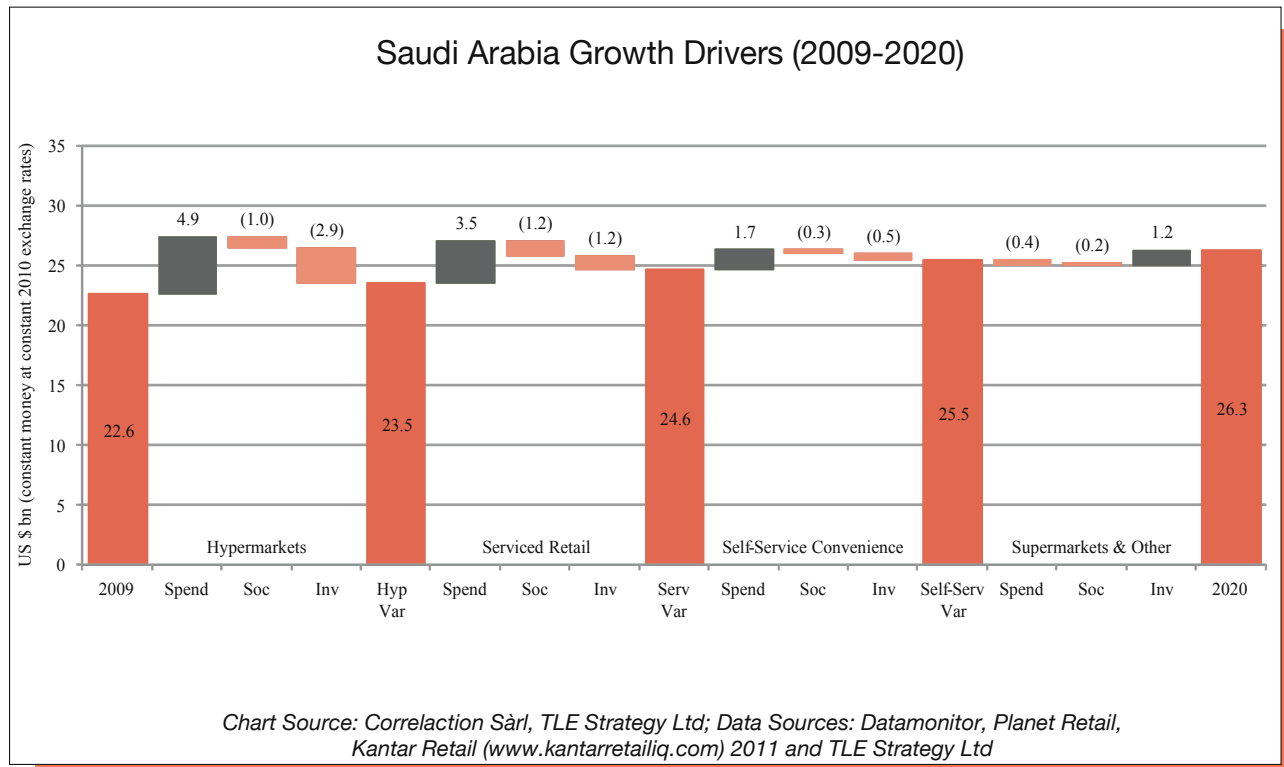
The Saudi Arabian market, corrected for outgoing remittances, is projected to grow at just 1.4% CAGR in constant money through 2020. The two largest segments, Serviced Retail and Supermarkets, are projected to grow at 0.7% CAGR and 1.4% CAGR respectively – whilst we expect triple digit growth in the now virtually absent Discounter channel:



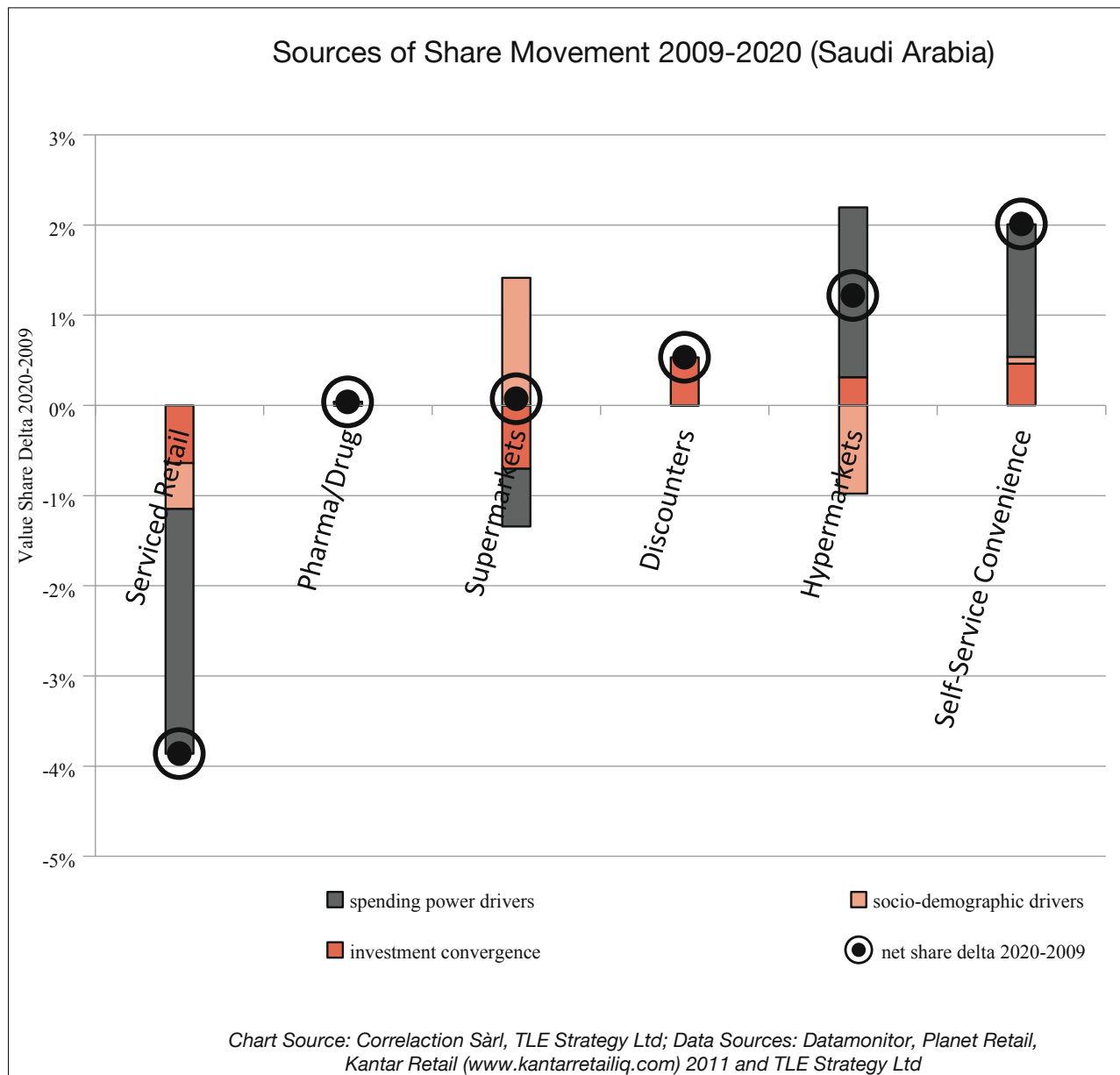
In this low growth environment, the opportunities for channel growth through disruptive share gain are higher than through underlying demand growth only:



The source of disruption is evident from a number of drivers, primarily Socio-Demographic and Investment Convergence which are reducing the potential across the majority of channels except for Discounters. Although all channels will grow, that growth is primarily the result of increasing spending power.



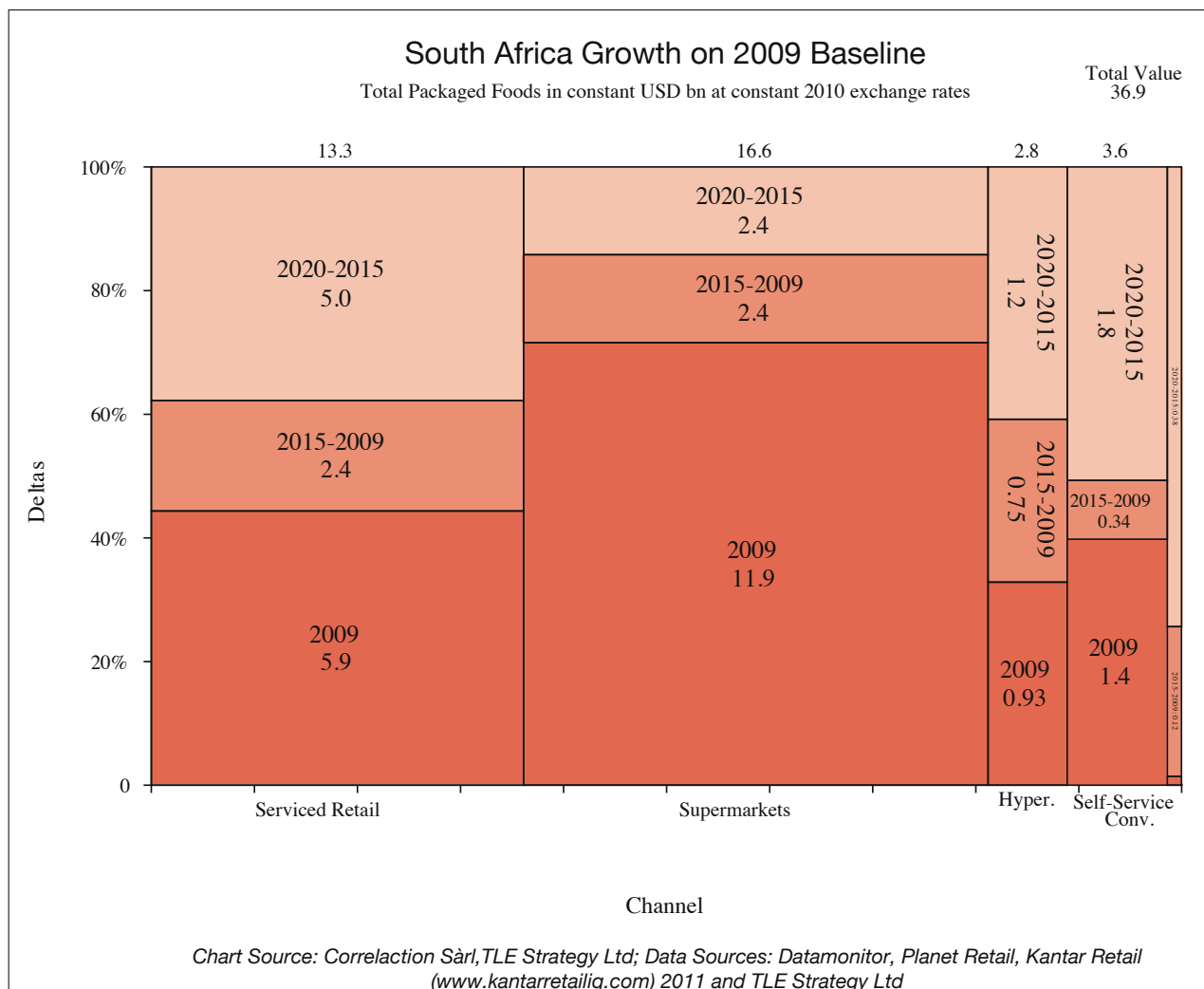
The scale of share movement is relatively small, yet Hypermarkets and Self-Service Convenience are forecast to benefit from the positive impact of spending power drivers, whilst the jury is out on Supermarkets, with an aggregate share gain close to zero. Discounters could however encroach on all 3 channels and their underlying drivers as the positive impact of investment convergence is likely to attract operator investment in this channel.



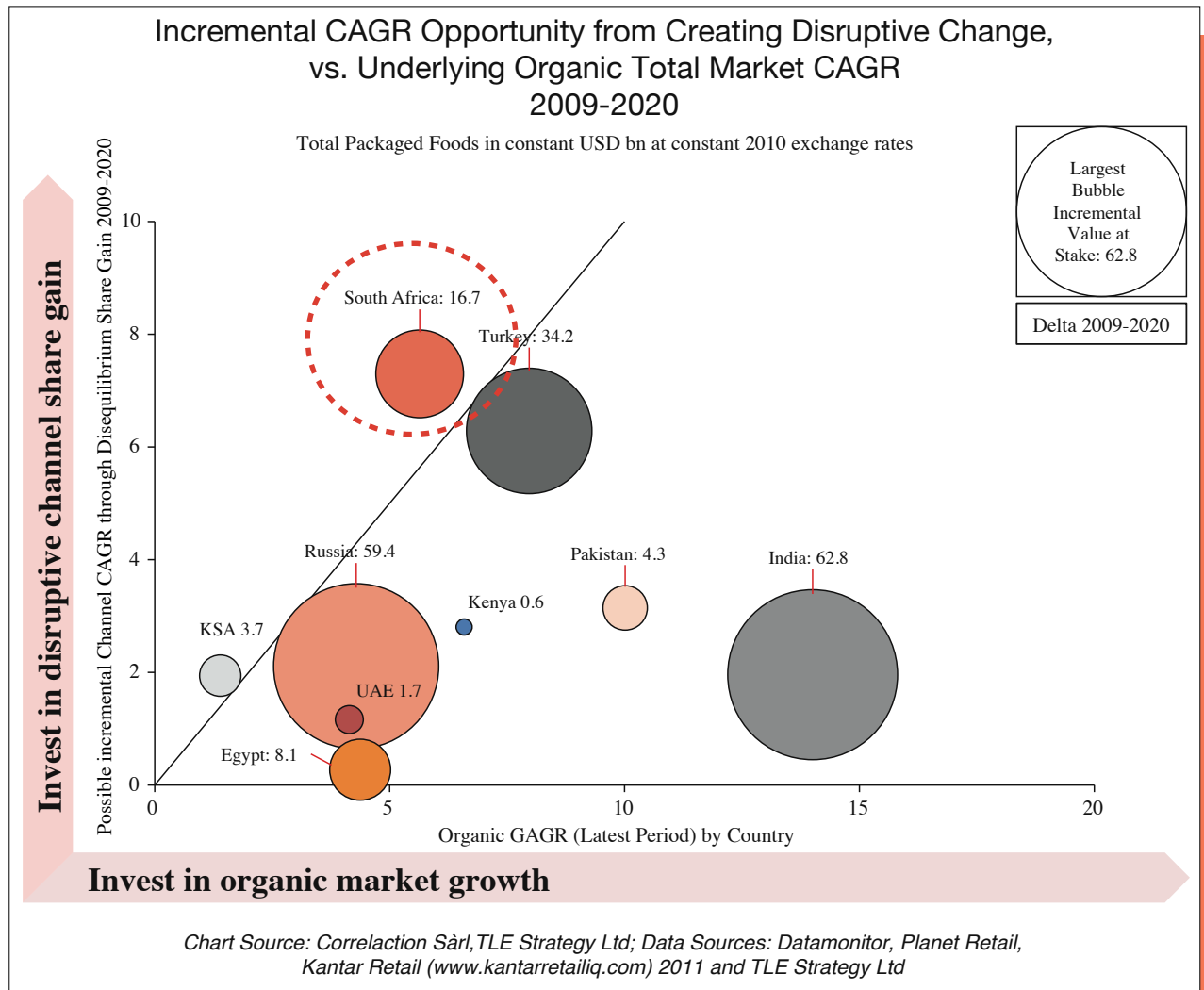
In aggregate, given the low growth levels projected towards 2020, we expect investment levels in the Saudi Arabian retail market to be relatively low and focused on maintaining the status quo – with the exception of Discounters where we forecast disproportionate investment to build on the opportunities for this channel.

Cluster 2: South Africa

The South African market is unusual amongst the markets we have studied. Whilst the market is projected to grow at 5.6% CAGR in constant money through 2020, this is the only market where our forecasts predict the Served Retail segment to outpace overall market growth, with a projected growth rate of 7.7% CAGR, representing 44% of incremental market value to 2020:

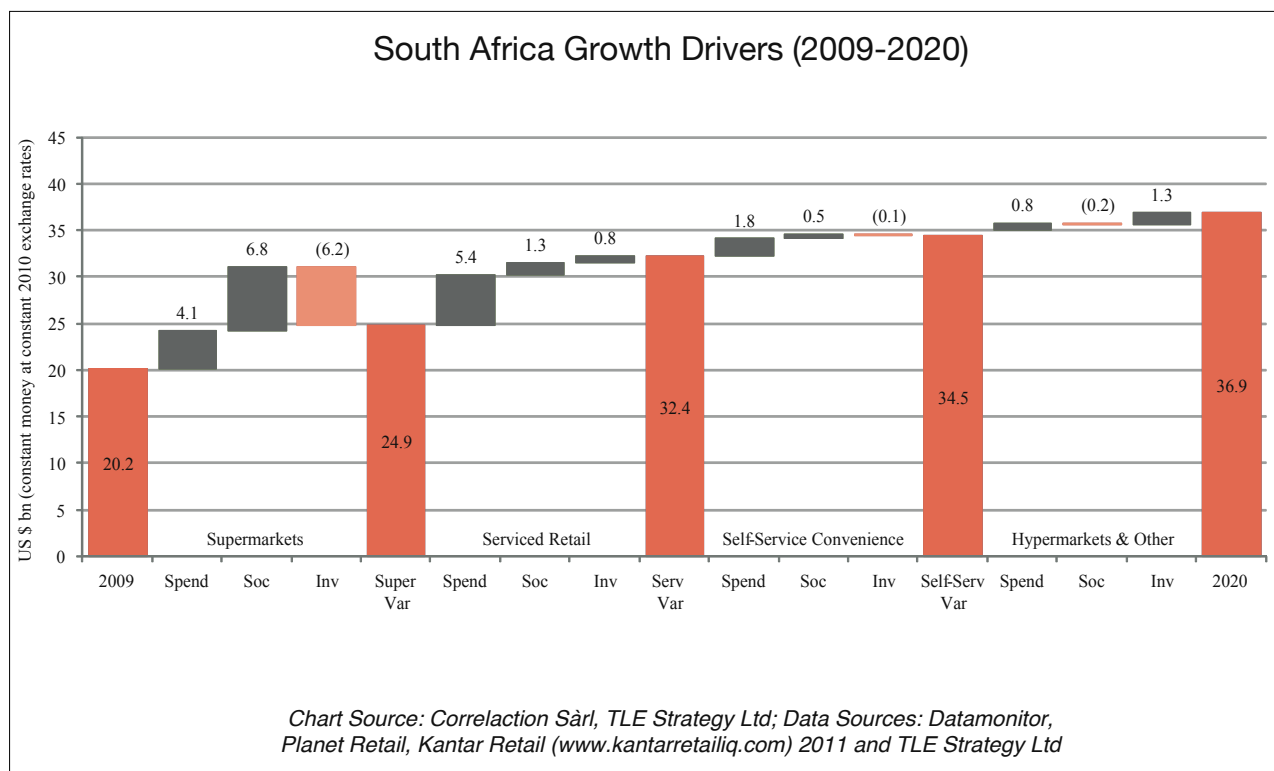


In fact, the South African market environment is highly susceptible to Punctuated Retail Equilibrium – any retailer disrupting the status quo can more than double the underlying growth rate of a channel through channel share gain, which is the highest amongst our focus markets:



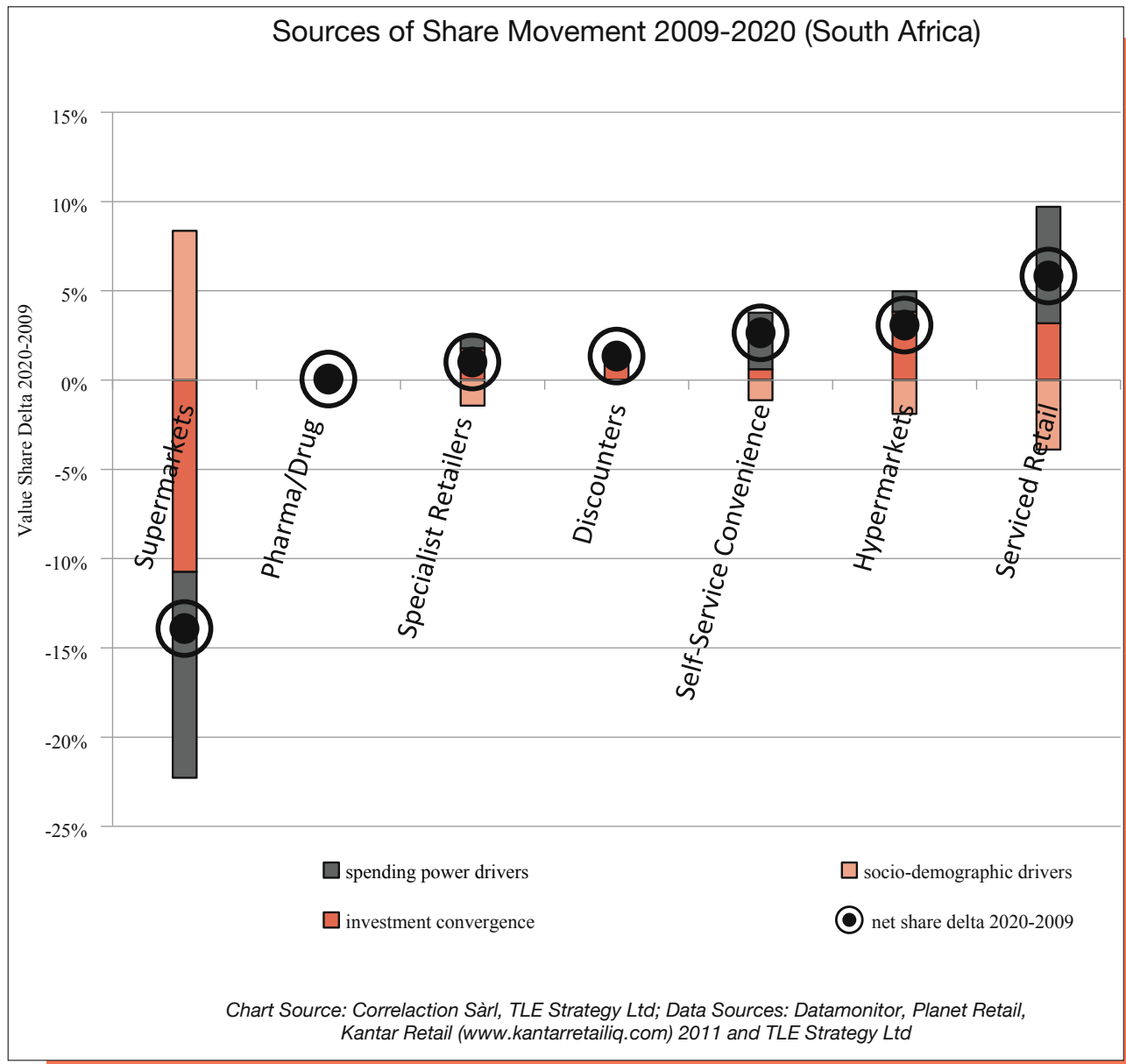
Our forecasts suggest that the Market Drivers representing demand are positive for virtually every channel (except Hypermarkets, where Socio-Demographic drivers have a slightly negative impact on overall value growth), driving growth of each channel – however, in the Supermarket channel, the Schumpeterian construct of “imperfect competition” has caused the leading retailers to continue to invest in their successful business models, seeking scale benefits to better compete amongst each other.

At the same time, the Serviced Retail segment has been hampered by a lack of a reliable Fresh Food offer, which has held back this channel from satisfying shopper needs in the Neighbourhood trip:



Our current forecasts suggest that investment in every channel will continue to satisfy the growth in underlying demand, but that a gradual reallocation of incremental investment will favour the Neighbourhood trip. As a consequence, Supermarket growth is dampened and Serviced Retail will grow faster than the market, once the lack of Fresh Foods in this channel starts to be addressed.

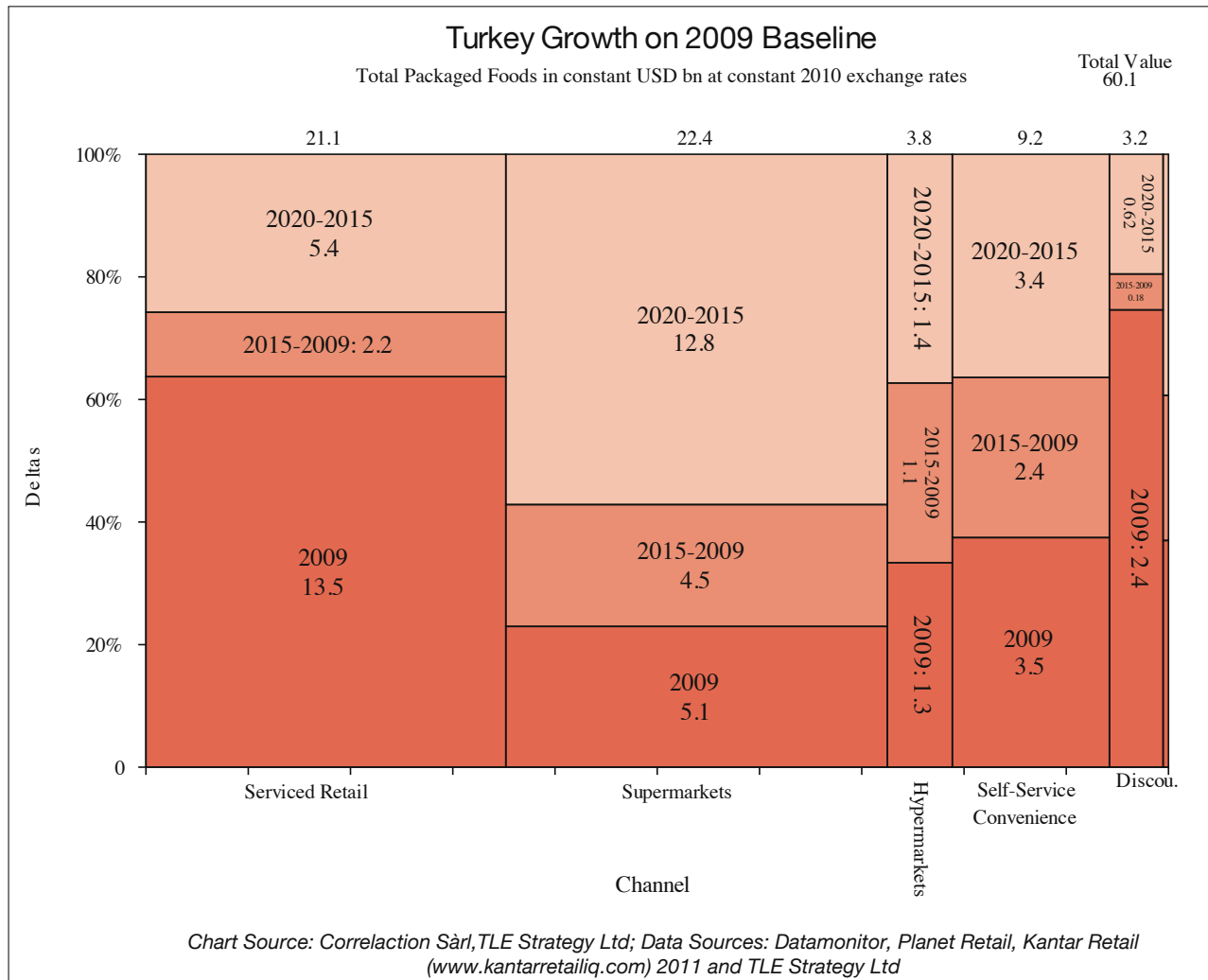
However, the South African market displays such a high level of volatility, that virtually any channel disrupting the status quo can change the rules of the game profoundly, and benefit from a step-change in share:



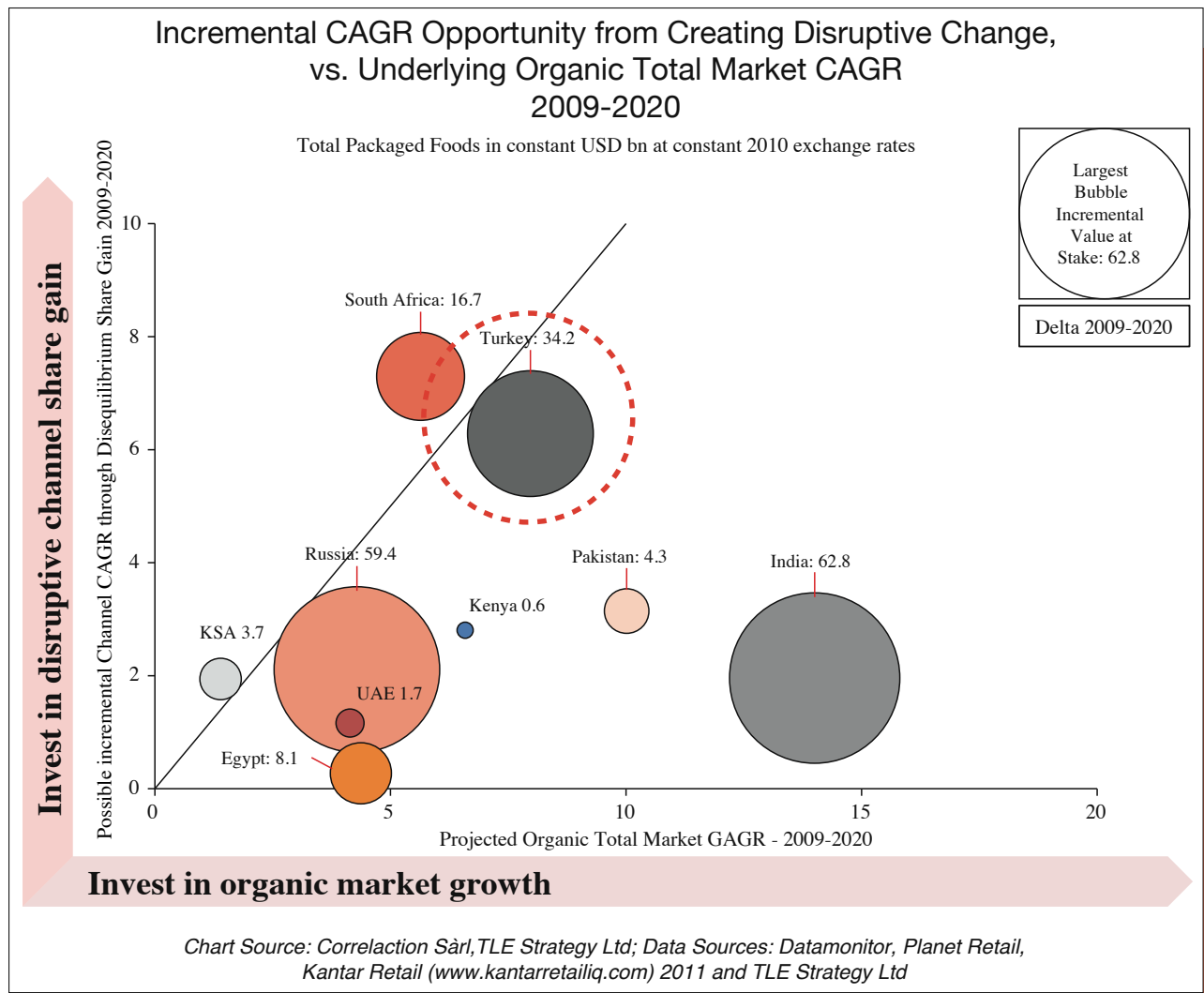
With South African Supermarkets, Serviced Retail, Hypermarkets and Self-Service Convenience all in a state of (statistically) significant disequilibrium, featuring 1st, 3rd and 9th respectively in our list of channels in disequilibrium across our focus markets, we believe that the likelihood of the South African channel landscape changing profoundly between now and 2020 is the highest amongst our focus markets – and that the South African shopper will win.

Cluster 2: Turkey

The Turkish market is projected to have the strongest organic growth rate of any Cluster 2 market – at 8.0% CAGR in constant money to 2020, this is a testament to the enormous growth in Personal Consumption Expenditure and rapid changes in Turkish society that are projected to continue:

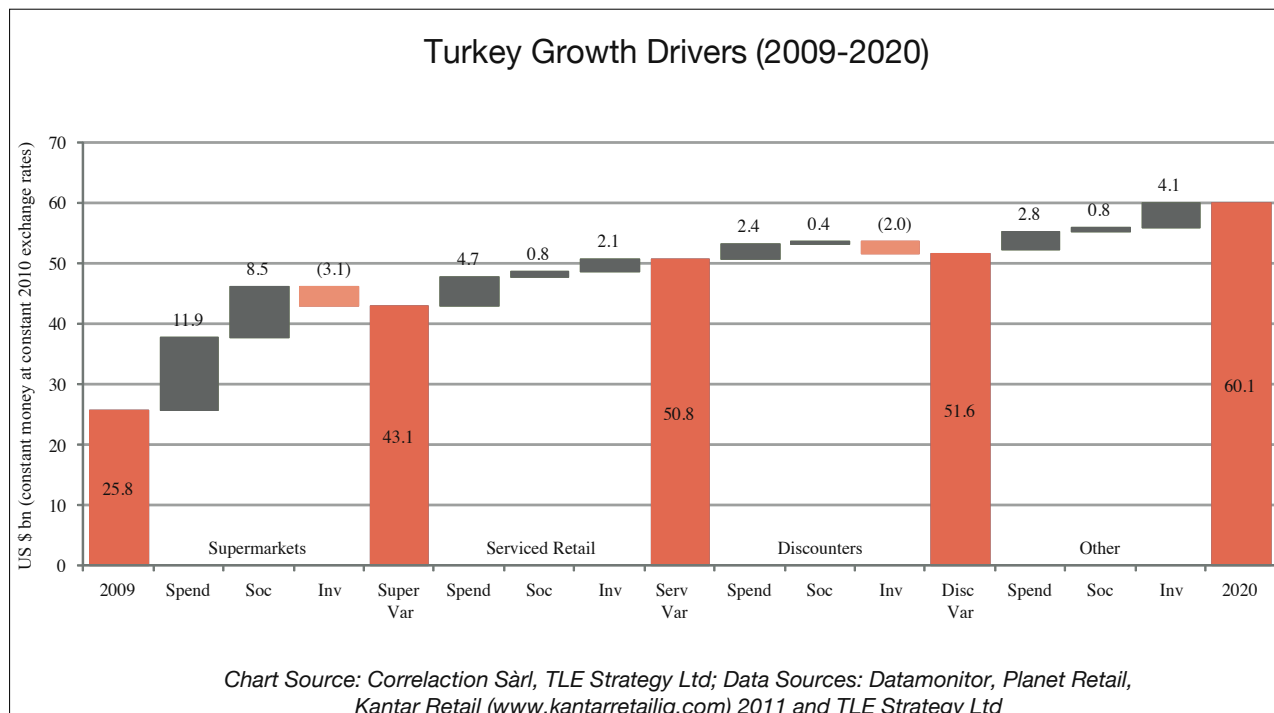


With a projected growth rate of over 14% CAGR in constant money, Turkish Supermarkets are projected to generate 50% of Turkey's total retail growth to 2020, quadrupling its value in constant money by 2020. However, as in South Africa, "imperfect competition" in the Turkish retail market has seen the leading retailers continuing to invest incrementally in their proven business models - notably in Discounters - and as a result, Turkey is almost as susceptible to Punctuated Retail Equilibrium as is South Africa:



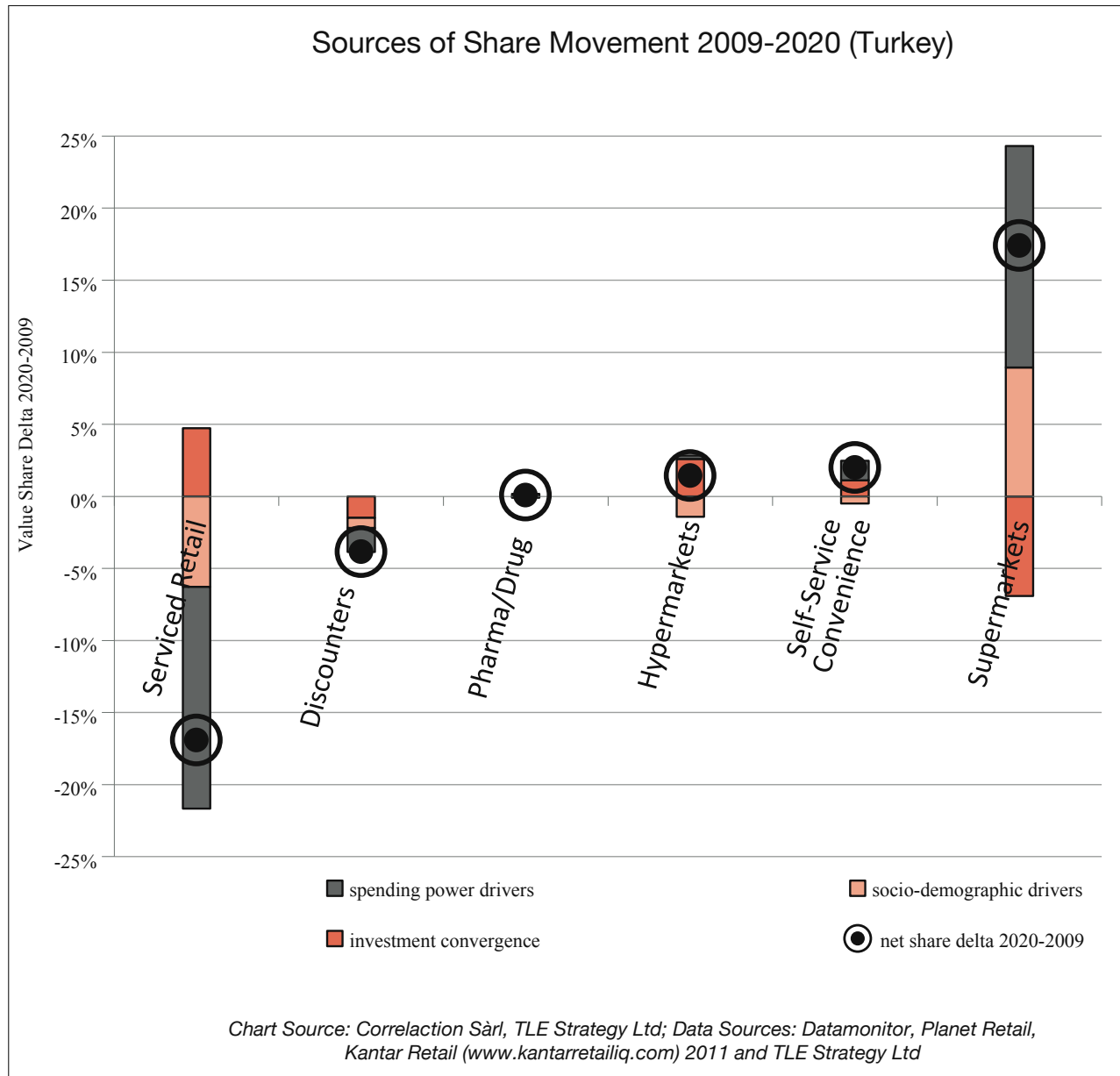
Again, Turkish retailers choosing to disrupt the status quo could be rewarded with incremental channel growth through share gain, almost doubling the already attractive underlying market growth.

The remarkable growth projected for Supermarkets is driven by demand drivers. Similarly to Pakistan, our forecasts suggest that, as this demand-driven growth will attract significant continued investment, Investment Convergence will see a rebalancing of incremental investment as the Supermarket channel will become so crowded that retailers will want to diversify away from this channel as they seek to consolidate higher Returns on Investment. We forecast that notably the Serviced and Self-Service Convenience channels will benefit from this redistribution of incremental investment:



Supermarkets (ranked 2nd in our 12 channels in significant disequilibrium) are forecast to increase share, mainly from Serviced Retail (ranked 4th), which is growing at a healthy pace of 4.2% CAGR in constant money, but nevertheless at half the pace of market growth.

As in South Africa however, pent-up disequilibrium in the market, compounded by significant investments required to keep up with the growth in demand, increases the likelihood of a retailer investing in disruptive channel share gain, thus triggering a Punctuated Retail Equilibrium in Turkey:

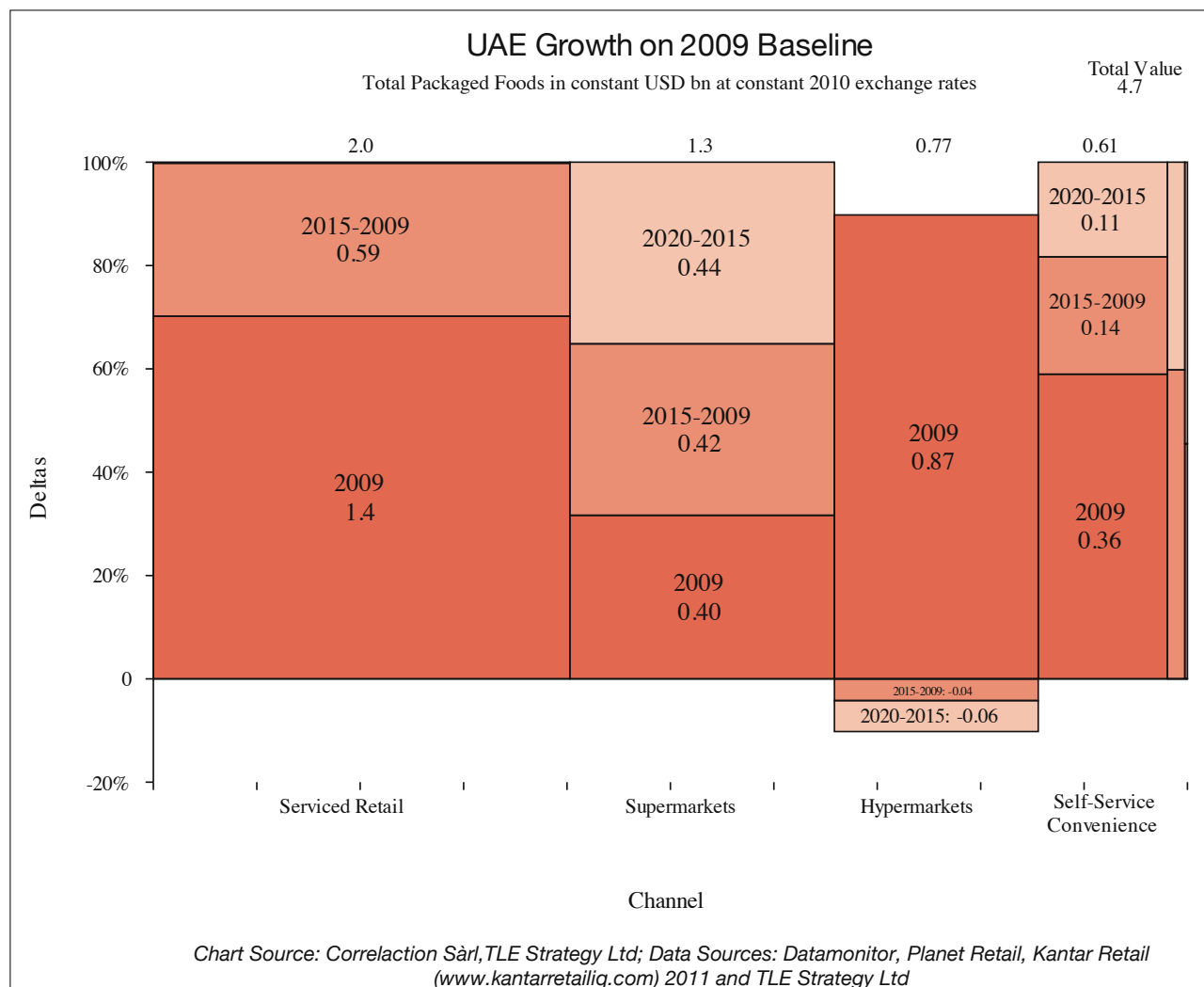


In fact, all of the channels in between Serviced Retail and Supermarkets in the chart above can trigger a discontinuity, including these two channels themselves. Notably, Discounters are forecast to grow at just 2.7% CAGR to 2020, which may lead to the Discount channel appropriating some of the share movement by adapting its shopper offer (possibly again through a Fresh Foods offering), or Discount operators shifting their investment more towards international expansion, or both.

As for South Africa, we believe that the opportunity for disruptive share gain in Turkey is too large not to happen in the period up to 2020, changing the channel landscape through punctuation of the status quo.

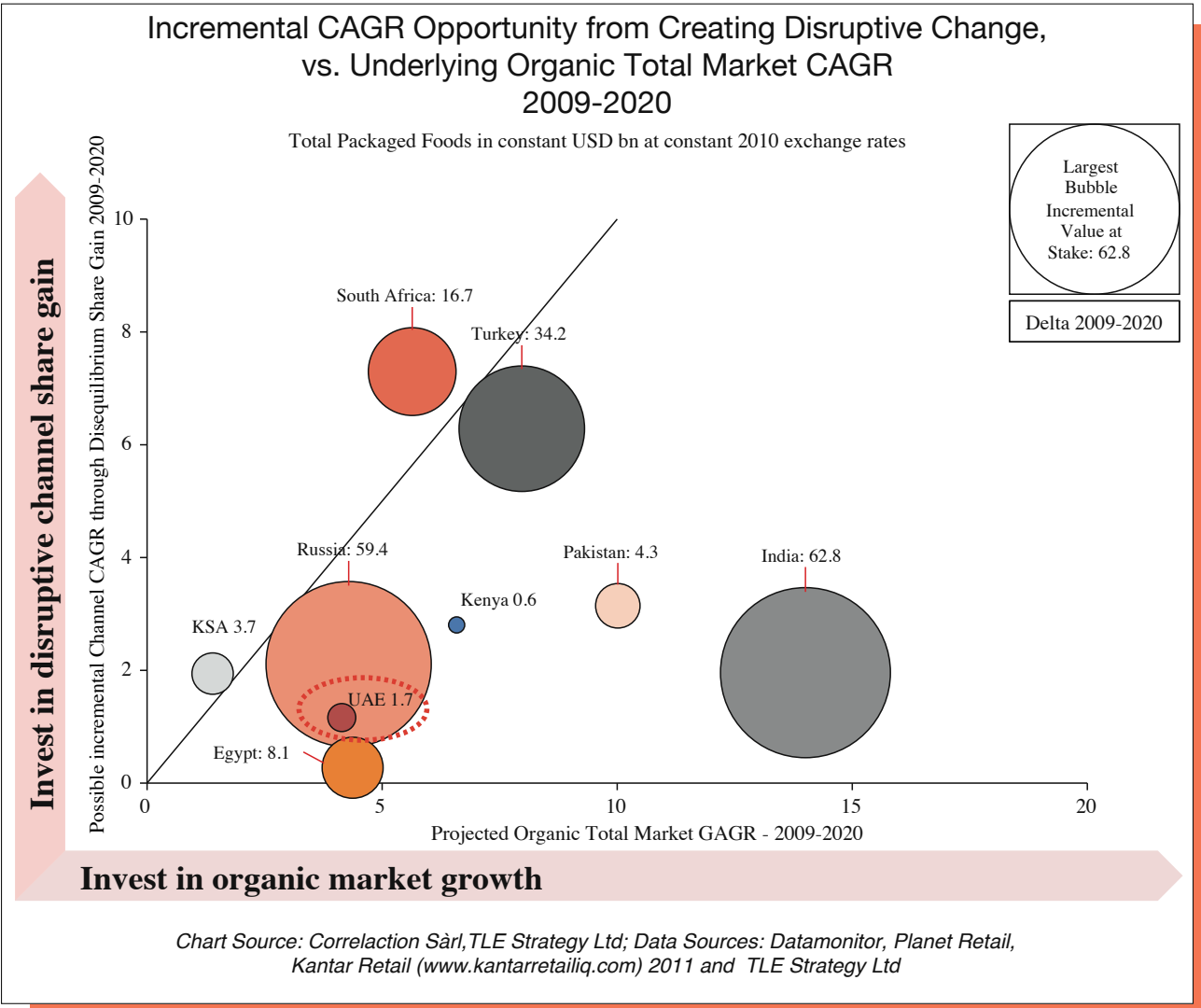
Cluster 2: U.A.E

The U.A.E. markets are projected to grow at a similar growth rate as Russia and Egypt until 2020, at 4.1% CAGR in constant money. Supermarkets are projected to capture 51% of the projected market growth in value, with a CAGR of 11%, with Serviced Retail generating another 35% - but this growth in Serviced Retail is projected to happen predominantly in the first part of the forecast period:

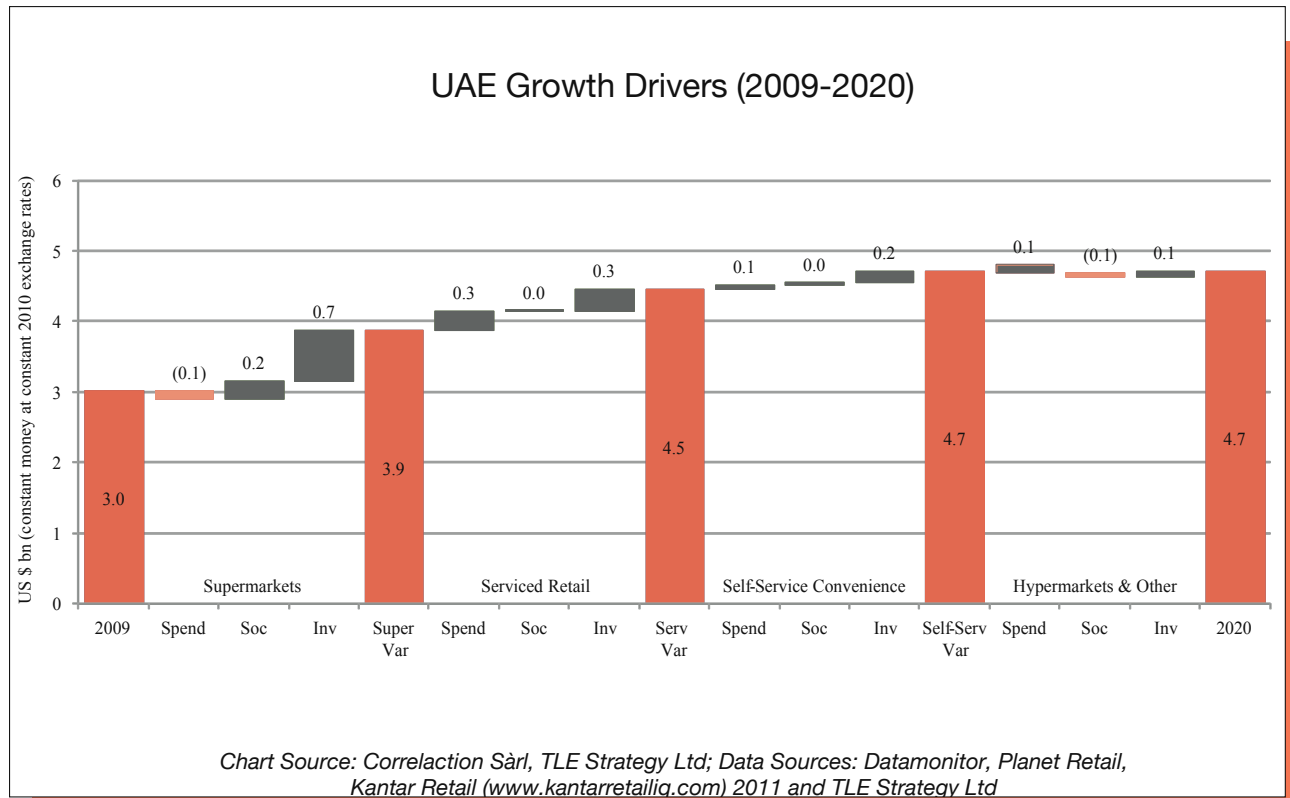


In fact, our forecasts predict that UAE Hypermarkets will actually decline in constant money terms (at -1.1% CAGR) although the prevailing consumer price inflation levels would still see Hypermarkets growing in current money.

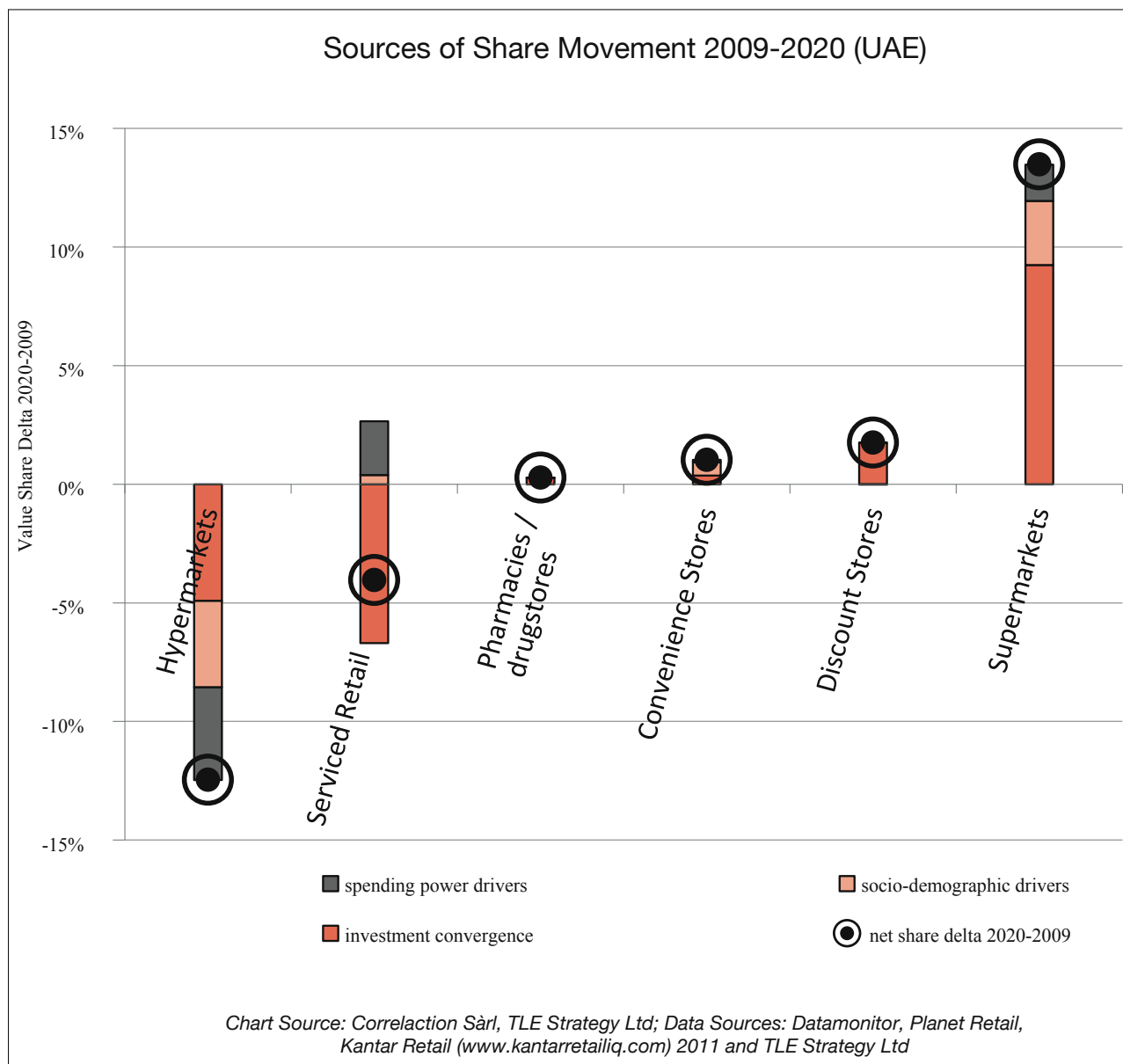
In aggregate, the UAE is one of the most stable environments amongst the markets under study – which would suggest that the likelihood of a retailer triggering a disruptive change is low:



In this relatively stable environment, our forecasts suggest that the growth of the UAE retail market is driven partly by demand drivers supporting growth in Neighbourhood formats, be they Supermarkets, Self-Service Convenience or Serviced Retail, and partly by Investment Convergence accelerating this effect in every channel, but notably in Supermarkets:



However, within this broader, gradual shift, UAE's opportunity for Punctuated Channel Equilibrium lies in Served Retail (8th in our disequilibrium top 12), which in 2009 still is channel market leader, and is favourably impacted by both spending power and socio-demographic drivers, resulting in a growth rate of CAGR 3.3% at constant money – however, our forecasts suggest that the incremental value of Investment Convergence for Supermarkets is much higher than for Served Retail, and although still positive in value, causes a share loss for Served Retail:



Like in Saudi Arabia, a significant proportion of the Served Retail segment in UAE is formed by Specialist Retailers e.g. bakeries and greengrocers, much more so than in the other countries under study. It is particularly this subsegment of Served Retail that is causing the dynamic conflict of Market Drivers – and which offer can be capitalised on by any channel in the UAE.

That said, we expect based on our forecasts that the UAE is quite likely to follow the path of Retail Gradualism to 2020, with slow and steady change.

GLOSSARY OF TERMS

CAGR: An abbreviation for Compound Annual Growth Rate, a mathematical calculation establishing the average growth rate over a defined number of years (e.g. the CAGR of 2020 over 2009 is the eleventh order root of 2011 divided by 2009).

Catchment area: The geographic coverage of households served by a particular store, determined by travel time.

Channel: A group of stores, clustered by a combination of similarity in format characteristics across our Region (e.g; store size, product range or shopping trip types served) and specific shopper-defined differentiators by catchment (e.g.; in my neighbourhood, the selection of products which fit my weekly needs, a store offering self-service)

Cash & Carry: Self-Service wholesale outlet, predominantly selling to Serviced Retail, but also to shoppers in varying degrees. In this study, we have focused on sales to shoppers, and where we identified Cash & Carry direct-to-shopper data, we have included this data in Hypermarkets

Convenience Stores: See Self-Service Convenience

Discounters: Limited range Self-Service outlets, typically neighbourhood stores between 1,000 and 2,000 m², offering 1,000 to 2,000 SKU's, with the core assortment mostly on EDLP whilst offering in-out promotions on other items. Discounters tend to have a higher level of Private Label offering in many categories

Hypermarkets: Large Self-Service outlets, with a selling space of more than 4,500 to 5,000 m² depending on country specifics, and selling a broad range of non-food items

Neighbourhood Grocers: Serviced Retail outlet in Cluster 1 markets, typically providing for general shopping needs

Neighbourhood Supermarkets: Smaller Supermarkets, with a selling space between 800 m² and 1,500-2,000 m², servicing mostly neighbourhood trips. Included in Supermarkets in Chapter 3

Petrol Stations/Forecourts: Self-Service grocery outlet within a petrol station. See Self-Service Convenience

Pharma/Drug: Pharmacies and Drugstores which specialise in the distribution of pharmaceuticals and health products. In this study, we have used predominantly Packaged Food Grocery categories to produce our forecasts, understating the size of this channel

Self-Service Convenience: Small Self-Service outlets (less than 800 m2), typically with extended opening hours and a food-biased assortment. For the purpose of this study, we have included Petrol Forecourts, Superettes and Convenience Stores in Self-Service Convenience

Serviced Convenience: Serviced Retail outlet in Cluster 2 markets, typically specialising in providing for immediate shopping needs

Serviced Retail: All retail outlets that are not Self-Service

Specialist Retailers: Serviced Retail outlets focusing on selling specific food categories, e.g. Butchers, Fishmongers, Greengrocers, Dairy. For the purposes of this report, we have included Specialist Retailers in Serviced Retail

Superettes: See Self-Service Convenience

Supermarkets: Medium-sized Self-Service outlets, with a selling space between 1,500-2,000 m2 and 4,500-5,000 m2 depending on country market

Cluster 1 Countries: A group of countries in Eurasia and Africa used to analyse early stage retail market evolution. In this report we have studied India, Egypt, Kenya and Pakistan.

Cluster 2 countries: A group of countries in Eurasia and Africa used to analyse later stage retail market evolution. In this report we have studied South Africa, Russia, Saudi Arabia, Turkey and the UAE.

Constant Money: Fixes the monetary value at a given average in-year local currency value to exclude local inflation, against a given exchange rate to exclude exchange rate movements, to enable forward-looking cross-country analysis. In this report, we have applied constant local currency converted to constant average 2010 USD exchange rates.

De-Averaging: The process of disaggregating an average into its component elements and subsequently recombining them to give deeper insights. This analytical approach has been used to allow unbiased identification of meaningful clusters of shopper loyalty. De-averaged discrete data points were re-combined bottom-up in this study, sometimes down to the level of a SKU sold in a store on a day, to arrive at meaningful clusters in which specific strategic actions can be taken. De-averaging is useful for both multi-format and single channel retailers as multidimensional lenses can be applied to groups of stores, categories and promotions, identifying clusters of opportunity and risk not visible in an average view.

Disequilibrium: see Appendix 1 for definition.

EDLP: Every Day Low Price, a pricing strategy which keeps the price of an SKU constant for long-periods of time, at least 12 weeks in a cycle, without short-term, typically weekly, price-off promotions (commonly known as a Hi-Lo strategy).

EPOS: Electronic Point Of Sale. EPOS data are transactional data generated by electronic checkouts. Using data and information captured through EPOS to generate actionable insights varies widely by retailer, as do the underlying IT systems. In this report, we have aggregated EPOS data at the lowest level possible in the various data sets to arrive at one, integrated data platform supporting this study. We were privileged to work with many different retailers to create our platform, and are indebted to the teams in those retail organisations that worked with us to accomplish this.

FDI: An abbreviation of Foreign Direct Investment, a term used to describe the measure of capital inflow into a given country.

Gini-index: A measure of statistical dispersion developed by the Italian statistician Corrado Gini ("Variability and Mutability", 1912). In this report we have applied the Gini-index to national income distribution: a Gini-index of zero means perfect income equality where everyone has exactly the same income in a country, whilst a Gini-index of 100% means maximal income inequality where one individual has all the income in a country.

Imperfect Competition: The absence of Perfect Competition (see next page).

Intercepts: Single interviews with shoppers intercepted as they leave a store. We conducted, and were given access to, shopper research in many of our focus markets, notably in India, South Africa and Turkey.

LSM: Living Standards Measures. These can either be "direct" e.g. income or expenditure or "indirect" using a combination of proxy measures such as ownership of durables or size of residence. Households with similar Living Standards can be clustered into LSM groups to differentiate Socio-Economic Classes (SEC see below).

Market Drivers: Factors that drive changes in demand for products and services. These can be “exogenous” - outside the control of the supplier of the products or services - or “endogenous” - within the control of the supplier. This study distinguishes between three groups of exogenous drivers that have a causal effect on market - and channel development. For the avoidance of doubt: our models have not included other groups of exogenous drivers e.g. political and regulatory change, or fluctuations in raw material prices

Market Drivers/Spending Power Drivers: Integrated macro-economic drivers based on Private Consumption Expenditure development

Market Drivers/Socio-Demographic Drivers: Integrated socio-demographic drivers based on the aggregation of household size, percentage of women participating in the workforce, and urbanisation

Market Drivers/Investment Convergence: Supply-side drivers assuming that capital investment follows returns in an increasingly global marketplace; in this analysis we have assumed that incremental investments made over the next 20 years will halve the gap between a channel's position, after taking into account first Spending Power Drivers, and then Socio-Demographic Drivers, to a comparable global mean (“investment half-life”)

MAT: Moving Annual Total.

MST: Moving Six-Months Total, also known as Moving Semester Total.

Neighbourhood: Conurbation, defined by travel time (5-15 minutes).

Packaged Foods: A sub-category of the Fast Moving Consumer Goods (FMCG) market which includes all forms of shelf-stable edible groceries. Packaged Foods excludes a number of large FMCG categories which are inedible including: Household Cleaning and Health and Beauty Products.

PCE: Private Consumption Expenditure, also known as Personal Consumption Expenditure.

Per Capita: Per head (literally: by heads), average as divided by total population.

Perfect Competition: A competitive environment where all actors have full access to the same inputs and information, all outputs are at their maximum and all factors fully employed (Joseph A. Schumpeter, *Capitalism, Socialism and Democracy*, Harper 1975 [orig. pub. 1942]).

Punctuated Equilibrium: see Appendix 1 for definitions.

Scale and scope: We have applied the definitions of scale and scope as described by Chandler (Alfred D. Chandler, Jr., *Scale & Scope, the Dynamics of Industrial Capitalism*, First Harvard University Press 1990-1994), where economies of scale are defined as “those that result when the increased size of a single operating unit producing or distributing a single product reduces the unit cost of production or distribution”, whereas economies of scope are defined as “those resulting from the use of processes within a single operating unit to produce or distribute more than one product” (p 17, paperback edition 1994).

SEC: An abbreviation for Socio-Economic Class, commonly used to group households with similar levels and styles of consumption - usually measured as a combination of income, level of education and occupation (see LSM).

SKU: Stock Keeping Unit, commonly used to indicate specific product items.

R

REFERENCES

- Quote attributed to M.K. Gandhi (first page after cover): Quote taken from the book *"Inspiring Thoughts of Mahatma Gandhi in Daily Life"* (A.D. Mishra, R. Gupta, Concept Publishing Company 2008, ISBN 8180694410). Extensive subsequent research by our team in conjunction with renowned Gandhi scholars was unable to confirm the authenticity of this, now widely used, quote. M.K. Gandhi first came to South Africa in 1893, and whilst in South Africa regularly acted as a solicitor on behalf of traders and merchants. Our research suggests that this quote is likely to have arisen from these activities in the 1890s, responding to then current trade practices. Although the scholarly consensus, based on contextual evidence, is that this quote may indeed originate from during Gandhi's South African years, its exact time and location continues to be elusive at the time of writing.
- Country data set for global charts includes the following markets: Argentina, Australia, Brazil, Bulgaria, Canada, Chile, China, Colombia, Czech Republic, Egypt, France, Germany, Greece, Hungary, India, Indonesia, Israel, Italy, Japan, Korea (South), Malaysia, Mexico, Morocco, Netherlands, Nigeria, Pakistan, Peru, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Slovak Republic, South Africa, Spain, Sweden, Taiwan, Thailand, Turkey, UAE, UK, Ukraine, USA, Venezuela and Vietnam.
- A number of sources in the report, particularly retailer EPOS data and some additional intercept sources, remain confidential at the request of the source companies. We are grateful to those retailers and other companies who donated their data to this report in confidence.
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