Introduction

I am pleased to introduce our inaugural Global STEIP Annual Report for 2017. Our intention for this report is to help you identify and analyse drivers of change for scenario creation and future planning. As you read the report, we encourage you to consider the drivers and prioritise according to how they impact your business.

Our STEIP approach is rooted in a fundamental bottom-up assessment of the variables that could impact our future world. Combined with PlanetRetail RNG’s proprietary global data, industry knowledge and analyst insights, this will support you in growing your business.

STEIP stands for Society, Technology, Economy, Industry and Policy.

STEIP begins with Society. In order to understand the world we live in, we must understand the people that live in it. We investigate the impact of demographic change and the changing consumer preferences that affect where and how they shop.

Technology is the accelerator of change, and is a complex space with impact on all parts of the value chain. Innovation is pushing us into an era of autonomous technology, and ubiquitous and pervasive computing. We highlight the most relevant aspects of these technologies for retailers, brands and consumers.

In Economy, we draw on our macro-economic trend forecasts to compare growth by geography and drill down into hidden opportunities that may not immediately appear attractive. We also look at factors that are affecting consumer liquidity and their willingness to spend.

In Industry, we examine the competitive environment and structure of the industry in which we operate, covering perspectives on commerce, chain retail and channels. We also touch on dynamics between retailers – both the established leaders of today, and those emerging as future winners in 2022 and beyond.

Policy is the section where we consider the wild cards that could unexpectedly disrupt or accelerate our future retail world. These range from political considerations through to regulation on technologies and industries that are yet to be created.

We use STEIP as a focal lens to form a view on how our future might unfold, with particular emphasis on the consumer and industry. Then, we seek to understand the implications for retailers and brands. How do you reach the consumer and keep them coming back? What is the right balance between digital versus physical presence for your business? And how do you optimise supply chain strategies to support this dynamic?

The answers to these core questions led us to define four ‘winning strategies’. We have also gone one step further, identifying the capabilities you need to turn these strategies into reality.

Combined with future reports on these Winning Strategies and Key Capabilities, we hope that this Global STEIP Annual Report will be a valuable tool and reference point as you make important decisions about markets, resources, and talent.

Xian Wang
Global Content Director
PlanetRetail RNG
Prepare for future disruption

Instead of continuing past trends, drivers of change can help predict the future retail landscape
Drivers of change can be organised into five areas

Instead of continuing past trends, drivers of change can help predict the future retail landscape
Prepare your business for the future retail landscape using the STEIP drivers of change

STEIP Drivers → Assumptions about the future of retail → Respond with new strategies
Society

The drivers altering consumer behaviour and preferences

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Age Structure

**Situation**

The global population is skewing older, particularly in developed markets

**14% of the global population will be older than 60 in 2022**
- More women in the workforce and delayed life events (e.g. marriage, having children) are contributing to fewer births and will make shopper acquisition more difficult as fewer ‘new shoppers’ enter the market
- With a limited number of new shoppers in many developed and even emerging markets, retailers and brands are prioritising customer retention
- Markets with older populations will also begin to see their labour pools constrained, often driving up staffing costs

**The majority of young shoppers are concentrated in developing markets**
- 42% of the population in developing markets will be younger than 20 in 2022, a far larger share than in emerging or developed markets
- Younger consumers ramp up consumption as they leave the family home, go to school, gain employment and start families of their own

**Ageing shoppers will shift spend from retail to services**
- As people age, they consume fewer calories and buy fewer things, decreasing their retail spending
- Although peak spending in developed markets tends to occur between the ages of 45 and 54, improving health conditions for ageing consumers will enable them to participate in retail for longer than previous generations
- Major expenditure is typically concentrated in healthcare and services, not retail stores

![Age of Population by Development Stage (%)](chart)

Source: UN World Population Prospects

- In 2017, 24% of the population in developed markets is aged 60 or older. By 2022, that share will rise to 26%.
- 64% of all consumers under the age of 20 live in developing markets, while only 9% live in developed markets.
- With a median age of 48.3, Japan is the oldest country in the world. Niger’s median age of 14.8 makes it the youngest country in the world.
Age Structure

Implication

Shopper segmentation by age will be necessary to appeal to diverse consumer needs

Convenience will be critical to capture the ageing population

- Proximity retailing, as well as small and easily navigable stores, will be important for ageing consumers with limited transportation options and declining mobility
- Easily-reachable shelf placement, smaller pack sizes, larger labels, and easy-to-open packaging can positively influence purchases

Integrating health products and services into retail can support ageing needs

- Assortments and merchandising should address the nutritional and physical needs of ageing consumers
- Integrating health services into stores, such as health clinics and nutritional services, can help capture the increased health spend by ageing consumers

Customer acquisition will be the primary growth driver for young markets

- Budget-constrained shoppers in their early working years will balance an emphasis on value with aspirational purchases of products that act as status symbols
- Convenient store layouts and locations cater to time-sensitive shoppers with families, especially in urban areas

Walgreens’ Mobile App Appeals to Ageing Consumers

Walgreens is reaching ageing shoppers with tools that are focused on health personalisation, convenience, and connectivity, such as Pill Reminder, larger font size options, and TouchID auto-login.

Source: Walgreens
Urbanisation

Situation

The world’s top 150 megacities will account for nearly a quarter of global retail sales by 2022

By 2022, 57% of the world’s population will be urban

- 373 million people will enter cities over the next 5 years, led by the Africa & Middle East and Asia & Oceania regions, which will contribute 315 million
- Because they offer more employment opportunities and higher paying jobs, cities will continue to attract large populations and drive the urbanisation trend, even as some inhabitants move to suburbs to counteract high living costs and congestion
- In many cases, urban migrations will enable retailers and brands to engage with shoppers for the first time

Physical space constraints in cities will become a greater concern

- Urban consumers tend to live in smaller homes, often do not own cars, and have limited storage space
- High real estate costs mean that store return on investment is more difficult

By 2022, 83% of North America’s population is expected to reside in urban areas.

88% of the 2017 global rural population live in the Africa & Middle East and Asia & Oceania regions. Future urban growth will also be concentrated in those two regions.

The most heavily urbanised region is North America, followed closely by Latin America and Western Europe. By 2022, 83% of North America’s population is expected to reside in urban areas.

Source: UN World Urbanisation Prospects
Urbanisation

Implication

Urban shoppers are more valuable and are leading the shift towards proximity retailing

As cities become more congested, stores and supply chains will need to accommodate changing shopper habits
- High population density combined with infrastructure limitations make navigating cities time-consuming and difficult, placing an emphasis on proximity
- Smaller pack sizes are necessary for consumers who walk or use public transportation for shopping trips, while trip frequency will increase as basket size declines

Retailers and brands can capitalise on the higher spending power and more diverse retail demands of urban shoppers
- The sheer number of urban consumers creates a wider set of retail preferences, providing opportunities for specialisation, but will also put pressure on retailers and brands to differentiate
- Premiumisation strategies can drive margins and differentiate products in highly saturated urban environments
- Operators should look to develop city strategies that are separate from market-level strategies as cities will often be much more developed than the rest of the country

* Led by Seoul, South Korea, emerging cities across Asia, Latin America and Africa offer high and rapidly increasing sales density where brands and retailers can access consumers with growing spending power.
* Moscow’s consumer spending per capita is more than three times higher than the Russian average, highlighting the considerable gaps between emerging cities and the rest of the country.
Multiculturalism

Situation

Increased global migration is creating more diverse ethnic communities with unique demands

Global population movement is increasing diversity, particularly in developed markets
- Consumers in developing countries are migrating to developed markets in search of new employment opportunities and better security
- Asia–Europe and Latin America–North America are two of the most popular migration corridors, while political instability and violence is currently driving mass migration from the Middle East & Africa

Internal migrations from rural areas to cities are also driving cultural diversity within countries
- Diminishing economic opportunities in rural communities are driving migration to urban areas
- Regional distinctions are extremely common and can create diverse populations, even if they share a nationality

Cultural homogenisation differs considerably by market
- Migrants will gradually adopt traditions and preferences of their new country, and future generations’ habits will resemble those of the local population
- Because of the population density and insulation of ethnic groups in some markets, this assimilation process is occurring more slowly, creating more pronounced cultural differences, particularly in specific neighbourhoods of large cities within developed markets

Net Number of Migrants by Region (th)

- Migration is primarily occurring from developing regions (Latin America, Asia, Africa) to developed regions (Europe, North America)
- Between 2010-2015, the United States, Turkey, Lebanon, and Germany had the highest number of net immigrants, while Syria, India, Bangladesh, and China had the highest number of net emigrants.
Multiculturalism

Implication

Focus on appealing to emerging ethnic consumer segments

Ethnic store formats and products will help retailers and brands engage with diverse shoppers
- Ethnic formats and dedicated departments are attractive to ethnic shoppers seeking familiar products and comfortable shopping environments
- Further preparations for African shoppers may be rewarded as that region is experiencing high population growth and increasing emigration

Grocery will be highly impacted by new multicultural societies
- Because ethnic shoppers retain many diet and celebration habits after relocating, the grocery channel will be acutely impacted by growing ethnic diversity

Prioritization is essential to capitalise on the multicultural opportunity
- Because diversity can differ significantly by neighbourhood, localisation strategies will be required to meet varied shopper preferences
- The impact of multiculturalism can be very nuanced, so picking an appropriate level of investment is important for ROI

• CVS Health in the USA has developed its CVS y Mas format, featuring popular Hispanic brands, bilingual employees and signage in Spanish, in communities with large Hispanic populations.
Household Size

Situation

It won’t change quickly, but average household size is shrinking across the globe

Average household size is flat or declining across nearly every country on earth

- As women in a market gain greater access to education and stay in the workforce longer, birthrates are declining globally, creating smaller families
- In many markets, parents can rely on improving healthcare and social safety nets instead of many children to guarantee financial and caretaker support later in life

Developed markets are seeing an increasing share of one and two-person households

- The number of small households is increasing at both the younger and older ends of the spectrum
- Younger populations are delaying life events like marriage (increasing one-person households) and children (two-person households)
- Improving healthcare and life expectancy are prolonging the 'empty-nest' life stage for older populations

The largest average households can be found in developing markets

- While it is declining, average household size is considerably larger in the least developed markets around the world
- As access to healthcare has improved, family size has grown dramatically in recent decades, but is expected to slowly decline as contraceptive use and women in the workforce increase

![Average People Per Household by Development Stage](source: PlanetRetail RNG)

- By 2022, a number of developed markets, including France and Finland, are projected to have an average household size of less than two.
- Emerging markets in Central & Eastern Europe have an average household size below 3.0, while several emerging markets in Latin America are projected to maintain averages over 4.0 in 2022 (Ecuador 5.6, Mexico 4.9, Peru 4.6 and Venezuela 4.4).
Household Size

Implication

The entire shopping trip will reorient around smaller families

The average future shopper's home will likely be smaller
- As families shrink and urbanisation trends continue, shoppers will live in smaller spaces
- For consumers living in smaller homes with less storage space, frequent trips will become more common than large stock-up and bulk purchases

Family shopping habits will change with fewer children per family
- The importance of traditional shopping cohorts, such as 'moms', will change as family size and structure evolves
- Basket size will continue to shrink with family size, while navigating the store with many children will become less of a concern

Strategies and investments should focus on proximity and convenience
- Adapting merchandising approaches for more frequent, smaller trips will be critical
- The relevance of big-box formats is declining in markets with small and shrinking households

Shrinking Homes for Smaller Families

- In 1992, the average household size in China was 4.3. It is projected to be 2.9 in 2022, a decline of nearly 1.5 people in only three decades.
- Within cities in China, 21% of people over age 35 were single, up from 4% a decade ago, leading to a growing demand for furniture designed for one-person apartments, smaller appliances and food sold in smaller sizes and convenient packaging.
Experience vs. Things

Situation

Consumers are shifting their spend from products to experiences

Retail as a share of consumer spending is declining globally
- Consumers are shifting spend to travel, entertainment and dining out, and away from physical products, particularly expensive discretionary items
- This trend is occurring globally, but is more pronounced in developing markets

Younger generations are leading the spending shift to experiences
- As younger generations defer major life events (e.g. buying houses, having children and opting for asset-light lifestyles), more money is available for discretionary spending
- Social media is contributing to the desire for experiences that can be recorded and shared across digital platforms

Retail growth remains high primarily in developing and emerging markets
- Despite the spending shift to experiences, developing and emerging markets have a large untapped shopper population that will help sustain high future retail growth
- Because people purchase basic needs first, wide portions of the global population will continue to spend a significant portion of wages on essential goods and discretionary items as incomes grow

Share of Consumer Spending on Retail by Top Markets (%)

- Emerging and developing markets still have high retail growth, but overall consumer spending is growing faster and being allocated to areas other than retail.
- In only 5 years, the share of consumer spending on retail will decline by at least 100 basis points in many top markets, including China, India, Brazil and Mexico.
Experience vs. Things

Implication

Retailers and brands can invest in ‘experiential’ retail to adapt to spending changes

Physical items will remain at the core of spending, particularly in developing and emerging markets
- There remain opportunities for category expansion as shoppers are spending more on discretionary retail categories, which will increasingly transition to non-retail categories
- Proactive investment in experiential retail in these markets will allow retailers and brands to prepare for shifting spending habits and adapt to changing consumer behaviour.

Retailers will need to reallocate store space and offerings to follow spending shifts
- In-store services, such as cooking classes or beauty consultations, can drive traffic to stores, create brand engagement and convert experiences into purchases
- Retailers can capture ‘experience’ spending through new offerings such as DIY products, meal kits or service bundling (e.g. Aldi music downloads)

Experience is essential for product purchases, too
- As spending shifts, retailers and brands can seek creative opportunities to create experiences and drive consumer engagement

Samsung’s Experience Store ‘837’

- Samsung’s 837 store does not sell products, but instead looks to drive brand recognition and engagement.
- The store provides an immersive experience for shoppers to learn about and interact with Samsung’s technology products. The store features a virtual reality tunnel, a broadcast studio and a smart kitchen with cooking workshops.
Attention Deficits

Situation

Expanding digital connectivity and fast-paced lifestyles are shortening attention spans

Constant access to devices and information is decreasing attention spans around the world

- Technology often trains users to 'front-load' attention, enabling them to quickly extract and process key information, but hurting their ability to sustain focus
- Multi-screening behaviour (e.g. checking your phone while watching TV) is improving the ability to multi-task and quickly switch focus, but also means users are more easily distracted by multiple streams of media

Attention deficits will be more pronounced in younger, digital native populations

- Engaging with older populations will be different than with younger consumers, who are digitally immersed and have different expectations of speed and convenience
- Digital natives have high expectations for seamless digital operations and immediate gratification, contributing to their quickly decreasing focus time

Fast-paced lifestyles, especially in cities, have changed expectations of wait and focus times

- Consumers have busier schedules, often requiring them to shift their attention more quickly and demand faster results

Access To Multiple Devices Trains Users to Quickly Switch Focus

- Consumers are absorbing information from a variety of mediums, making it more difficult to hold the attention of shoppers. However, the high level of digital engagement also provides more touchpoints with users.
Attention Deficits

Implication

Focus on providing concise and relevant information to shoppers

The time you have to reach shoppers is decreasing
- Messaging and merchandising tactics should be simple and direct for customers to quickly digest and move on
- Standing out from the crowd will be more difficult, and the first impression may be the only impression

Differentiate stores with experiential shopping
- Immersive and interactive shopping experiences can reduce distractions and better engage shoppers to trigger consumer action

Segment shoppers based on digital fluency and engagement
- Leveraging digital platforms and ensuring concise messaging for younger generations will be increasingly important as they grow into the peak spending years
- It is important not to alienate shoppers who are more comfortable in a slower-paced, non-digital experience

Social Media Adapting to Short Attention Spans

- Popular digital platforms focus on creating content that is highly engaging and can be viewed quickly.
- People are able to process images faster than text, suggesting the potential of using visuals to create easily digestible messaging.
The Future Societal Landscape

1. From declining household sizes to increasingly urban societies, the way people live is changing how and where people shop.

2. Increasing shopper diversity by income, age and nationality will demand more sophisticated customer segmentation and drive channel fragmentation.

3. Urbanisation and ageing population trends are accelerating the global shift to proximity and convenience.

4. As the preference for proximity grows, big stores will continue to decline, particularly in developed and emerging markets where ecommerce is disruptive.

5. The spending shift towards experiences and increasing competition for consumers’ attention will challenge the existing ways that retailers and brands engage with shoppers.
Technology

The drivers enabling new models, processes and possibilities

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Internet Access

Situation

The world's digital population is rapidly expanding

More than 1.1 billion new users will access the internet by 2021
- The biggest gains will be made in developing markets, led by India adding more than 500 million new internet users
- Developed markets will still have the most internet users per capita, but the expansion will be less dramatic

Many emerging and developing markets are reaching a digital tipping point
- For the first time, some markets have the internet user base and technology infrastructure to justify significant digital investment
- By 2021, there will be very few countries around the world where consumers aren't reliant on the internet in their day-to-day lives

Most internet users still won't be making regular purchases online
- Increasing internet penetration will create new opportunities for consumers to access information, but not necessarily participate in ecommerce, while online payment and trust remain considerable barriers

Source: Economist Intelligence Unit

- The pool of internet users in developing markets will grow over 30% by 2021.
- Emerging markets will add 14% more internet users over the same period.
Internet Access

Implication

Digital influence, not ecommerce, will have the greatest global impact

Markets will require vastly different approaches to digital investment

- Digital influence over physical purchases will be a key theme across the globe, but ecommerce is not a priority everywhere
- The digital capabilities and technology investments required to win in Western Europe and North America vary dramatically from the requirements for China or Brazil
- Within developing markets, the digital requirements in major cities will be much more demanding compared to more rural areas

Internet connections enable direct communication with the consumer

- Retailers and brands will have digital access to many new shoppers for the first time and can influence behaviour in a way that was impossible with a purely physical retail experience
- Ecommerce will reach consumers before chain retail in many developing and emerging markets, leapfrogging the traditional retail development curve
- Digital intermediaries like payments, search and social will be key factors in growing consumer trust and establishing digital shopping habits in a market

Retailer operational efficiency and consumer expectations will both increase

- With more access to information and the external world, new internet users' expectations of speed and convenience tend to intensify
- Enabled by digital connectivity, the explosion of consumer data improves the retail industry's ability to understand and target shoppers

Share of Internet Users / 100 People, Select Emerging & Developing Markets

- India will add over 583 million additional internet users by 2021, and Nigeria will add over 77 million internet users.
- Thailand and South Africa will each add about 15 million internet users by 2021.
Mobile Devices and Networks

**Situation**

Mobile devices are changing commerce as adoption rates rise globally.

**Mobile has the highest adoption rate across all market development stages**
- Mobile devices, which include smartphones, feature phones and tablets, have greater penetration than PCs around the world.
- The greatest penetration difference between mobile and PC is in developing markets, followed closely by emerging markets.

**Most consumers in emerging and developing markets are first gaining access to the internet through mobile devices**
- These mobile-first markets leapfrog desktop adoption, encouraging unique innovations outside of developed markets for consumers for whom mobile is often the only point of internet access.
- In developed markets, legacy infrastructure and consumer habits have slowed the adoption rate of innovative mobile applications.

**Mobile penetration in particular will enable 'ubiquitous connectivity'**
- As wireless network speeds and coverage, and mobile device ownership continue to proliferate across markets, we’re entering a period of 'ubiquitous connectivity’ where all consumers are connected at all times by their mobile device.
- This connectivity gives people access to unlimited information in their pockets and is raising consumer expectations of convenience and personalisation.

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**Mobile Subscriptions vs PC Computers by Development Stage**

- Developed markets average nearly 1.5 mobile subscriptions per person, with consumers possessing multiple mobile devices for work, personal, international and other uses.
- In developing markets, mobile devices outnumber PCs nearly four to one.
- In total, Cisco predicts that there will be 3.4 internet-connected devices per person by 2020.

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*Source: Economist Intelligence Unit*
Mobile Devices and Networks

Implication

The proliferation of mobile devices is driving innovation to meet the needs and rising expectations of mobile-first consumers

Retailers and brands must invest in digital infrastructures designed for mobile users
- In developing and emerging markets, retailers and digital intermediaries should prioritise web development on mobile websites over desktop versions of sites
- Effective mobile apps and optimised websites create seamless purchasing experiences for consumers and serve as data collection hubs for brands and retailers

With a mobile device, anyone is within reach of a retail platform at all times
- As mobile connectivity develops in each market, brands and retailers must incorporate it with the store experience to fulfil customers’ expectations or risk losing them
- The newest generation of digital native consumers are coming of age in a retail environment in which expectations of accessibility, immediacy, and convenience enabled by mobile information access continue to rise

Mobile Subscriptions vs PC Computers by Markets

- Developing markets like India and Nigeria are mobile-first markets, with one PC per five or more people and mobile subscriptions 4x more common than PCs
- China, and other markets like Brazil and Mexico, are emerging markets with mobile and PC rates similar to mobile-first developing markets
- Czech Republic, and many other emerging markets in Central & Eastern Europe, have rates similar to developed markets, with PCs nearing one per person by 2021, and mobile subscriptions close to 1.5 per person.

Source: Economist Intelligence Unit
Internet of Things

**Situation**

The Internet of Things* (IoT) is digitising and connecting all aspects of shoppers’ lives and retail operations.

**Real-time connectivity will rapidly expand with the growth of IoT devices**
- Networked devices and embedded sensors will enable retailers and brands to communicate more efficiently across the supply chain and market to consumers.
- Shoppers’ expectations for convenience will continue to grow as the emergence of smart products (e.g. cars, refrigerators) seamlessly connects their lives.

**Sensors and real-time communications will increase consumer expectations around convenience, personalisation, and transparency**
- Sensors are collecting massive quantities of data that will enable retailers and brands to improve personalised marketing based on individual habits and preferences in real time.
- Improved transparency and accountability throughout the retail supply chain will be increasingly important to shoppers.

**Digital integration and connectivity can improve efficiency of inventory and supply chain management**
- Digital communication between inventory, stores, warehouses, and shopper demands can help ensure stocked stores and high inventory turnover to better optimise the supply chain.

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*Internet of Things (IoT) refers collectively to hardware, software and service technology components used to connect networked (wired or wireless devices), or any ‘thing’ that is capable of autonomous communication, provisioning, management and monitoring.*

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**Global Wearables Sales by Device Type (USD bn)**

- **Smartwatches**
- **Sports, fitness, and wellness trackers**
- **Other**

<table>
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<th>Year</th>
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<th>Sports, fitness, and wellness trackers</th>
<th>Other</th>
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<td>$42.8</td>
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- Sales of sports, fitness, and wellness trackers are expected to be cannibalised by multi-functional devices, but overall sales of wearables are still seeing high growth.
- The growth of multi-purpose devices can provide massive sets of lifestyle data on individual consumers, enabling deeper personalisation and retention.

Source: ABI Research
Internet of Things

Implication

IoT is enabling frictionless retail engagement between retailers, suppliers and shoppers

Networked sensors can provide real-time shopper engagement to improve conversions
• Beacon technology can push notifications to shoppers based on location, helping ensure that information is relevant to drive shopper action
• Other technologies, such as geo-fencing and augmented reality, will be used to help customers navigate the store, find products more quickly, and gather deeper product information

Smart devices create more consumer touchpoints and opportunities to enhance brand visibility and loyalty
• IoT-powered auto-replenishment tools, such as Amazon's Dash buttons or Staples' Easy button, support frictionless buying with plannable consumption and high switching costs, making them an attractive option for brands
• The proliferation of sensors will additionally enable a shift towards predictive auto-replenishment both in consumers' homes and retailers' stores

Retailers and brands can maintain out-of-store relationships with shoppers through IoT
• Walgreens' Balance Rewards for Healthy Choices loyalty programme has been integrated with wearables and other connected health devices to offer reward points for achieving health goals, driving engagement and feedback
• As personal health tracking expands, consumers will increasingly expect real-time solutions and 'personalised supply chains' as part of their health, beauty, and wellness options

Amazon Go Enabled by IoT

• The Amazon Go convenience store is designed to leverage IoT technologies to track real-time inventory and monitor customer activity in the store.
• Sensor technology is able to track items that are removed from the shelves, allowing the retailer to automatically charge shoppers when they leave the store, providing unmatched levels of convenience.
Voice

Situation

Digital engagement will evolve with voice technology

Rapid voice assistant adoption will drive growth in voice-based commerce
- As voice recognition, natural language processing (NLP) and other artificial intelligence (AI) based technologies develop, chatbots, as well as voice assistants will play an increasingly important role during the shopping process
- Developments will see voice, in particular, impact the discovery phase of the shopping journey, where retailers and brands will have to fight more intensely to achieve a top search ranking

Voice assistants increase consumer convenience but have limited functionality compared to other devices
- Voice is a poor platform to explore options, product content, and prices, while any comparison is at the discretion of the platform
- Consumers are capitalising on the added convenience of voice, but functionality will remain limited by the speed of development of natural language processing and other AI innovations
- Despite growing adoption, some consumers will shy away from using voice technology at home due to privacy concerns

Amazon Echo Powered by Alexa
- Amazon's Alexa-powered smart speaker dominates the market. According to a recent report from Slice Intelligence, as of May 2017, Amazon's devices had 40.7% market share, followed by Sonos at 15.1%, and Google Home at 3.2%.
Voice

Implication

Voice-enabled commerce will require new strategic approaches to digital customer engagement

Retailers and brands must update their search optimisation capabilities to win with voice
- Voice assistants remove brand and retailer intervention, leaving no clear marketing or advertising model on the voice platform
- Reducing opportunity for intervention inherently raises switching costs, cementing the need to be number one in search

Engaging with customers and building loyalty outside of the voice platform will become increasingly important
- Instead of existing as a place for inspiration or browsing, brands and retailers will need to integrate with voice services and build complementary brand awareness and digital marketing activity to influence the shopper before they shop through their voice platform
- Existing ecommerce purchasing preferences will become a powerful influencer of retailer or brand choice

Retailers and brands must prepare for the impact of voice on supply chain operations
- Retailers must acquire or extend the technical capabilities needed to enable voice interfaces, which will integrate with virtual assistants and chatbots, using existing digital, ecommerce, and SEO skills and tools

A New Path to Purchase Through Voice

- Alexa: “[item]. The order total is $[price]. Should I Order it?”
  - Shopper: “Yes/No”

- Unlike traditional forms of digital retail, voice assistants lack a visual interface, removing the ability for retailers and brands to reach consumers and inspire them into making impulse purchases.
Augmented Reality and Virtual Reality

Situation

Accelerating AR/VR development will lead to a wide range of retail applications

Virtual reality (VR) is being tested in destination stores to drive traffic
- In an attempt to drive store traffic, VR is being implemented in flagship stores to offer experiences that cannot be replicated online
- The most common applications will provide immersive experiences, such as Lowe's virtual DIY project tutorials or Natura's 'rainforest journey'

VR holds the potential to enhance existing shopping platforms and develop new ones
- VR-enabled shopping platforms enable consumers with a smartphone and headset to 'look around' to browse products and nod at products to make purchases
- Digitally advanced retailers are already experimenting with VR, including Alibaba, which launched its virtual reality shopping experience Buy+ on last year’s Singles Day, and IKEA, which also recently launched a VR store

AR beginning to develop scalable retail solutions
- Retailers and brands are integrating augmented reality (AR) into stores and retail apps to provide customers with immersive experiences in real-world scenarios, including entertainment, education and shopping assistance
- They are also enabling in-home experiences and services, such as virtual product try-ons and interior design planning
- With Apple's iPhone 8 set to include cameras designed to include support for AR, accelerated retailer and brand adoption will lead them to discover more operational and customer-facing applications

Lowe’s ‘Holoroom How To’
- Lowe's has launched the 'Holoroom How To,' an in-store immersive virtual reality experience to help customers learn the skills to complete challenging home improvement projects. The experience requires a shopper to put on a VR headset and hold a controller in each hand, to be then immersed in a DIY project that provides step-by-step instructions and feedback.
Augmented Reality and Virtual Reality

Implication

Increasing AR/VR capabilities open up new opportunities for consumer engagement

VR is not a requirement for success, but is still worth watching
- Top use cases will include educating shoppers via VR, gaining shopper attention with high quality immersive VR experiences (marketing), and potentially providing a better out-of-store shopping experience
- Because quality of content is critical, retailers and brands will be challenged to create brilliant experiences that are immersive enough to earn shopper acceptance
- Growth in VR shopping will require retailers to strengthen ecommerce capabilities, and require brands to ensure their content and messaging is appropriate for the platform

Retailers and brands can use AR to build more consumer touchpoints
- Retailers and brands can leverage AR both with in-store and out-of-store marketing efforts, such as using packaging, labels and signage that consumers with smartphones can interact with, in order to build loyalty and inspire purchases
- As with VR, retailers and brands should partner with first-mover AR tech providers and content creators to ensure they develop compatible, quality content

Source: Lowe's

• Lowe's has announced the launch of its new in-store navigation app, Lowe's Vision, the first retail application of indoor mapping that uses AR. With the help of Google's Tango technology, the app is designed to improve the shopping experience, using a Tango-enabled smartphone to search for products, add them to a shopping list and locate them within the store.
Payment Methods

Situation

Cash and credit cards still rule, but mobile has emerged as the key to future payments development

Globally, payments are increasingly moving away from cash and towards digital

- Cash will continue to play an important role in retail, while cashless societies remain a distant prospect
- The rise of direct-to-consumer means that brands must consider facilitating fully integrated, seamless payment methods
- In developing markets, unbanked consumers or those who lack credit can use mobile payments to connect to global payments networks, make purchases online and avoid the risks of carrying cash

Mobile is the clear leader for future payment investments

- Chinese consumers are leading the world in adoption of mobile payments using a combination of QR or barcode and near-field communications (NFC) based transactions
- Developed markets in the West are just starting to change their primary focus from credit cards to mobile payments, and in some cases are held back by legacy infrastructure and existing consumer habits
- Blockchain-enabled payments are in the developmental phase, but a consumer-facing payment solution has yet to emerge at scale and is unlikely in the near term

Payment methods and providers vary greatly from market to market

- Because of international payment infrastructure and consumer behaviour distinctions, a global one-size-fits-all solution is unlikely

Tesco Extends PayQwiq Throughout the UK

- To make it faster and easier for customers to pay via mobile, Tesco has extended the availability of its mobile payments app, PayQwiq, across the UK.
- It allows customers to pay and also collect Clubcard points with their phones, and without needing a separate loyalty card.
Payment Methods

Implication
Enhancing the shopping experience with payment innovations will boost differentiation

With payments in a transition phase, it is critical to make investments in the right infrastructure
- Ignoring innovation risks losing customers over time as other payment methods offered by competitors as part of the overall shopping experience become more convenient than current payment offerings
- Well-timed investments in upgrading payment infrastructure can future-proof a major part of the customer's shopping experience
- Retailers and brands can remove a barrier to growth by accepting a range of payment options tailored to the market

Mobile payment evolution will enable checkout innovation opportunities
- Mobile payment can be incorporated at checkout to skip the line entirely, with customers scanning items as they shop or using mobile to check into cashier-less stores
- Facilitating mobile payments can also generate additional consumer insight by enabling retailers and brands to cross-reference transaction and basket-level data

Growing Mobile Payment Adoption

- Alipay (Alibaba) and WeChat (Tencent) both processed over USD1 trillion in mobile payments in 2016
- PayPal processed USD354 billion globally in 2016 across platforms including web and mobile.
Blockchain

Situation

The development of blockchain will create a more efficient way to process data

Blockchain eliminates third parties
- Blockchain is a decentralised digital ledger of all transactions across a peer-to-peer network that offers a secure method of data exchange and authorisation to occur without the need for third party intervention

The biggest strengths are security, transparency and speed
- Transactions are validated by the majority of the computers in the system at the same time (potentially millions worldwide), making them permanent and unalterable
- Each new block is sealed with a part of the previous block in the chain, creating a public ledger that traces the history of every transaction since the beginning of the chain
- Transactions occur in minutes, if not seconds, a shorter time frame than many other current transactions require

Cryptocurrencies are the most common current blockchain application
- Cryptocurrencies are digital currencies created and stored in the blockchain, using encryption techniques to control the creation of monetary units and verify the transfer of funds
- The price of a Bitcoin, the best-known example, is currently USD4,235
- There are currently more than 1,000 different cryptocurrencies with a combined market capitalisation of over USD115 billion, but each remains highly volatile

• A group of investors and entrepreneurs, most of them based in Asia, announced in June a plan to create Bitcoin Cash, which is designed to increase the limit on the number of transactions that can be processed by the Bitcoin network every 10 minutes. Currently, the network can process only blocks of transactions that are smaller than one megabyte, which allows for roughly five transactions in a second.
BlockChain

Implication

Blockchain has potential to enhance the transparency, security and speed of digital retail processes

Blockchain offers an opportunity to improve supply chain transparency and traceability
• Integrating all supply chain logistics with blockchain could enable retailers to have a complete and real-time view of the supply chain processes, with no possibility for reporting errors or fraudulent activities
• As the transparency capabilities associated with blockchain become more widely understood, consumers will be able to trace a product’s history before making a purchase

Blockchain user identification will enhance personalisation and data security
• Utilising blockchain with user identification would enable retailers and brands to implement customer personalisation strategies with increased accuracy
• Blockchain also offers the potential to give customers control of their own data as well as choosing which third parties, including retailers and brands, can access that data

Emerging markets offer huge potential for blockchain applications, especially payments
• In emerging markets, where many customers are unbanked and lack access to reliable payment systems, having a reliable payment and ledger system could help generate economic activity and participation in retail
• Using cryptocurrencies for retail purchases, and potentially all business transactions, would enable retailers and brands to cut out third party transaction fees

Walmart Enhances Food Safety with Blockchain

• In partnership with IBM, and a consortium of retailers and brands, including Dole, Kroger, Nestlé and Unilever, Walmart has launched a trial initiative to track the origin and supply of food products using blockchain in order to improve food safety.
Artificial Intelligence

Situation

Though in its early stages, artificial intelligence will transform retail analytics and planning

The rise of Big Data has opened the path for rapid growth in AI
- The digital transformation of business models continues to fuel the exponential growth of both unstructured and structured data. Machine learning, NLP, computer vision and sensor intelligence engines, as branches of AI development, can process this data to derive more meaningful insight and 'next-best action' recommendations
- AI-based systems are 'trained' using algorithms that can process large volumes and a wide variety of data in order to solve complex problems or perform predictive analysis and forecasts

AI has transformed retail data analytics
- Artificial intelligence is powering predictive analytics that enable retailers to optimise operations by integrating variables outside of their own control based on information drawn from many external sources, including data generated by the customer
- The application of AI enables the optimisation of buying, sourcing, deliveries, replenishment, distribution, pricing and promotions

AI is drastically impacting online shopping
- NPL improvements, which enable virtual assistants and chatbots to comprehend colloquial human speech, are expanding the context of service, product recommendations, trial, and conversion on ecommerce sites
- Retailers are beginning to use AI-powered visual search using phone cameras to allow consumers to take pictures of items to see similar products

Target Machine Learning

- Target is leveraging machine learning to tap into customer demand in order to define which touchpoints are valuable and influential to its shoppers' paths-to-purchase.
- The US retailer is also among those leveraging the Google Home virtual assistant to enable Google Express shopping capabilities.
Artificial Intelligence

Implication

Artificial intelligence will transform customer engagement and operational efficiency

AI-based inventory transparency and optimisation will be essential to success

- Retailers will increasingly use AI to optimise buying, merchandising, inventory management, replenishment, and fulfilment processes using supply chain and demand data inferred from customer location, preference and method of delivery
- Replenishment and merchandising can be made far more responsive and agile by taking into account external factors such as the weather

Retailers and brands will utilise AI to improve customer personalisation

- Machine learning is currently one of the most efficient AI computing techniques that retailers can use to understand their customers more intimately by reacting to triggers that infer their purchase intent on a real-time, one-to-one, interactive basis
- Instead of stock responses to searches, queries and orders based on a limited number of keywords, AI applications are enabling retailers to obtain a finer understanding of preferences and purchase intent to become more relevant in response

Stitch Fix Curation Powered by AI

- The online US subscription and personal shopping service Stitch Fix sends its customers five curated pieces of clothing each month for them to decide which ones to keep. This selection of items is created using key data points extracted from Pinterest boards, customer surveys, weather patterns and personal notes to stylists. From this data, AI algorithms help the personal stylists pick out the items the customer is predicted to like most and could be equally applied to buying, merchandising and product development processes.
Robotics and machine automation are moving beyond the warehouse

**Most robotics development is concentrated in warehouse and logistics**

- Robotics is still in very early development, with most current retail use cases focusing on replacing simple tasks in distribution and the fulfilment processes that retailers rely on to run core back-end operations.
- As sophistication improves, robots are beginning to be used to monitor inventory and merchandising on the sales floor.

**Innovative robotics applications are starting to touch retail consumers**

- Robotics technologies are now being implemented in-store, to assist shoppers from product search through collection and purchase.
- Trials of last-mile delivery robots are also in the testing phase in a number of markets around the world.

**Capability and cost are key barriers to adoption**

- High cost of entry and total ownership are the main barriers to retail adoption because of the limited number of proven applications currently available and in development.
- Overcoming societal resistance and political protectionism will take many years in itself, but as robotics and machine automation becomes more advanced and cost efficient, the technology will take on more complex responsibilities in the retail value chain.

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**Ocado’s Robotic Hand**

- UK online grocer Ocado is developing a soft robotic hand for use in its warehouses that can handle fruit and vegetables without damaging them.
- Ocado is now licensing its Ocado Smart Platform, an automated warehouse system, that other retailers are using to optimise back-end operations.
Robotics

Implication

Advancements in robotics are addressing labour challenges

Retailers must integrate greater levels of machine automation into the supply chain to keep pace with competitors
- As retailers seek to remain competitive, inventory transparency and supply chain efficiency are key, especially as the core operating model is often inherently overburdened with inventory and physical assets
- Winning retailers cannot afford to fall behind as robots continue to improve efficiency in warehouse logistics and fulfilment

Robotics will redefine the in-store retail environment
- Robots present an opportunity to enhance the store experience by providing dynamic in-store shopper assistance, such as answering product inquiries, retrieving products and processing purchases
- As retailers face increasing competitive pressures and thinning margins, deploying automated in-store services will free up labour, further cutting costs and boosting productivity

Kiva Robots Inside an Amazon Fulfilment Center
- Amazon is set to open its third fulfilment centre using robots for picking and packing, which will stock 50% more inventory than non-robot facilities.
- Amazon has stated that these robots have cut operating expenses by nearly 20%, which translates to USD22 million in cost savings in each fulfilment centre.
Autonomous Vehicles and Drones

Situation

Retail use of autonomous vehicles and drones is coming despite regulatory resistance

The majority of autonomous vehicles and drones will be used in supply chain and fulfilment processes

- Self-driving trucks are currently being tested by the likes of Uber subsidiary Otto, which recently completed a 120-mile autonomous delivery of 2,000 cases of Budweiser beer
- Drones are also being implemented in warehouses for inventory management, as well as undergoing testing for last-mile delivery
- Amazon recently reached a beta testing phase with its Prime Air Drone Delivery initiative, in addition to winning a patent for an 'airborne fulfilment centre'

Commercialised autonomous cars are on the five-year horizon

- Audi has promised to have an autonomous vehicle on the road by 2020
- Volkswagen is experimenting with a steering wheel that retracts into the dashboard, while Ford has claimed it will have a car without a steering wheel or pedals on sale in 2021

Regulation will delay adoption for years

- Due to the high risk, widespread autonomous vehicle and drone integration will be hindered by years of political and societal scrutiny
- Smart, IoT-based infrastructure is likely to be necessary before widespread autonomous vehicle adoption can begin to displace traditional transportation and logistics methods

JD.com Drone Delivery

- JD.com is leveraging drone delivery to improve fulfilment efficiency and access Chinese consumers in rural areas more easily.
- Drones will deliver products from a warehouse to a landing pad in a remote village where a local delivery person will collect then drop off the package at the shopper’s home.
Autonomous Vehicles and Drones

**Implication**

**Autonomous vehicle and drone development can revolutionise supply chain economics**

**Early adopters of autonomous logistics systems will benefit from greater supply chain efficiency**

- Self-driving vehicles will dramatically reduce distribution and fulfilment costs; winning retailers will be early adopters as they will benefit from productivity gains and labour savings.

**Drones will provide the most value in data analytics, not fulfilment**

- Logistics operators and retailers are already using drones to optimise picking and packing processes in their warehouses, which can support better replenishment and fulfilment levels.
- Deployed inside and outside physical stores, drones can monitor effectiveness of signage, positioning of entrances and the impact of traffic.

**The hands-off consumer driving experience presents new opportunities for customer engagement**

- As the act of driving becomes increasingly automated, this will free up time for digital productivity and entertainment activities, including shopping, which will also open up new marketing and customer engagement opportunities.
- Winning retailers and brands will look at ways to reach consumers in these newly connected spaces to influence spending habits.

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*Domino’s Pizza Delivery Robots*

- Domino’s Pizza has partnered with Starship Technologies to use autonomous robots to make home deliveries.

*Source: Starship Technologies*
3D Printing

Situation

3D printing momentum is slowing, but still holds promise

3D printing is still in the early stages of development
- 3D printing is the process of creating a customised, three-dimensional object in which layers of material are formed using computer control
- The next generation of 3D printing, referred to as 4D printing, involves printing objects that then reshape themselves or self-assemble over time
- Companies are exploring new materials that can be used for printing, including ceramic resin, light metals, and food

It currently offers few scalable retail applications
- 3D printing is a new option for manufacturing processes, but current technological advancements are focused on niche solutions like customisation
- The cost of ownership and maintenance exceeds any projected return on investment
- Lowe's is currently offering 3D printing and scanning services in select stores, pointing to its potential for low value, high-volume products stocked by home improvement retailers in particular

3D printing has successfully bridged into food
- 3D printers are now being used to 'print' candy and desserts, and supply a niche pop-up restaurant
- Long-term, the technology could change the way people eat and buy food

3D Printing Capability

- 3D printed objects can be of almost any shape or geometry and are produced using digital model data from a 3D model or another electronic data source and by adding material layer by layer.
3D Printing

Implication

3D printing is a long-term investment, but has the potential to change supply chain economics

3D printing is capable of revolutionising product lifecycle management
- 3D printing has the potential to greatly increase levels of personalisation, particularly for highly specific products (e.g. print your own screws)
- Advanced 3D printing capabilities could enable retailers to increase or change assortments more quickly, enhancing inventory management
- The technology will soon be used to improve efficiency, especially in small-batch manufacturing that involves high levels of customisation or personalisation

It isn’t a requirement for success, but the innovators will start to experiment
- 3D printing is far from having any substantial commercial use, but shows the most near-term promise for assisting in manufacturing
- The technology is now ready to be used as a novelty item to enhance store experience and differentiation

The impact on grocery could be coming
- 3D printing can accelerate ingredient control in food, particularly for customers with dietary restrictions and preferences
- In the future, grocers may even be able to print customised meals using shoppers’ personal diet and nutrition preferences

Food Ink – 3D Printing Restaurant

- Food Ink is a pop-up restaurant in which the food, utensils and furniture are completely produced through 3D printing in an immersive futuristic space.

Source: Food Ink
The Future Technology Landscape

1. Ubiquitous connectivity, enabled by mobile proliferation and the Internet of Things, will make nearly everything in the consumer’s life a source of data and influence.

2. The increasing number of ways people can interact with computing devices and systems will redefine how shoppers are influenced and make purchases, led by more pervasive interfaces, such as voice, AR and VR.

3. Automation, robotics and unmanned vehicles will drive considerable supply chain and labour efficiencies, and begin to touch the last mile.

4. Artificial intelligence will lead to much faster and data-driven decision making, improving efficiencies but challenging organisations to realign processes and people.

5. Mobile-first developing and emerging markets will lead to new challenges and solutions, and alter the traditional evolution of chain retail in those geographies.

6. The progressive development of more 'intelligent' autonomous computing devices and systems will support greater commercial applications for the likes of 3D printing.
Economy

The drivers impacting the health of global retail

Consumer Spending 45
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The Future Economic Landscape 59
Consumer Spending

Situation

The balance of power in consumer spending is shifting dramatically

Asia & Oceania will become the largest region for consumer spending in 2019
- Asia & Oceania has been the second-largest region by consumer spending for over a decade, but will overtake North America as the largest consumer spending region over the next five years

Europe’s share of global consumption is declining rapidly
- Consumer spending in Western Europe will experience the slowest growth of any region, while Central & Eastern Europe is expected to recover modestly after a USD decrease in consumer spending in the previous five-year period
- Combined, Europe will account for less than 17% of global consumer spending growth over the next five years

Majority of consumer spending is concentrated in developed markets
- Developed markets represent 64% of global consumption in 2017, though this figure will decline to 58% by 2022
- Although emerging markets account for only 25% of global consumption in 2017, they will account for 36% of consumption growth over the next five years, nearly matching the 39% contributed by developed markets

The three smallest regions, Africa & Middle East, Central & Eastern Europe, and Latin America, account for only 19% of global consumption in 2017 but 25% of consumption growth over the next 5 years.

North America and Western Europe are the only two regions forecasted to decrease their share of global consumer spending between 2017 and 2022. Both regions will grow in USD terms, but will grow more slowly than global consumer spending.
Anyone with global growth ambitions must win in Asia
- Driven by massive populations, China and India offer current opportunity and future potential, while South-East Asia is also on the rise
- After years of capitalising purely on the number of shoppers, per capita spending and retail spending per square foot are also increasing dramatically across Asia, indicating that retailers and brands can also capture rising household spend

Global retailers and brands should strive to balance current opportunity with future potential
- Despite slowing growth, North America and Western Europe still represent the majority of global consumer spending, and are most likely to be the primary source of stable, profitable operations
- Growth in emerging markets will be faster and an essential component of the portfolio, but require heavier investments that challenge short- and mid-term profitability
- Incubation strategies designed to test and learn are prudent in developing markets that offer long-term opportunity, but are years away from delivering significant revenues or profits

Smaller markets offer pockets of potential
- Despite smaller total market size, countries like Norway, Denmark and Finland are attractive because they offer high consumer spending per capita
- Emerging and developing markets like Colombia, Malaysia and African megacities offer quickly growing consumer spending

### Top Markets by 2017 Consumer Spending (USD)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Total Consumer Spending (bn)</th>
<th>Consumer Spending per Capita (&gt;1M people)</th>
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<tr>
<td>1</td>
<td>USA</td>
<td>13,213</td>
<td>1 Switzerland 42,238</td>
</tr>
<tr>
<td>2</td>
<td>China</td>
<td>4,676</td>
<td>2 USA 40,561</td>
</tr>
<tr>
<td>3</td>
<td>Japan</td>
<td>2,733</td>
<td>3 Norway 32,070</td>
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<td>4</td>
<td>Germany</td>
<td>1,846</td>
<td>4 Australia 31,488</td>
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<td>5</td>
<td>UK</td>
<td>1,603</td>
<td>5 Hong Kong 30,158</td>
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<td>6</td>
<td>India</td>
<td>1,524</td>
<td>6 Canada 24,737</td>
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<td>10</td>
<td>Canada</td>
<td>908</td>
<td>10 Austria 23,251</td>
</tr>
</tbody>
</table>

Source: PlanetRetail RNG

- Seven of the top 10 markets by consumer spending are developed markets, led by the USA, which still has consumer spending nearly three times larger than any other country in the world.
- India’s rapidly growing economy will make it the fourth-largest market in the world by consumer spending by 2022.
Total Population

Situation

Global population growth is stable, but extreme market distinctions are emerging

The world’s population will hit 8 billion people by 2022
• The global population growth rate over the next five years is nearly identical to the previous five-year period, but differs widely by region and development stage
• The 450 million people added is a 7% increase over the 420 million people added between 2013 and 2017

Population growth is concentrated in two regions
• Asia & Oceania is the largest region in population and population added, more than double that of the next closest region
• Africa & Middle East is by far the fastest-growing region, with Sub-Saharan Africa projected to double its population to nearly 2 billion by 2050

Markets in the developed world are facing shrinking populations
• 23 countries, predominantly concentrated in Europe, will see population decreases over the next five years
• In most cases, population declines are a result of very low birthrates

• Developed markets account for only 6% of global population growth added over the next five years, while developing markets account for 74% of global population growth over that same time period.
• Africa & Middle East has a population growth rate more than double the next closest region, and is one of three regions with an accelerating population growth rate (along with Central & Eastern Europe, North America).
• 56% of the global population in 2022 will remain located in Asia & Oceania.
Total Population

**Implication**

Emerging and developing markets must be your focus for long-term consumer growth

**If you seek new shoppers, go to Africa and Asia**
- For businesses reliant on new customer acquisition, global growth will be difficult and costly without a presence in either of the two most populous continents
- Investments in developing markets will become more prevalent as three-quarters of the world’s population growth will occur there over the next five years

**In most of the developed world, focus on the shoppers you already have**
- With stagnant population growth, the limited opportunity to acquire new shoppers means retaining existing shoppers is essential
- Most retail growth is driven by growing basket size and maximising the value of current customers

**The population opportunity is in cities, not countries**
- In emerging and developing markets in particular, cities may support retail growth decades before the rest of a country
- Even in the smallest markets, cities offer concentrated populations, often with higher incomes, that retailers and brands can access even if the remainder of the country lacks potential

**Top Markets by Population Added (mn)**

- India will add 90 million people over the next five years, more than double the next closest market, China.
- The USA is the only developed market in the top 40 countries of population growth. Nine of the top 10 markets are located in the Asia & Oceania and Middle East & Africa regions.
- Japan will see a population decline of 2.6 million people over the next five years, the biggest decrease in the world. Russia’s population is expected to decline by 1 million over the same period.
Addressable Population

Situation

Migration to cities is driving rapid addressable population growth in emerging and developing markets

Less than half of the global population currently is currently addressable for modern retail
- Because they are either too young, geographically difficult to reach, or lack the spending power, many consumers participate exclusively in the traditional economy, making them 'unaddressable' to retailers and brands operating in formal retail
- Despite their massive total populations, only 32% of shoppers in India and 59% of shoppers in China are considered addressable in 2017, indicating a more subdued opportunity for operators in the modern trade

The gap between addressable and total population in emerging and developing markets is significant, but shrinking quickly
- China, India and Brazil are each adding millions of addressable consumers to the global economy annually, while Russia’s addressable population has stagnated amid an economic downturn
- Addressable population makes up more than three-quarters of the total population in nearly all developed markets, with the remainder comprised primarily of shoppers below age 15 who will soon be considered addressable

The largest addressable population growth is occurring in Asia
- As rural populations move into cities at a rapid pace, most notably in China and India, retailers and brands are gaining access to new shoppers they could never serve before

Addressable Population Share of Total Population by Top Markets (%)

- Globally, addressable population growth will be concentrated in emerging and developing markets. Among the world’s 10 largest markets by consumer spending, China and India account for 84% of addressable population added over the next five years.
- China’s estimated 2017 addressable population is 816 million people, nearly twice as large as any other country on the planet.
- 88% of Japan’s total population is expected to be addressable in 2022. Comparatively, only 35% of India’s total population will be addressable in 2022.
Addressable Population

Implication

The number of addressable shoppers is growing, but the opportunity remains unreliable

The biggest population opportunity exists outside of chain retail
- Despite the exploding growth of addressable consumers in emerging markets, the majority of the global population still shops predominantly in the traditional trade and represents enormous future growth potential
- Chain retailers will find it difficult to access these shoppers, but FMCG brands can leverage alternative distribution networks and mom & pop shops to get products into the hands of 'unaddressable' consumers

Don't become too reliant on newly addressable shoppers
- Consumers that have recently 'bridged' into the modern trade are typically low-income, extremely price sensitive and rely on informal employment that is less stable
- While they offer long-term opportunity, these 'bridge consumer' populations are very volatile, frequently fluctuating between the traditional and modern trade as their income and employment situations change

Bridge Consumers Are a Volatile Shopper Base

Bridge Consumers

Not Addressable
Traditional / Informal Trade

Addressable
Modern / Formal Trade

- While China and India have both seen enormous addressable population growth, the addressable population in Russia decreased over the past five years due to recession, migration, and death rate. Formats most successful with bridge consumers are extremely price-focused and borrow design and merchandising ideas from the traditional trade
Employment

Situation

With employment, the devil is in the details

Underemployment and age are the future employment watch-outs in developed countries
- Even though the total employment picture looks positive, many workers are facing stagnating wages and limited job prospects that are hurting the growth of the middle class
- As its population skews older, Japan is struggling with a decreasing labour pool, a trend that will soon be felt across much of Western Europe

Informal employment will continue to play an essential role in developing and emerging economies
- Informal employment, including day labourers, street vendors, domestic cleaning and other service jobs, will continue to make up more than half of total employment in many markets
- Because they lack the social safety nets provided by formal employment, people working in the informal economy will remain financially vulnerable

The lowest employment rates are found in developing markets
- This situation is commonly driven by very traditional households, where one source of income must support large families

2017 Employed Population Share of Total Population by Market (%)

- China's employed population as a share of total population is the highest among the world's 10 most populous nations.
- Driven by large families and many single income households, India, Pakistan, and Nigeria each see employed populations represent less than 40% of the total population.

Source: UN World Population Prospects
**Employment**

**Implication**

To protect against an ever-changing employment picture, be flexible

**Prepare for volatility in markets reliant on informal workers**
- Markets with a high share of informal employment are extremely vulnerable to economic downturns, as informal workers are usually the first to lose their jobs and only source of income.
- As economic shocks remain a possibility and commodity markets remain volatile, expect to see large employment swings, particularly in export-dependent emerging and developing markets.

**Customer segmentation is essential to engaging with a global shopper base that is growing more economically diverse**
- The wage gap between formal and informal workers can be quite significant, creating severe income discrepancies among working populations.
- Countries facing underemployment challenges also see this growing income disparity that is shrinking the middle class and growing the rich and poor populations.

**Formal vs. Informal Employment**

- Formal employment typically offers higher wages, more upward mobility, and greater stability.
- Formal employment often requires educational backgrounds and skills that informal jobs do not.
Income

Situation

Income growth is fuelling the development of 'middle classes' in emerging markets

Absolute poverty is decreasing as disposable income rises around the world
- In developing geographies, most notably in Asia and Africa, the number of people that can afford basic necessities will continue to increase quickly as the shares of households in the poorest income threshold in both Asia and Eastern Europe are expected to be cut in half by 2021
- Government benefits and remittances remain critical components of income among the poorest populations and face pressure as immigration policies and social safety nets are reconsidered

Globally, the gap between rich and poor is closing
- Although income disparity remains stark, more households will join relative 'middle classes' by 2021, but will remain vulnerable to economic shocks
- The fastest disposable income per capita growth is occurring in Asia and Central & Eastern Europe, while top African markets Nigeria and South Africa will both struggle in the near term

Developed markets are in the midst of a middle class decline
- As costs of living increase and real wages and employment opportunities decrease, pressure on the middle class will continue to mount

**Income Distribution by Region (%)**

By 2021, less than 17% of households in Asia & Oceania are expected have income of USD0-USD5,000, one-third of the share in 2012. More than 80% of households in the region will be in the four middle zones by 2021, compared to 55% in 2012.

- Although more than half of households in North America have income at the largest threshold (USD75,000+), the USA's middle class has been declining for more than 40 years.
**Income**

**Implication**

Despite the pressure on incomes, don’t de-emphasise developed markets quite yet

Consumables sellers can capitalise on the growing number of stable food markets
- As absolute poverty declines, poor populations will gain the spending power to consistently purchase food and basic health & beauty products, creating an opportunity for FMCG suppliers in those categories
- Price sensitivity will remain an important theme, but the ability to buy basic necessities will be less of a concern across wide parts of the world

Your biggest opportunity is still in developed markets, for now
- Despite high growth rates in other regions, North America and Western Europe will remain the wealthiest regions by far, particularly for discretionary categories, but food spending per capita is becoming increasingly similar between development stages
- Continued pressure on the middle class will trigger heightened price sensitivity, driving some to trade down across formats and brands, but others to increase in-store food spending as they decrease restaurant visits

Be prepared to capture larger share of wallet with more premium formats and products
- As income grows across emerging and developing markets, retailers and brands can capture more aspirational purchases and encourage participation in new retail categories
- Moving consumers out of opening price points in emerging and developing markets can drive considerable improvements in profitability
Infrastructure

Situation

Inadequate infrastructure will remain a massive hindrance to retail growth in developing and emerging markets

The infrastructure gap between development stages is closing, but still very wide
- While developed markets enjoy reliable national transportation networks, infrastructure in developing and emerging markets is being built in urban areas first, making connections to rural areas difficult
- Developing markets can still lack reliable supplier networks, while underdeveloped financial systems inhibit smooth transactions between retailers, suppliers and shoppers

Congestion and refrigeration remain critical concerns in developing and emerging markets
- While traffic is not unique to any part of the world, congestion is most common in megacities in developing and emerging markets and expected to get worse
- Even in developed markets, congestion can disrupt delivery schedules and slow supply chains
- Low availability of refrigerated trucks impairs grocery supply chains and compromises food quality, while unreliable electrical grids bring frequent power outages that disrupt operations and threaten to spoil perishable products

Global digital infrastructure is insufficient to support future needs
- The surge in mobile usage around the world is placing growing demands on cellular networks and speed of service
- Online security remains a widespread concern as consumers shift towards online banking, ordering, payments and data storage

Infrastructure risk measures the risk that infrastructure deficiencies may cause losses to businesses operating in the market
- Developed markets saw an infrastructure risk of just 15.4% in 2017 compared to developing markets, which reached 56.7%. Emerging markets’ infrastructure risk is 41.0%.
- In 2017, Austria, a developed market, has the lowest infrastructure risk at 3%, while Pakistan, a developing market, has the highest at 72%.
Infrastructure

**Implication**

Retailers and suppliers should be prepared to adapt to local infrastructure inconsistencies

*Be cautious when planning long-term investment*
- Developing and emerging markets carry higher risk potential, creating uncertainty and instability for retailers and suppliers
- Retailers may opt to operate in one region, or even one city, instead of building out nationally in markets where urban areas are far more developed than the remainder of the country

*Inadequate infrastructure will hamper retail growth in emerging and developing markets*
- Markets where there are frequent petroleum shortages or electricity failures face the added burden of shipment delays and food spoilage
- Poor road quality and dispersed populations in markets with large rural populations like Kenya challenge the economics of nationwide delivery programmes

*Supply chain and format innovations will be required to work around infrastructure shortcomings*
- Adapted store formats and alternative pickup options can leverage existing infrastructure limitations as opportunities to attract shoppers, particularly in densely populated, congested areas
- Repeated power outages in developing markets incentivise smaller, more frequent purchases to protect against spoiled perishables

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**UAE 'Smart Shelters'**

- In 2016, ‘Smart Shelters’ debuted in the UAE. Smart Shelter has converted bus shelters across Dubai into air-conditioned convenience stores that also offer free WiFi, mobile charging and bill payment services.
- The shelters, which convert outdated infrastructure into relevant retail and service shops, are located in downtown areas to target local city residents, commuters and pedestrians, and offer an alternative to travelling to a larger grocery store further from home.

Source: CNN
Trade Regulations

Situation

Formally, trade has become easier, but local regulations will still make business difficult

Many formal trade barriers have been eliminated, but markets are becoming more protectionist

- Free-trade agreements that connect much of the world promote economic growth, while the World Trade Organisation will continue to drive more open borders globally
- As global competition rises, local governments are seeking ways to protect the interests of domestic businesses by blocking and encumbering foreign competitors through local tariffs and other operational hurdles

No sign that corruption will decline in the near future

- Bribes, inconsistent application of laws and unreliable court systems will act as informal barriers to foreign investment, making planning difficult
- In developing markets particularly, corruption is expected to remain a cost of doing business

Retail is acutely exposed to trade regulation risks

- Unpredictable trade policies that impact manufacturing and imports and exports of products can disrupt multinational retailer and supplier operations
- Labour, production and international shipping will all become more expensive and complex if more protectionist regulations take root

Average Ease of Doing Business Rank by Region

Source: The World Bank

Ease of doing business examines several indicators, including the ease of starting a business, the likelihood of contracts being enforced, and the time and cost required to get credit and electricity, pay taxes and meet legal regulations

- North America and Europe rank as the easiest regions in which to do business, while markets in the Middle East & Africa region rank among the most difficult. Markets in the European Union rank as the easiest for trading across borders due to the free-trade agreement within the zone.
Trade Regulations

Implication

Simple and transparent trade regulations create the most attractive markets for foreign investment.

If you can manage the uncertainty, there is space to win in emerging markets
- While fewer multinational chain retailers operate in emerging markets, higher trade risk and levels of corruption will remain huge disincentives
- Developed markets offer more security, but naturally bring more competitors
- Uncertain conditions often make markets a better target for suppliers than retailers, as they can enter and exit markets more easily and quickly react to changes

Markets in Latin America are stable investment opportunities
- While Latin American markets like Chile, Peru and Mexico are still emerging, their low foreign trade risk rankings are on par with most developed markets

International retailers will encounter more government interference than domestic players
- Government-imposed regulations that target foreign investors, such as limiting foreign direct investment or higher tax burdens for foreign retailers, are a competitive disadvantage
- In a time of great political change, retailers can face regulatory disruption with very little notice, highlighted by the UK’s vote to leave the EU and Russia’s ongoing sanctions imposed by the USA and European Union
- Cross-border ecommerce is a quickly growing international opportunity, but one that is reliant on governmental regulation

Australia’s Tax on Foreign Suppliers

- In February 2017, Australia introduced legislation that will levy a goods & services tax (GST) on foreign suppliers that sell low value goods (having a customs value of less than AUD1,000).
- The legislation intends to provide competitive neutrality for domestic retailers in order to alleviate the disadvantage domestic retailers have historically faced against foreign retailers selling the same products online.
The Future Economic Landscape

1. After nearly a decade of instability, the global economic outlook is more positive than in previous years, with growing consumer spending, rising income and improving infrastructure.

2. Developed markets must be won because of their share of global spending, but they don’t offer the growth available in the rest of the world.

3. The largest growth opportunity is in Asia, but the regional complexities will make scalable retail operations extremely challenging.

4. While the middle class in developed markets shrinks, middle classes elsewhere are rapidly emerging, but remain in danger of bridging back into the informal sector during local economic downturns.

5. As globalisation increases, protectionist regulations designed to protect domestic businesses will limit foreign direct investment and dampen economic growth.
Industry

The drivers dictating the competitive environment

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- The Future Industry Landscape 77
Total Retail Structure

**Situation**

Developing and emerging markets are rapidly increasing their share of formal retail*

**Formal food sales will account for 48% of total food sales in 2022**
- Overall, developing and emerging markets are seeing the fastest share shifts towards formal retail
- The size of the informal sector in both Africa & Middle East and Asia & Oceania is driving a decrease in food sales as a share of total sales over the next five years

**Informal retail will still account for 74% of total retail in developing markets in 2022**
- The popularity of open-air markets and street vendors in developing and emerging markets are well aligned to the continuing growth of informal retail, particularly in areas lacking the existing digital and physical infrastructure to support formal retail

**Mom & pop stores will continue to challenge chain retail in emerging and developing markets**
- Proximity, local shopper knowledge and established loyalty will help sustain mom & pop stores, particularly in rural and poorer areas, where chain retail options are more limited
- Comparatively, mom & pop stores in developed regions will struggle against chain retailers, whose scale allows them to offer lower prices and a broader assortment

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* Formal retail is predominantly sourced directly from the industry, while informal retail sources the majority of products from wholesalers and may not be officially recognised by the government.

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Formal Food Sales as a Share of Total Food Sales by Region (%)

- Africa & Middle East
- Asia & Oceania
- Central & Eastern Europe
- Latin America
- North America
- Western Europe

- Source: PlanetRetail RNG

- Because of their high concentration of developed markets, formal food spending represents a high share of total food spending in North America and Western Europe.
- The two most significant share gains will be made by the Central & Eastern Europe and Latin America regions.
Total Retail Structure

Implication

Informal retail will remain a key source of growth in developing and emerging markets

Widespread success in developing and emerging markets still requires tapping into informal retail
• Integration with informal retail through localised supply chains can improve access and will have long-term growth and brand equity benefits as these consumers become more connected to formal retail

Strategies for capturing formal retail sales will be different between rural and urban areas
• Building retailer partnerships with the largest chain retailers are likely to support the great growth in urban areas
• Rural strategies should focus on supplying local communities through the informal sector and mom & pop stores
• Local partnerships and franchising relationships can help international retailers take advantage of the opportunities in unfamiliar markets

High formal retail saturation will pressure retailers to reposition stores
• Most retailers will grow by adapting and leveraging existing physical assets, not opening new stores
• Increased industry competition will challenge retailers to differentiate stores with clearer shopper targets and trip missions

Coca-Cola Micro Distribution Centres

• Coca-Cola has created a network of micro distribution centres (MDCs) to serve remote geographies in Africa that have limited access to formal retail.
• The MDC network additionally offers MDC owners access to financing and merchandising training to grow Coca-Cola’s branding and presence in local outlets.
Category Spending Shifts

**Situation**

Spend is shifting from food to non-food categories across all market development stages

Despite losing share, edible grocery will remain the largest spending category globally, with 27% share in 2022
- In developed markets, the grocery landscape is highly saturated, driving price competition and pushing down margins
- In developing and emerging markets, informal retail will capture significant portions of food sales through open-air markets

**Spend is shifting towards experience-driven categories**
- While edible grocery is losing share, food service is growing its share as consumers are choosing to dine out more
- Entertainment, which includes both products and services, is one of the fastest-growing categories globally

**Emerging and developing markets will see the most growth in non-essential retail categories**
- From 2012 to 2022, share of edible food in emerging markets is expected to decrease from 42% to 37%, and from 55% to 50% in developing markets
- Entertainment will be the fastest-growing category in emerging and developing markets
- Grocery, automotive produce, DIY, furniture & homewares spend, and sports and leisure are the four categories where developed markets have a significantly higher share of spend than emerging and developing markets

---

**Global Share of Spend by Category (%)**

- The top 5 fastest-growing categories, office, entertainment, household & pet care, health & beauty and foodservice, have forecasted CAGRs 18% - 22% of 8.2%, 7.9%, 7.2%, 6.5% and 6.2% respectively.
- Share of edible grocery spend varies widely by market development stage. In 2017, it accounts for 15% in developed markets, 40% in emerging markets, and 53% in developing markets.

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Source: PlanetRetail RNG
Category Spending Shifts

Implication

Store space and resources should be reallocated to categories that are gaining share

Food will remain a fast-moving, reliable category
- Tailoring food assortment to local communities will help differentiate food offerings, such as ethnic foods for growing multi-cultural communities, and health and diet products for ageing populations
- Edible grocery spending will experience a gradual share decline, but continues to grow in absolute terms, and must remain a priority for its role in traffic and basket building, particularly in developing and emerging markets

Retailers will reposition stores to capture spending growth in food service
- Retailers should reallocate store space to include more prepared foods, meal kits, and in-store restaurants that support a growing shopper desire for experiences
- Brands should explore product innovation aligned to convenient and on-the-go food options to capitalise on this trend

Retailers and brands can grow with the health and beauty category as consumers spend more on healthcare
- Solution-based merchandising and engagement through digital, connected devices and personalised health services can drive conversions between healthcare and retail spend

Rite Aid Health & Wellness Merchandising

- Rite Aid offers informational health merchandising to engage ageing shoppers in the US who are shifting more spend to health-related products and services. Interactive merchandising and in-store services can capture new sales shifting to the health & wellness category.
Chain Retail Growth

Situation

Chain retail is growing globally, and most of the growth is concentrated in developing and emerging markets

Chain retail will add more than USD2.7 trillion in sales through 2022
- Retailers will generate more than USD10 trillion in chain sales in 2022, while growth will recover over the next five years, in line with the global economy
- North America’s and Western Europe’s share of global chain sales will both decrease by 2022, while Asia & Oceania’s will increase to 33% over the next five years
- North America will remain the global sales leader in 2022, but Asia & Oceania will become the largest region by chain sales by 2024

With a 10.7% CAGR, Asia & Oceania will be the fastest-growing region through 2022
- More than half of global chain sales added through 2022 will come from Asia & Oceania, and China will account for 72% of the region’s chain sales added
- Despite growing the slowest over the next five years, Western Europe and North America will still account for almost 40% of global chain sales added

Source: PlanetRetail RNG

- Asia & Oceania is home to three of the fastest-growing markets globally, with China, Vietnam and India each growing at a CAGR of at least 14.0% and adding more than USD1 trillion in chain sales combined by 2022.
- Home to many emerging markets, Central & Eastern Europe and Latin America will be the next fastest-growing regions in the world through 2022, each growing above 6% and increasing total sales in the region by more than one-third from 2017 to 2022.
Chain Retail Growth

Implication

Seizing global opportunities require balance of investment in both developed and emerging markets

There's limited space for new players in Western Europe and North America, but retailers can still find growth
- Western Europe and North America will be the slowest-growing regions through 2022 as saturation continues to pressure operators in developed markets and encourage retailers to invest in existing stores rather than open new ones
- As the share of global chain sales in Western Europe and North America continues to decline, retailers will need to create unique propositions to stand out in an environment of high competition and slowing growth

If you aren’t already in China, the time is now
- Although China will see more chain sales added than any other market, 72% of growth is concentrated among two retailers, Alibaba and JD.com
- Widespread distribution will be difficult without partnering with the top two players, while their growing dominance will pressure the growth of smaller players in the market

Not all developing and emerging markets are created equal
- While developing and emerging markets will grow at triple the rate of developed markets through 2022, government regulations and economic volatility will make it difficult for foreign retailers to take advantage of this opportunity
- Despite similar growth rates between developing and emerging markets, emerging markets will add 12 times more chain retail sales over the next five years

Top Markets* by Chain Retail Sales CAGR 18e-22e (%)

- Six of the top 10 fastest-growing markets through 2022 are from Asia & Oceania.
- The top 10 markets are located in the four fastest growing regions. 26 markets from these four regions are growing faster than the fastest growing market in either North America or Western Europe.

* Excludes markets with less than USD5 billion in sales in 2022e
**Chain Retail Concentration**

**Situation**

The top 5 retailers are consolidating the global retail landscape

The top 5 chain retailers will account for 23% of global chain retail sales in 2022
- The top 5 global retailers, made up of Alibaba, Walmart, Amazon, JD.com, and Costco, will increase their share of global chain retail sales 17% to 23% over the next five years
- The world’s largest retailer in 2022 is Alibaba, which will account for 7.1% of global chain retail sales, while Walmart will then account for 5.8% of global chain retail sales

Retailers outside the top 20 will still represent 62% of global chain retail sales in 2022
- With global chain retail sales of USD6.4 trillion in 2022, there is a long tail of smaller players that still make up the majority of the global chain retail industry
- Smaller national and regional players are still significant, but the top 20 retailers will account for 50% of chain sales added over the next five years

China is spearheading growth, particularly for the top 5 players
- Two of the top 5 global retailers are based in China, while all five have operations there

![Global Net Chain Retail Sales by Retailer Scale (USD bn)](chart)

- Nearly 40% of global chain retail sales in 2022 will be concentrated among 2017’s top 20 retailers, and more than half of that will be from the four largest players: Walmart, Alibaba, Amazon and JD.com.
- The top 5 global retailers will account for 39% of global chain retail sales added from 2018 to 2022, while the next 15 will account for just 11% of chain sales added.

*Source: PlanetRetail RNG*
Chain Retail Concentration

Implication

Top retailers will drive further industry consolidation and force incumbents to compete differently

Ecommerce will fuel the explosive growth of the world's leading retailers in the future
- The scalability of leading ecommerce business models will take a disproportionate share of sales and consumer interactions, making them 'must wins' for brands looking to grow on a global scale
- Further industry consolidation will occur as top retailers acquire local and regional players and other retailers merge

Differentiation is critical in concentrated markets
- Top retailers may have the scale to win on price, but small players will emerge as winners only by offering a unique proposition that will resonate with local shoppers
- Large retailers and brands will look to acquire niche businesses to maintain this differentiation

Smaller players should explore partnerships to compete with the growing scale of top players
- Retailers and brands will increasingly use buying groups and joint ventures, which are currently most common among leading retailers in Europe, with partnerships like EMD, AgeCore, Coopernic, and AMS
- Retailers and brands are partnering to share capabilities they cannot develop independently, including sharing delivery networks and leveraging each other's physical stores

Top 5 Global Retailers’ Sales by Market Development Stage (USD bn)

- Alibaba and JD.com operate mostly in China, the majority of their sales are in emerging markets.
- For Walmart, Amazon, and Costco, sales are gradually shifting from developed to developing and emerging markets.

Source: PlanetRetail RNG
Channel Composition

Situation

Ecommerce will be the fastest-growing channel over the next five years

Hypermarkets are declining globally, while smaller stores grow
- While small, discounters continue to gain share globally, with 5% share of sales in 2022
- Supermarkets remain the largest food-selling channel globally, with 46% share in 2022
- Convenience is now the fastest-growing store-based channel worldwide

Shopper preferences are driving wide regional channel distinctions
- Hypermarkets are experiencing strong growth in Africa & Middle East, but are declining in North America and Western Europe
- North America and Latin America will both see small-store channels like discount and convenience ramp up growth through 2022, while channels reliant on larger stores, like department stores and hypermarkets, will grow more slowly

Ecommerce is expected to account for half of global sales added through 2022
- Ecommerce will add more than USD1.3 trillion, while the next largest channel, supermarkets, will only add close to USD300 billion
- Ecommerce will be the fastest-growing channel in every region around the world

Global Food Retail Sales by Channel (%)

- Hypermarkets/superstores
- Supermarkets/neighbourhood stores
- Discounters
- Others*

Source: PlanetRetail RNG

- Other channels, which include convenience and forecourt stores, as well as traditional channels like open markets and street vendors, will see share decrease slightly to 32% in 2022.
- Traditional retail, open markets and street vendors can account for up to 90% of other channels, particularly in developing and emerging markets.
Channel Composition

Implication

Store-based saturation in developed markets is shifting retail investment to ecommerce

**Ecommerce will become a core capability globally**
- Managing a digital shelf and developing a supply chain to support new fulfilment methods are requirements for any substantial, profitable growth in the largest ecommerce markets
- Even in markets that are far from physical store saturation, hypermarket and department store growth is likely to be replaced by proximity formats

**Sales shifting online will force retailers to reposition stores**
- Retailers must reallocate unproductive space as sales in many categories leave the physical store
- Retailers and brands will turn to experiences to make a physical store visit more valuable when most purchases can be made online
- While ecommerce is rapidly gaining traction, the majority of global retail sales will still occur in physical stores

**Managing customer relationships across more store types and digital touch points will become more difficult**
- As traditional big-box stores decline and smaller formats gain share, optimising price and assortment will become more complex
- With more ways to buy and more places to get information than ever before, customer engagement throughout the path-to-purchase is essential

---

**Ecommerce Share of Chain Retail by Region (%)**

- Every region will see ecommerce gain considerable share over the next five years, but substantial differences remain.
- Asia & Oceania is by far the most ecommerce-penetrated region in the world. Ecommerce will represent 47% of chain retail in 2022.
- Ecommerce will only represent 5% share of sales in Africa & Middle East by 2022, but digital influence in the shopper journey will continue to rise.
**Ecommerce Structure**

**Situation**

Digital marketplaces are consolidating ecommerce

**Global ecommerce will grow by USD1.3 trillion over the next 5 years**
- Global ecommerce will nearly double by 2022, with forecasted sales of USD2.7 trillion
- Ecommerce gross merchandise volume (GMV) share of global chain retail sales rose from 8% in 2012 to 18% in 2017, and is expected to reach 26% in 2022

**Digital marketplaces are outpacing other online models**
- Third party (3P) marketplace sales as a share of global chain retail sales are expected to rise to 15% in 2022e, adding more than USD860 billion in sales volume
- Digital marketplaces will account for 58% of global ecommerce sales in 2022, up from 51% in 2017
- Pure-play and brick-and-mortar.com businesses are forecasted to have declining shares of ecommerce sales, at 24% and 18%, respectively, in 2022

**Emerging markets are seeing particularly high 3P marketplace growth**
- Asia & Oceania, driven by China and India, are seeing massive ecommerce growth driven by top digital marketplace players, including Alibaba, JD.com and Amazon
- Digital marketplaces are particularly effective in developing and emerging markets because they don’t require local sellers to create their own infrastructure to sell online

**Global Chain Ecommerce Sales by Business Model (USD bn)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Pure-Play</th>
<th>B&amp;M.com</th>
<th>Digital Marketplace</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$503</td>
<td>$154</td>
<td>$188</td>
</tr>
<tr>
<td>2017</td>
<td>$1,364</td>
<td>$319</td>
<td>$691</td>
</tr>
<tr>
<td>2022e</td>
<td>$2,690</td>
<td>$652</td>
<td>$1,558</td>
</tr>
</tbody>
</table>

- Digital marketplaces will add the most ecommerce sales and have the fastest growth rate of the three business models, with a sales CAGR 18e-22e of 17.7%.
- Pure-play and brick-and-mortar.com players will combine to account for 35% share of ecommerce sales added over the next five years.
### Ecommerce Structure

**Implication**

Prioritising investments will be essential as ecommerce competition intensifies

**Accelerating ecommerce consolidation will mandate different investment decisions**
- Because the digital infrastructure and capabilities required to win are so expensive, consolidation will encourage more industry partnerships so retailers and brands can leverage each other's strengths
- Without a clear niche or differentiation, small retailers will find it nearly impossible to compete with top players
- The borderless nature of ecommerce means that local businesses historically insulated from other retailers will find themselves in direct competition with top players

**Brick-and-mortar.com businesses must leverage their physical footprint to successfully combat marketplaces**
- Retailers with both an online and physical presence can create more convenient and efficient fulfilment options that an online-only retailer can't replicate
- Online-to-offline (O2O) models will be critical in expanding ecommerce access in markets with limited digital and physical infrastructure

### Global Chain Ecommerce Sales by Region (USD bn)

- Asia & Oceania is expected to have an 18.0% CAGR 18e-22e, adding USD905 billion in sales. While it is already the largest region by ecommerce volume, it will be more than twice as large as any other region in 2022.
- Central & Eastern Europe, Latin America and Middle East & Africa are demonstrating high growth through 2022, with CAGRs of 12.5%, 11.5%, and 15.0%, respectively, but are adding relatively negligible sales volumes when compared to the growth in other regions.
The Rise of Digital Marketplaces

**Situation**

Digital marketplaces are consolidating shoppers and vendors on their platforms

**Digital marketplaces are focused on building ubiquitous digital ecosystems**
- Alibaba (China), JD.com (China), and Amazon (USA) have emerged as the leaders of the online marketplace landscape and have become the destination for retail transactions in many markets
- These companies are expanding their businesses beyond retail to become integrated into more aspects of shoppers’ lives, including entertainment, payments and social media

**The scale of digital ecosystems is beginning to overpower online and offline competitors**
- As digital marketplaces aggregate shoppers and vendors onto their platforms, they will take a larger share of ecommerce transactions
- The wealth of user data available to ecosystem operators is enabling a comprehensive view of shopper behaviour unmatched in the industry

**Digital marketplaces are enabling the rapid growth of cross-border ecommerce**
- The top digital marketplaces provide logistics and fulfilment support for their vendors, including cross-border transactions, which would otherwise be too costly for many smaller players
- Many retailers and brands are competing with one another across international lines for the first time

---

### Top Global Digital Marketplace Players (USD mn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Alibaba Group</th>
<th>Amazon</th>
<th>JD.com</th>
<th>eBay</th>
<th>Rakuten Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$800,000</td>
<td>$400,000</td>
<td>$300,000</td>
<td>$200,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>2017</td>
<td>$700,000</td>
<td>$300,000</td>
<td>$200,000</td>
<td>$150,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>2022e</td>
<td>$600,000</td>
<td>$200,000</td>
<td>$150,000</td>
<td>$100,000</td>
<td>$50,000</td>
</tr>
</tbody>
</table>

Source: PlanetRetail RNG

- Three of the top 5 digital marketplaces are based in Asia (Alibaba – China, JD.com – China, Rakuten – Japan). Chinese and US digital marketplaces are expected to account for over 48% of the total global marketplace sales added.
The Rise of Digital Marketplaces

Implication

Large retailers and brands can’t win without a strategy for digital marketplaces

Digital ecosystems are becoming the place to engage with consumers
- Utilising digital ecosystems can provide retailers and brands with access to a massive shopper base as well as opportunities to monetise consumer data
- The data acquired through consumer interactions across services within the ecosystem enables better shopper understanding
- For retailers, differentiating through quality, personalisation or integrating local services can help compete against the growing scale of digital marketplaces

Digital marketplaces can help vendors reach new audiences
- Digital marketplaces are a low-cost way to gain exposure in new markets and better understand shopper behaviour
- The visibility enabled by digital marketplaces can dramatically enhance the reach of local brands, making small brands look big

Standing out on the platform continues to get more difficult
- While digital marketplaces offer convenient comparisons for shoppers, suppliers will have an increasingly difficult time differentiating from the high volume of other vendors
- The increased competition and 'no rules' environment on marketplace platforms will challenge suppliers to protect price and brand equity

Alibaba’s Growing Digital Ecosystem

- Alibaba has invested in a broad set of non-retail digital services and entertainment platforms. The integration of these platforms brings more customers into the ecosystem and allows for massive data collection, which can be used for more personalised marketing.
Cross-border Commerce

Situation
Global connectivity creates growing demand for international products

Demand for international products is rapidly growing
- Unprecedented online access and visibility are fuelling demand for international products as retailers and brands are no longer limited by geographical restrictions
- Chinese shoppers in particular have a high demand for international goods as a result of product safety concerns (e.g. baby formula) and a desire for high-quality name brand goods

Digital marketplaces are leading cross-border commerce development
- Digital marketplaces provide retailers and brands the opportunity to enter new markets with low digital and physical investment
- Digital marketplaces can support vendors with cross-border delivery, although the process is often still costly and delivery times are long

Cross-border trade will be at the mercy of regulators
- While countries will want to encourage exports, cross-border commerce will create more competition for domestic players that will surely lead to new regulatory protections

Business-to-Consumer Cross-Border Ecommerce (USD mn)

- Africa & Middle East
- Asia & Oceania
- Central & Eastern Europe
- Latin America
- North America
- Western Europe

Source: Accenture

- Asia & Oceania will lead cross-border ecommerce growth, contributing 54% of cross-border ecommerce trade volume between 2014 and 2020.
- While Africa & Middle East has a low share of global cross-border volume, cross-border ecommerce is expected to account for 60% of B2C ecommerce in the region by 2020.
Cross-border Commerce

Implication

Cross-border commerce growth could dramatically disrupt traditional competitive dynamics

Competition will increase as more retailers and brands build cross-border capabilities
• Domestic retailers will feel the pressure of increased global competition as shoppers are able to select from a broader assortment and pricing options regardless of home market

Understanding local consumers’ habits and preferences will be necessary to capitalise on cross-border potential
• International retailers and brands will be in direct competition with domestic players, emphasising the necessity of understanding local shopping behaviour and differentiating on price, quality or assortment
• Partnerships with digital marketplaces often present an opportunity for retailers to test products with a new customer base

Cross-border growth will demand disciplined management of price, inventory, and assortment
• Price comparisons across international borders will disrupt typical pricing strategies
• Supply chains will need to be adapted to support the efficient movement of goods outside of traditional borders
• Organisations will need to be restructured to enable collaboration across international teams

Alibaba’s Cross-border Ambitions

• China’s Alibaba has been growing its Tmall Global platform by building ‘Market Pavilions’ and international partnerships to provide more international goods to Chinese consumers.
• During China’s commercial Singles Day holiday, 37% of Chinese shoppers on Alibaba purchased from international brands. International sales accounted for 27% of the total USD17.8 billion transacted over Alibaba’s Tmall and Taobao platforms.
1. The balance between the size of traditional retail and the growth of chain retail will necessitate very different investment strategies by market and geography.

2. Developed markets and cities will see discount and convenience-oriented formats take share from hypermarkets and supermarkets, while the growth of ecommerce will dampen the widespread expansion of big-box stores in developing and emerging markets.

3. Ecommerce will move considerable volume out of big-box stores globally, challenging retailers and brands to reposition and reallocate the vacated physical space.

4. The growth of digital ecosystems will overwhelm other ecommerce models and many store-based channels, making marketplaces the place to reach consumers and sell products.

5. Industry consolidation will force retailers and brands to reassess their routes to market and competitive positioning, producing new direct-to-consumer approaches to create new consumer touchpoints and new partnerships to share capabilities they can’t independently develop.

6. Ecommerce transactions will increasingly cross national boundaries, making every retailer and brand on earth a potential competitor.
Policy

The wildcards and disruptions

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The unlikely wildcards we are watching that could disrupt everything

**The War on Sugar Intensifies**

Consumer awareness and concerns about unhealthy diets increase pressure on certain foods. The growing public health burden causes governments to expand regulations and taxes on unhealthy foods, in particular foods high in sugar. Retailers adapt assortments accordingly, and suppliers are forced to reformulate more products and diversify into healthier food categories.

Event Likelihood: **MEDIUM**

**Climate Change Sentiment Disrupts the Supply Chain**

International agreements and local regulations create significantly more burdensome requirements for sustainable sourcing and efficient transportation methods. Simultaneously, consumers demand transparency and accountability to the degree that these themes become truly differentiating for mass retailers and brands.

Event Likelihood: **LOW**

**Food Safety Scares Increase Food Costs**

Food-borne illness and food safety concerns bring more traceability requirements, increasing supply chain costs. In the most extreme circumstances, governments ban some imports, driving product scarcity and increasing prices for end consumers. New regulations force food manufacturers and retailers to reassess sourcing practices.

Event Likelihood: **LOW**

**Shifting Energy Consumption Transforms Forecourts**

The growth of electric power coupled with changing energy policies could limit the use of diesel and petrol, reorienting transportation infrastructure and supply chains. The diminished need for petrol would challenge conventional store locations offering it and would upend the primary trip driver for petrol stations, demanding a redesign of the forecourt of the future.

Event Likelihood: **LOW**
The unlikely wildcards we are watching that could disrupt everything

**Data Security Regulations Increase**

Against a backdrop of growing political focus on cyber and data security, the retail industry continues to capture enormous amounts of customers’ sensitive personal and financial information. The increasing reputational consequences of data breaches combined with stronger regulations incentivise retailers and brands to impose much stronger protections for individual data privacy. Consumers gain more control over their personal information and are paid to give it up.

Event Likelihood: **HIGH**

**Robots Displace Humans in the Back Office**

As the autonomous computing technology improves and the cost of ownership declines, robots complete labour-intensive processes faster and more accurately than their human equivalents. Facing rising costs and declining profits, retailers deploy systems extensively in areas where the impact on the customer is minimised, particularly in inventory management, stocking and shipping, while political protections are slow to take effect.

Event Likelihood: **LOW**

**Autonomous Vehicle Regulation Paves Way for Adoption**

As autonomous navigation technology progresses and vehicle manufacturers commit to making them commercially available, self-driving cars, trucks, and drones become much more common on roads and in the air. Personal transportation and supply chains both become more efficient and cost-effective, but the consequences for low-skill labour are high. Self-driving cars open up time and space for many new entertainment and consumer engagement opportunities.

Event Likelihood: **LOW**

**Labour Forces Softer Brexit**

Despite a UK vote for Brexit in the summer of 2016, political pressure to remain part of the European Union is mounting. As power of the ruling party wanes, a minimisation or cancellation of Brexit plans is becoming a possibility. Mitigating the Brexit process now could strengthen the British Pound and continue the free flow of goods and people, which would benefit retail spending.

Event Likelihood: **HIGH**
The unlikely wildcards we are watching that could disrupt everything

**Leadership Transition in Brazil Refreshes Growth**

The removal of numerous corrupt individuals from government and business leadership positions leads to more stable political and economic environments. Electing and appointing new leaders without ties to the corruption scandals would create an environment for economic growth, improve consumer confidence and encourage more direct foreign investment in retail and infrastructure.

Event Likelihood: **HIGH**

**A Sharp Loss of Control in Africa**

Political stability is deteriorating in Sub-Saharan Africa, and a government losing its grip on political and economic power in a country would destroy institutional stability for education, infrastructure and direct foreign investment. Instability would limit retail opportunities and development for markets and emerging megacities, and lead to mass emigration of younger and mobile populations.

Event Likelihood: **MEDIUM**

**Political Instability Triggers US Recession**

Inaction by the US government leads to a failure to raise the debt ceiling. Unable to borrow additional money, the government would cut back on federal paychecks, contractors and benefits. Consumer spending is reduced rapidly, triggering a recession and reducing long-term spending. A US recession leads to retail competition focusing further on low prices, and accelerates the pace of retail closures and consolidation.

Event Likelihood: **LOW**

**Rise of China-Russia-Turkey Trade Bloc**

With China looking to raise its profile as a global economic leader, Russia burdened by Western-imposed sanctions, and the potential end of membership talks between Turkey and the EU, a trade group benefiting these countries could form. The result would be three high-potential emerging markets more isolated from the West, making trade with China, Russia and Turkey more difficult, particularly for North American and European companies.

Event Likelihood: **MEDIUM**
Our Future World

PlanetRetail RNG's future scenario
Envisioning our future world

Society
- Age Structure
- Urbanisation
- Multiculturalism
- Household Size
- Experience vs. Things
- Attention Deficits

Economy
- Consumer Spending
- Total Population
- Addressable Population
- Employment
- Income
- Infrastructure
- Trade Regulations

Technology
- Internet Access
- Mobile Devices & Networks
- Internet of Things
- Voice
- Augmented Reality & Virtual Reality
- Payment Methods
- Blockchain
- Artificial Intelligence
- Robotics
- Autonomous Vehicles & Drones
- 3D Printing

Industry
- Total Retail Structure
- Category Spending Shifts
- Chain Retail Growth
- Chain Retail Concentration
- Channel Composition
- Ecommerce Structure
- The Rise of Digital Marketplaces
- Cross-border Ecommerce

Policy
- The wildcards and disruptions

Every shopper is unique
The on-demand consumer rises
Experience is everything
Complexity blurs channels
The supply chain further fragments
Stores are emptied and overhauled
Retailer & brand roles are redefined
Ecosystems dominate
Retail becomes borderless
The scenario we are planning for

- Every shopper is unique
- The on-demand consumer rises
- Experience is everything
- Complexity blurs channels
- The supply chain further fragments
- Stores are emptied and overhauled
- Retailer and brand roles are redefined
- Ecosystems dominate
- Retail becomes borderless
Every shopper is unique

Growing differences in wealth, age, nationality and location will become more visible, making retailers and brands engage with more individualised offerings and communications.

What it takes to win

Engage shoppers through data-driven customer segmentation to enable personalised offers

Diversify store portfolios for distinct shopper groups

Supply chains equipped to deliver localised assortments

Product innovation catered to diverging tastes and preferences

Drivers of change

Income, Employment, Age Structure, Urbanisation, Multiculturalism, Household Size
The on-demand consumer rises

Unprecedented access to information combined with the need for instant gratification, personalisation and convenience makes consumers demand and expect to get what they want, how they want it, when they want it.

**Drivers of change**
Experiences vs. Things, Attention Deficits, Mobile Devices & Networks, Robotics, Artificial Intelligence, Internet of Things

**What it takes to win**
- Rethink the future store to integrate digital and provide curated and relevant products and experience
- Optimise supply chain to offer fast and convenient fulfilment options
- Engage customers through touchpoints that extend outside of the store

**On-Demand Consumer**

- Demands
  - Convenience & Flexibility
- Asset-Light Lifestyles
- Hyper-Personalization Expectations
- Seamless & Frictionless Experience
- Consumers Empowerment
- Accountability Transparency & Traceability
- Immediacy
  - Critical – Instant Gratification

86 | GLOBAL STEIP 2017
Experience is everything

As competition for the consumer’s time and attention increases, unique and compelling experiences will incentivise shoppers to enter stores and make retailers and brands stand out in a crowded marketplace.

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**Alibaba’s first virtual reality shopping experience**

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**What it takes to win**

- Create or participate in digital ecosystems that capture and retain consumer attention
- Stores that provide value beyond price and assortment
- Seamless fulfilment options to complement store experience centres

**Drivers of change**

- Experiences vs. Things, Attention Deficits, Internet Access, Augmented Reality & Virtual Reality
Complexity blurs channels

Channel distinctions become much less clear as the consumer's buying options increase rapidly across digital and physical platforms.

What it takes to win

Supply chains capable of serving increasingly diverse store types and new routes to market

Stores with clear and unique value propositions

Ecommerce businesses that limit friction and excessive touchpoints

Unique assortments to maintain differentiation between channels

Drivers of change

Income, Employment, Age Structure, Urbanisation, Multiculturalism, Household Size, Channel Composition, The Rise of Digital Marketplaces
The supply chain further fragments

The new ways for consumers to buy and receive products will proliferate and make supply chains and logistics more complex.

Increasing options along the path to purchase

<table>
<thead>
<tr>
<th>Discover</th>
<th>Pay</th>
<th>Wait</th>
<th>Engage</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 WAYS TO ORDER</td>
<td>8 WAYS TO FULFILL</td>
<td>7 WAYS TO DELIVER</td>
<td>9 WAYS TO RECEIVE</td>
</tr>
</tbody>
</table>

2,520 Routes to market or end consumer

What it takes to win

Flexible and agile systems to support real-time supply chain decisions and optimise delivery

Stores with sales floors and back rooms designed to support faster fulfilment

Ecommerce offerings that leverage fulfilment as a source of competitive advantage

Agile organisations without traditional brick-and-mortar and online silos

Drivers of change

Channel Composition, Ecommerce Structure, The Rise of Digital Marketplaces, Autonomous Vehicles & Drones, Infrastructure
Stores are emptied and overhauled

As more volume moves online and spending shifts to experiences, stores replace products with services and are forced to evaluate the value they provide to consumers.

What it takes to win

Transformations of store categories, assortment, and services to complement online offerings

Utilisation of stores as physical assets as one part of a broader customer engagement strategy

Reallocation of store space to support expanding supply chain and fulfilment needs

Dramatic changes to investment priorities and capital expenditures

Drivers of change

Retailer & brand roles are redefined

Brands increasingly go direct to consumers, while retailers and brands partner with competitors to leverage their strengths, leading to the rise of co-opération.

What it takes to win

Rethinking the purpose of physical stores and therefore space allocation within them

Maintaining proprietary customer engagement opportunities despite changing routes to market

New fulfilment solutions and supply chain partnerships

Managing digital ecosystems and marketplaces while exploring new points of purchase

Drivers of change

Chain Retail Concentration, Channel Composition, Ecommerce Structure, The Rise of Digital Marketplaces
Ecosystems dominate

Digital marketplaces build expansive ecosystems that aggregate users and become the place to transact, changing the shopper journey and the opportunities to engage with consumers.

What it takes to win

Clear online differentiation to stand out among a limitless set of competitors

Logistics systems that can support the supply chain requirements of leading ecommerce marketplaces

Customer engagement touchpoints outside of the dominant digital ecosystems

Drivers of change

Chain Retail Concentration, Ecommerce Structure, The Rise of Digital Marketplaces
Retail becomes borderless
As international borders open and ecommerce connects consumers to new markets, retailers and brands will increasingly compete outside traditional geographic boundaries.

Alibaba's International Reach

What it takes to win
Customer engagement tactics able to cross international borders
Global optimisation of ecommerce assortment, pricing, and inventory
Supply chains that can support fast and cost-efficient international fulfilment
Organisations structured to collaborate internationally on price, pack, and assortment

Drivers of change
Multiculturalism, Trade Regulations, Ecommerce Structure, The Rise of Digital Marketplaces, Cross-border Ecommerce
Evaluating strategies to win in our future retail world

<table>
<thead>
<tr>
<th>Every shopper is unique</th>
<th>The on-demand consumer rises</th>
<th>Experience is everything</th>
<th>Complexity blurs channels</th>
<th>The supply chain fragments further</th>
<th>Stores are emptied and overhauled</th>
<th>Retailer and brand roles are redefined</th>
<th>Ecosystems dominate</th>
<th>Retail becomes borderless</th>
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</tbody>
</table>

Table columns:
- Store of the Future
- Ecommerce & Digital Ecosystem Management
- Supply Chain & Fulfilment
- Engagement & Retention
- Product Innovation
- Assortment Diversification
- Organisational Design
- Investment Prioritisation

Legend:
- ✓ indicates a focus on the strategy.
The big picture – future winning requirements

1. Ecommerce will gain critical mass – can you support emerging purchase destinations and the new shopper journey?

2. You will be asked to get products to customers in new ways – can you make your supply chain a strategic advantage, not just a cost centre?

3. The way you communicate with consumers will be completely transformed – are you prepared to interact with customers on their terms?

4. Stores will change their merchandise and their purpose – how will you reposition and redesign your physical presence?
Introducing: PlanetRetail RNG’s 2017 Winning Strategies

- Ecommerce & Digital Ecosystem Management
- Supply Chain & Fulfilment
- Engagement & Retention
- Store of the Future
To understand more about how PlanetRetail RNG can help your business grow, please contact your account director or client engagement support manager.

client.services@planetretail.net
Appendix
Further Forecasts

**Age Structure**

Global population ageing with 60+ seeing highest growth

**Share of Global Population by Age (%)**

- **2012**: 12% aged 0-19, 54% aged 20-59, 35% aged 60 and over
- **2017**: 13% aged 0-19, 53% aged 20-59, 34% aged 60 and over
- **2022e**: 14% aged 0-19, 52% aged 20-59, 34% aged 60 and over

*Source: UN World Population Prospects*

**Average US Consumer Expenditures by Age 2016 (USD)**

- **<25**: $10,000
- **25-34**: $20,000
- **35-44**: $30,000
- **45-54**: $40,000
- **55-64**: $50,000
- **65-74**: $60,000
- **75+**: $70,000

*Source: US Census Bureau*

**Age Structure**

Consumers reach peak spending from ages 45–54
Further Forecasts

Urbanisation

Majority of rural population resides in Asia

Urban population more evenly distributed across regions

Percentage of Population Living in Rural Areas (%)

Percentage of Population Living in Urban Areas (%)

Source: UN World Urbanisation Prospects
Further Forecasts

Household Size
Smallest households are concentrated in Europe

Consumer Spending
Asia and North America lead global consumer spend

Smallest Average Household Size by Market 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Household Size</th>
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<tr>
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<tr>
<td>Denmark</td>
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<td>France</td>
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<tr>
<td>Austria</td>
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<tr>
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<td>Hungary</td>
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<td>Netherlands</td>
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<td>Ukraine</td>
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<tr>
<td>Slovakia</td>
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Source: PlanetRetail RNG

Share of Consumer Spending by Region (%)

<table>
<thead>
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<th>Region</th>
<th>2012</th>
<th>2017</th>
<th>2022e</th>
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<tr>
<td>Africa &amp; Middle East</td>
<td>10%</td>
<td>29%</td>
<td>29%</td>
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<tr>
<td>Asia &amp; Oceania</td>
<td>9%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Central &amp; Eastern Europe</td>
<td>6%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Latin America</td>
<td>28%</td>
<td>30%</td>
<td>33%</td>
</tr>
<tr>
<td>North America</td>
<td>6%</td>
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<tr>
<td>Western Europe</td>
<td>22%</td>
<td>19%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: PlanetRetail RNG
Further Forecasts

Consumer Spending

Europe and Latin America seeing share increases

USA and China considerably larger than other markets

Share of Consumer Spending Growth by Region (%)

Top Markets by Consumer Spending (USD bn)

Source: PlanetRetail RNG
Further Forecasts

Total Population

Developing markets contain majority of global population

Total Population

Asia and Africa contributing largest share of growth

Population by Development Stage (mn)

Source: PlanetRetail RNG

Share of Population Growth by Region (%)

Source: PlanetRetail RNG
Further Forecasts

Total Population
Asia & Oceania accounts for over half of global population

<table>
<thead>
<tr>
<th>Region</th>
<th>2012</th>
<th>2017</th>
<th>2022e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa &amp; Middle East</td>
<td>5%</td>
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<td>5%</td>
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<td>Asia &amp; Oceania</td>
<td>56%</td>
<td>56%</td>
<td>55%</td>
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<tr>
<td>Central &amp; Eastern Europe</td>
<td>6%</td>
<td>6%</td>
<td>5%</td>
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<td>Latin America</td>
<td>18%</td>
<td>19%</td>
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<td>North America</td>
<td>9%</td>
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<tr>
<td>Western Europe</td>
<td>5%</td>
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Source: PlanetRetail RNG

Total Population
Developing markets driving majority of population growth

<table>
<thead>
<tr>
<th>Stage</th>
<th>13-17</th>
<th>18e-22e</th>
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<tbody>
<tr>
<td>Developed</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Developing</td>
<td>72%</td>
<td>74%</td>
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<tr>
<td>Emerging</td>
<td>6%</td>
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</tbody>
</table>

Source: PlanetRetail RNG
Further Forecasts

Chain Retail Growth

Top retailers are primarily invested in developed and emerging markets

Top 5 Global Retailers’ Share of Sales by Market Development Stage (%)

- Alibaba
- Walmart
- Amazon
- JD.com
- Costco

Developed
Emerging
Developing

Global Share of Chain Retail Sales by Region (%)

- Africa & Middle East
- Asia & Oceania
- Central & Eastern Europe
- Latin America
- North America
- Western Europe

Source: PlanetRetail RNG

Asia continues to grow share of global chain retail sales
Further Forecasts

Category Spending Shifts
Spending on edible grocery decreases as markets develop

Chain Retail Concentration
Alibaba to surpass Walmart as largest retailer by sales
Further Forecasts

Total Retail Structure
Emerging markets quickly shifting to formal retail

Channel Composition
Ecommerce rapidly expands its share

Top Markets by Formal Food Sales as a Share of Total Food Sales (%)

Source: PlanetRetail RNG

Global Chain Retail Sales by Channel (USD bn)

Source: PlanetRetail RNG
## Market Segmentation

### Africa & Middle East

<table>
<thead>
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<th>Country</th>
<th>Development</th>
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<td>Algeria</td>
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<td>Reunion</td>
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<td>Rwanda</td>
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<td>São Tomé and Príncipe</td>
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<tr>
<td>Saudi Arabia</td>
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<td>Sierra Leone</td>
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<td>Somalia</td>
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<tr>
<td>South Africa</td>
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<td>South Sudan</td>
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<td>Sudan</td>
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<td>Swaziland</td>
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<td>Syria</td>
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<td>Zambia</td>
<td>Red</td>
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<tr>
<td>Zimbabwe</td>
<td>Red</td>
</tr>
</tbody>
</table>

### Development Stage Key

- **Developed**
  - Consumer spending per capita >$12,000
- **Emerging**
  - Consumer spending per capita $3,000-11,999
- **Developing**
  - Consumer spending per capita <$3,000
## Market Segmentation

### Asia & Oceania

<table>
<thead>
<tr>
<th>Country</th>
<th>Development</th>
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<tbody>
<tr>
<td>Afghanistan</td>
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### Development Stage Key

- **Developed**
  - Consumer spending per capita >$12,000
- **Emerging**
  - Consumer spending per capita $3,000-11,999
- **Developing**
  - Consumer spending per capita <$3,000
# Market Segmentation

## Western Europe

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