

RETAIL BUSINESS IN EGYPT

Overall Highlights:

Food retail sales have shown strong growth over the past ten years, the growth varying between 5-15%. Increasing spending power, a growing interest in ready meals and branded goods, and progressing economic development have increased grocery sales figures. Growth in retail sales over the next few years is projected to increase steadily. This will be supported by an improving economy, controlled inflation, and an increasing influx of Western products, which is expected to fuel consumer spending.

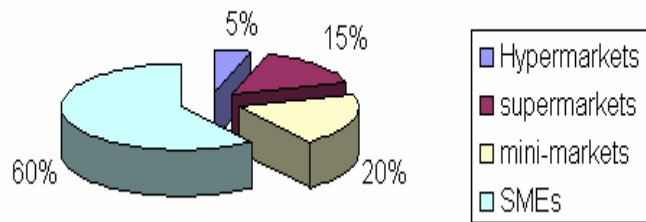
MARKET SUMMARY

While the global financial crisis has reduced the growth rate in the catering business in Egypt by about 15-20%, retail sales have increased by the same proportion due to the expansion of international chains, variety of products offered and an increase in the level of income and brand advertising. The food retail sector in Egypt continues its rapid development. More hypermarkets and supermarkets are sprouting in suburban Cairo and Alexandria in addition to more supermarket chains establishing a position in the rest of the governorates, primarily the Red Sea resort area. Carrefour (France) now operates 6 stores and has a plan to open 18 new stores over the next 5 years including 16 small express stores. Makro Cash and Carry (the local brand of the Dutch Metro chain) expects to open two outlets in 2013. The local Metro supermarket chain has 39 branches now and its affiliated class B and C food chain "Kheir Zaman", operates 21 branches.

Highlights of recent trends that impact the retail sector:

- ◆ The demand for ready-made foods is increasing rapidly, as the increase of women working pushes the demand for convenience-based food even further. The traditionally family-run stores are gradually declining in number as the numbers of independent modern supermarkets and hypermarkets rises. The Egyptian market is expanding, especially the number of supermarkets in the rapidly developing upscale urban areas around Cairo. More acceptances of Western products are expected to bring more Western chains into the country. There are several domestic chains such as Metro, Ragab Sons, Abu Zekri, and others featuring open, modern stores with wide product ranges, including imported Western products in inner-city areas. The chains may be small in comparison but the trend is worth noticing.
- ◆ New entries in the market were led by multinational players. Consumers' lifestyles changed and they started to be more prone to spend than save. This affected the market positively and brought high growth, which encouraged international companies to enter the Egyptian market. Thanks to the large number of shopping centers, which are frequently visited by shoppers, foreign companies could find ideal retail areas with little risk. [The U.S., France, Germany, Italy, Switzerland, Greece, Holland, Denmark, Thailand and China are the dominant suppliers of consumer-ready food products to Egypt.](#)
- ◆ The introduction of hypermarkets (store area of more than 5,000 square meters), supermarkets (more than 450 square meters), and mini markets (more than 150 square meters) is helping to re-shape the retail industry as well as the shopping habits of customers.

- ◆ Egyptian consumers are beginning to expect cleanliness, quality, and a wider variety of products. Consumers are currently asking for convenience, and shopping at supermarkets is becoming a leisure



activity. Consumers depend less on neighborhood grocery and convenience stores except for last minute, spur of the moment food needs. In the suburbs and less developed areas of Egypt, grocery and convenience stores still play an important role in the retail business. The biggest share of the retail market is still held by traditional stores and it will take a long time before supermarkets will acquire a dominant position. It is estimated that 90-95% of the food outlets can be categorized as small grocery stores. Supermarkets account for no more than 5% of the outlets.

- ◆ Hyper markets have been well accepted, especially by families. They offer a one-stop shopping experience for their customers. Hypermarkets use economies of scale to keep price low. Their business model is based on low overheads-a result of expansive stores located on the outskirts of cities where property prices are lower –coupled with selling large volume of goods at low profit margins. The savings are passed along the consumers. One way in which hypermarkets were able to shave percentage points off prices was by lower packaging costs. They sell fast-moving products like rice, cereal, and detergent in economy packages, weighing more than five kilograms. They also negotiated contracts with local suppliers to supply a growing line of private – label brands, thereby employing economies of scale while satisfying a demand for cheap, high quality goods. The desire to sell at the lowest possible prices initially discouraged hypermarkets and supermarkets chains from importing goods, which were subject to high tariffs and lengthy customs procedures. However, tariff reduction and the prospect of less tortuous customs clearance encouraged these chains to resuscitate plans to stock imported goods.
- ◆ The supermarket sector has been progressing rapidly over the past ten years in Egypt. There are now an estimated 550 independent supermarkets in Egypt, built on Western concepts. About 220 of these are in Cairo. Inner-city sites are the most popular as product ranges are mainly aimed at middle to upper-class customers. Shopping in modern, clean supermarkets with a variety of different products is becoming a lifestyle and leisure activity among Egyptians. There are also a growing number of smaller chains.
- ◆ One of the biggest challenges to expansion is the limited availability of shelf space. Hypermarkets need a large plot of land for sufficient retail space and storage area and large parking lots which is not available in Central Cairo. However, land is available in the rapidly developing suburban areas. There are currently around 140,000 outlets, of which only 10,000-12,000 are equipped with freezers, out of these; there are no more than 150 outlets that could be categorized as supermarkets, including every thing from hypermarkets to medium–sized supermarkets. The rapidity of growth of supermarkets is hindered by a large part of the population living in poverty, unable to buy products in the more expensive supermarkets.

- ◆ The franchising operation –in all sectors- started in 1980’s with mostly fast food chains-the number has grown substantially to more than 300 franchises and 4,000 outlets, with ever widening diversity. Direct franchise sales in Egypt topped LE 7 billion, while indirect sales reached as high as LE 30 billion. The franchise boom has also a positive impact on employment, creating more than 40,000 direct jobs and over 500,000 indirect positions for Egyptian workers. While the number of franchises in Egypt’s metropolitan cities of Cairo and Alexandria is quickly increasing, upscale tourist hot spots are also an important target for investors. Some well-known chains such as Hard Rock Café are choosing chic tourist hubs such as Sharm El-Sheikh before coming to Cairo.
- ◆ The devaluation of the Egyptian pound has led to an increase in the price of imported products by 50 percent and 35 percent for the local products. The devaluation had a strong impact on retail sales, and consumers adjusted their expenditures to the new price levels.
- ◆ The Sinai, Red Sea, and Luxor and Aswan regions are currently Egypt’s main tourist destination. This includes the cities of Hurgada, Sharm El Sheikh, Dahab, Soma Bay and Marsa Alam, all of which are heavily populated with tourists from all over the world. The influx of tourists in such areas has encouraged food retailers to open outlets in Hurgada and Sharm El Sheikh.
- ◆ The average consumer spends about \$22 per basket. However, this varies from one area to another and from one store to another. Middle and upper-middle income shoppers are drawn to supermarket chains.
- ◆ Home delivery service is becoming very popular among the large retailers. The objective of the delivery service is to create customer loyalty. None of the retailers charges extra fees for delivery. Distribution/retail of alcoholic beverages is limited to a few authorized dealers only.
- ◆ Internet retailing is a new trend that is currently rising. Many retailers are currently viewing the Internet as the number one medium for advertising their products. Internet access became very affordable for the average citizen and many websites have been launched towards enhancing consumer expenditure.
- ◆ The United States of America, France, Germany, Italy, Switzerland, Greece, Holland, Denmark, and recently Thailand, and China are the dominant suppliers of consumer-ready food products to Egypt.
- ◆ The following tables illustrate retail sales as a percentage of GDP and consumer expenditure and advantages and challenges in this market:

RETAIL SALES

EGYPT	2008	2009	2010	2011
Retail sales as % of GDP	25.7	25.9	26.0	26.0
Retail sales as % of consumer expenditure	32.0	31.9	32.4	33.2

Source: CAPMAS and Euromonitor

THE THREE MAIN FORMATS FOR RETAIL STORES IN EGYPT ARE:

A. SUPERMARKETS, HYPERMARKETS, AND DISCOUNTERS

International Supermarkets and Hypermarkets

Hypermarkets have become the first choice for shopping among consumers and have encouraged existing local retailers such as Hyper 1 and multinational companies such as Makro, Spinneys and Carrefour, to enter and expand in Egypt. Rapid expansion has continued in the Hypermarket sector their number has increased by 8% in 2012 with sales reaching \$200 million for the year. International rivals maintain their leadership despite aggressive competition from local operators. It is expected that in the next few years consumers will change their daily shopping habits into more organized weekly ones through use of hypermarkets. Egypt can accommodate 30-40 hypermarkets in the next five years. Currently there are 10 outlets including Carrefour (6), Spinneys (2), Hyper 1 (1) and Al Mercato (1). Four outlets are expected to open in 2013: Makro Cash and Carry (2), Hyper 1 (1) and Ragab Sons (1). Makro, at least initially, plans to operate as a big box wholesaler, oriented toward food service operators and small retailers who purchase case lots or extra large sizes. About 55% of the sales of the existing hypermarkets are grocery products and 45% are non-grocery. New competitors are likely to enter the hypermarket business including Lulu, one of the leading hypermarkets in the UAE.

- **Carrefour:** (now operates 6 stores and has a plan to open 18 new stores over the next 5 years including 16 small express stores) the French chain Carrefour has revolutionized the retail industry in Egypt by introducing a new format for hypermarket shopping. The first Carrefour opened in December 2002, covering 28,000 sq. meters of retail space. Two of them opened in 2003, covering 32,000 sq. meters, and the last one was opened in 2008. Carrefour is now reporting an average of 15,000 visitors per day on weekdays and 38,000 visitors on the weekends; an average of 7,000 transactions a day during week days and 12,000 daily on weekends. While their focus is on middle-income families, they rely primarily on local goods. **Carrefour** is targeting Egyptian middle-class families and is relying on local goods primarily. The average daily sales of Carrefour are \$300,000 (the highest is the El-Maadi outlet with daily sales of \$500,000). Carrefour currently stocks over 500 private label products and expected to increase this number shortly.


- **Spinneys:** One of the newcomers to Egypt is the Middle East retail Spinneys opened its first 13,500 square meter outlet in Cairo's in City Stars in 2006. The average daily sales of Spinneys are \$200,000. The opening of Spinneys has increased competition not just for Carrefour but also for supermarket retailer Metro. Spinneys plans to open branches in some of the capital's most populous areas. Spinneys plans to open outlets in Zamalek, Mohandessein, and Sixth of October City.


- **Makro Cash and Carry Egypt** has just arrived in Egypt. Its purposes are the huge wholesale stores for professionals: hotels, restaurants, offices, etc. it's activities also includes fresh vegetables and fruits, meat, and fish. The company has opened its first shop in 2009.


- **City Stars:** The opening of City Stars early 2005 caused a dramatic boost to the Egyptian retail industry. This center is the largest shopping mall in



the Middle East and North Africa, with a 14,000 square meter hypermarket, three international hotels, 16-screen multiplex cinema, food court, living compound, the largest playing center for kids, a medical facility, and a world class business center with 70,000 square meters serving multinational and major local companies. City stars, set between the two relatively affluent suburbs of Heliopolis and Nasr City, was a natural place to open the first outlet, the mega –mall complex become a magnet for Cairo’s pocket change since its 2005 opening

Local Supermarkets and Hypermarkets

Even with the increased number of hypermarkets, supermarkets are still one of the most important channels in grocery product sales in Egypt because they are much more fragmented and still monopolized by the local retailers. Sales of supermarkets in 2012 increased by 18% compared to the previous year. The number of supermarkets continued to grow at the expense of older retail format small grocery shops. Their number continued to increase and reached 550 supermarkets in 2008 with a sales value of about \$1.6 billion. 96% of their sales are grocery products and 4% are non-grocery items. Although supermarkets will continue to grow, they will lose market share to hypermarkets as many consumers shift their shopping loyalty to this convenient and modern format. Leading the supermarket pack are: Metro, Kheir Zaman, Ragab Sons, Al-Mahmal, Abu Zekri, Seoudi, Alfa, Abba, Al-Hawary, Zahran, Oscar and Royal house.

- ◆ **Hyper One**, a second local hypermarket, has opened in early 2005 on the outskirts of Sixth of October City near Cairo. The project includes 10,000 square meter hypermarket, 20 shops, food court and a children’s entertainment area.



- ◆ **Metro Markets**: has 39 branches now and its affiliated class B and C food chain “Kheir Zaman”, operates 21 branches. It offers wide varieties of fresh foods and quality ranges of groceries. Metro average daily sale is \$12,000 per store (27 stores), compared to \$18,000 for Ragab sons (15 outlet). In June 2006, Metro opened its first discount rate stores under the Keir Zaman banner name, and it has 8 outlets so far. Keir Zaman was developed to target the lower income shoppers. It opens stores in the densely populated areas of Cairo .The chain boasts the most competitive prices in the market and provides only local or locally manufactures international products. More stores are planned for similar areas. The stores have a promising strategy likely to be a success on the Egyptian market. Metro carries a variety of products including over 16,000 food items and 6,000 non-food items. The company applies a shop and drop concept in their chains where they deliver the goods to the customer’s door.



- ◆ **Shoprite**: The South African retailer Shoprite had several stores in Cairo and Alexandria, but the company decided to cut its losses and exit the market. The same happened to U.K. retailer Sainsbury.



- ◆ **El Hawary**: An Egyptian retailer has opened the first domestic-operated hypermarket under the Hyper One name in March 2005. The two-story outlet is located in Sixth of October City about 20 Km west of Cairo. It is considered

more discount oriented than the average Carrefour market, and appeals to the average and lower income groups.

- ◆ **Alfa market:** was the biggest market in Cairo - with six outlets- before Carrefour, it has only two branches now. Alfa carries about 70 ,000 items out of which 20,000 are food items. They provide consumers other services, such as laundry, video rentals, shoe repair service. Alfa Market has a strategy of conducting monthly discount promotions on various products in the range of 10-20%. Also, Alfa created several types of customer loyalty cards, such as “Family Cards,” offering 3-10% discounts.



Discounters

- ◆ With the expansion of local supermarkets and international supermarkets and hypermarkets, discounters have recently upgraded their outlets and services to maintain their presence in the Egyptian market.
- ◆ **Ragab Sons, El-Mahmal and Abou Zekry** are leading discounters which face fierce competition from supermarket chains. However, Ragab Sons implemented a promotion strategy on various products with discounts in the range of 10-20%. Also, the chain has extended its operating hours to 24-hour in some outlets.

B. CONVENIENCE STORES, GAS MARTS AND KIOSKS

Convenience stores, kiosks, and gas marts sell imported candy, snacks, juices and soft drinks. They do not import items, but make their purchases from local importers/wholesalers and distributors. The most popular gas marts are Mobil Mart, Esso, Caltex, and Shell. Exxon Mobil, namely “On The Run”, has introduced a new concept of convenience stores. They currently operate about 25 stores and have plans to open 10-15 stores within the next couple of years. The gas station stores called “El-Emirate Misr” has 20 outlets. These stores range in size from 60-200 sq. meters. They are open 24 hours and sell a variety of products including ready-made meals.

La Poire, a well-known patisserie and bakery chain, has conquered the convenience store sector through its chain La Poire Express. The stores are mainly located in gas stations like Cooperation, and offer a wide range of food and beverages, such as the chain’s famous pastries.

The average gas mart outlet is 30 to 50 square meters with a few exceptions (some Mobil Mart outlets have 100 square meters).

- Average sales differ according to the gas mart location; for example the medium outlet sales is \$4,000/day.
- Dealers are in complete control of the outlets.
- Gas mart profit margins are about 25 percent of sales.

Convenience stores are not suitable for marketing activities or introducing new-to-market products.

C. “MOM AND POP” SMALL INDEPENDENT GROCERY STORES

Small grocery stores offer a limited number of imported food products. It is perceived that the small grocery stores will diminish with the expansion of large supermarket chains and hypermarkets. Small groceries still account for the largest share of low-to-middle-income shoppers.

OUTLETS PROFILES

Retailer Name & Outlet Type	Ownership	No. of Outlets	Locations (City)	Purchasing Agent Type
Carrefour	International (French)	6	Cairo / Alexandria	Direct / Importer
Makro Cash and Carry	International (German)	3	Cairo	Direct/ Importer
Spinneys	International	2	City Stars – Cairo/and 6 th of October	Direct
Hyper One	Local	2	Cairo (6 th of October / El Obour)	Direct
Metro	Local	39	Cairo, Alexandria, Ismailia	Direct / Distributor
Kheir Zaman	Local	21	Cairo / Alexandria	Direct / Distributor
Raga and Sons	Local	15	Cairo	Direct / Wholesaler
El-Mahmal	Local	9	Cairo	Direct / Wholesaler
Fathalla	Local	7	Alexandria	Direct / Importer / Wholesaler
Zahran	Local	5	Cairo & Alexandria	Direct / Importer of household items
El Hawari	Local	5	Cairo	Wholesaler
Seoudi	Local	5	Cairo	Direct
Alfa Market	Local	2	Cairo & Alexandria	Direct/Importer of Household Items
Oscar	Local	5	Cairo	Direct
Abu Zekri	Local	7	Cairo	Direct
Markato	Local	1	Cairo	Direct/ importer

Number of different types of food outlets

NO. OF OUTLETS	2008	2009	2010	2011
Supermarkets	256	437	492	584
Hypermarkets	7	8	10	12
Convenience Stores	415	420	425	428
Cooperatives	230	228	225	220
Discounters	72	74	77	80
Independent Groceries (mini-supermarkets)	315	317	320	325
Small Groceries	140,000	165,000	189,000	211,000

Distribution Channels

Importers either sell their products to wholesalers who distribute food products to retail outlets, or sell directly to retailers. There are two supermarket chains, namely Carrefour, and Oscar that import food products directly.

Distribution channels for Food, alcoholic beverages and confectionery:

Food	<ul style="list-style-type: none"> • Hypermarkets and supermarkets • Large grocery stores • Medium and small grocery stores • Hotels and Restaurants
Alcoholic Beverages	<ul style="list-style-type: none"> • Hotels • Restaurants with a license for alcoholic beverages • Liquor shops (very limited)
Confectionery	<ul style="list-style-type: none"> • Hypermarkets and supermarkets • Large grocery stores • Medium and small grocery stores • Petro/gas/service stations • Kiosks • Pastry shops

Demand and Supply Trends

- Mid to upper income consumers are becoming more and more demanding and are increasingly perceiving traditional supermarkets in Egypt as inadequate. Retailers have begun to become customer driven in their approach to staff, cleanliness, product range, and service.
- Consumption of prepared foods is growing rapidly. The increasing number of working women has led to an increase in purchasing power and the demand for ready made meals and/or easy to cook meals.
- The trend for purchasing frozen products is increasing.
- Choices for dietetic or low calorie food items are very limited.
- Most importers tend to bring in a wide range of products, but only in small quantities. With a few exceptions, wholesalers and retailers do not import directly.