LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

AUGUST/SEPTEMBER-volume IV-N°34

INTERNATIONAL

✓LUXURY RETAIL : brand sales by region.

firms	Japan	Asia	Europe	North America	Rest of world
Bulgari	21.0%	7.0%	37.0%	21.0%	4.0%
Escada	N.A	13.1	53.3	30.3	3.3
Armani	7.0	5.0	46.0	34.0	8.0
Gucci	22.5	17.9	30.4	26.4	2.8
Hermès	26.0	12.0	42.0	15.0	5.0
Donna Karan	4.0	N.A	N.A	70.0	26.0
LVMH	15.0	17.0	34.2	26.0	8.0
Richemont*	20.0	19.0	40.9	20.1	N.A
St John Knits	N.A	N.A	N.A	80.0	20.0
Tiffany & Co	28.0	7.0	4.0	59.0	2.0
Average	**17.9**	**13.5**	**36.0**	**38.2**	**8.8**

Source : Shopping Center World

**Richemont brands include jewelers Cartier, Van Cleef & Arpels and Piaget, the watch specialists Vacheron Constantin, IWC and Baume & Mercier as well as Mont Blanc and Dunhill (writing instruments and accessories) and Purdey, a famous British gun maker.*

It appears that Europe accounts for about one third of the luxury market sales, Asia and North America respectively 45% and 20% and the rest of the world 2%.

EUROPE

✓KINGFISHER received EU clearance to make its offer for Castorama minorities.

As the Rothschild bank delivered an equity certificate at ∈ 67 per Castorama share beginning of July, Kingfisher received from the EU authorities and the French stock market the authorization to make its offer for Castorama minorities at the end of August.

To finance the operation, the British retailer, which has held 54.6% of the capital of CDI since 1998, raised its capital by £ 2.4 billion (∈ 3.8 billion) at 155 pence for every new share. Thus, Kingfisher will be able to buy the 45.4% remaining shares of CDI which it does not hold yet, CDI being protected by its statute of limited partnership, and will take the effective control of its subsidiary. Ultimately the deal will cost £ 3.2 billion (∈ 5.06 billion).

Kingfisher’s target is to *« backup the development of B&Q, Brico Dépôt, Castorama in Poland and Screwfix, give a new dynamism to Castorama France and focus on some international markets in order to establish themselves as leaders. »* It plans to separate the consumer electronics division and have Kesa (Darty, But and Comet) listed on the French market in the second quarter of 2003. To sell the divisions separately is not planned.

At the end of August, the French president left.

✓Freeport is seeking to raise US$ 72 million with a public offering to partly cover the US$ 240 million it needs to open 3 centers in Europe (Portugal, Germany and the Czech Republic) by 2004.

The operator of six outlet centers in U.K and one in Sweden that were valued at US$ 460 million has thus created a new company, Freeport Ltd Partnership. Money raised from the operation and the company will contribute to its expansion in Europe, but will not include Westwood in Scotland and Kungsbacka in Sweden.

Freeport projects are the following :

- in Portugal **:** the construction of the center (80,000 sq.m), located at approximately 30 kilometers south of Lisbon, started in June 2002 to be closed by Christmas 2003. There are 3.5 million persons living within 90 minutes from the site.

- in the Czech Republic **:** work at Excalibur project in the Czech Republic, near the Austrian border, began in June 2002 to be completed by Easter 2003. It is located next to Excalibur City, a duty-free development including a casino, hotel, supermarket, service station and restaurants with 2.6 million people living within 60 minutes drive from the site.

- in Germany**,** once authorization is obtained, work on the project (22,500 sq.m) in Roppenheim north of Strasburg (France) and west of Baden Baden on the French / German border will begin at the end of 2003 to be completed during 2004.

CENTRAL & EASTERN EUROPE

POLAND

✓RETAIL : a wave of investing might take place this year.

Warsaw has 573,000 sq.m of modern retail area according to Jones Lang LaSalle with 207,000 sq.m under construction. Hence the interest of investors. Projects under way in the country are the following:

- Galeria Mokotow, built by Globe Trade Center, a developer from Israel, with Citibank and Deutsche Bank, is a clear target : located in the affluent suburbs of Warsaw, it opened in 48,180 sq.m. in September 2000 and a 11,000 sq.m extension is under way,

- Wola Park, a project of Central European Retail Property Fund, will open at the end of this year in 72,000 sq.m in Warsaw,

- **Silesia Park** is a 16,600 sq.m center built by the British developer Chelverton outside Warsaw, and its anchor store is an Ahold hypermarket,

- Legnicka Park will be opened in spring 2003 in Wroclaw.

American, German and Dutch investors are among those who are interested in Polish retail. Thus, **Tesco,** the largest British food retailer, **became the largest hypermarket owner in Poland when it recently bought the Hit stores from the German Dohle** which adds 13 hypermarkets to the 15 it already owns. It operates also 47 other stores in the country.

Rodamco in Europe has taken a 50% stake for ∈ 150 to 175 million in a mixed-use project in the center of Warsaw, built by the local subsidiary of ING in 205,000 sq.m. It will include a shopping center (60,000 sq.m), offices (24,000 sq.m) and a 370-room hotel. Yield should be between 8.5% and 9% below estimates but it will not be completed before the end of 2004.

RUSSIA

✓The Russian Council of Shopping Centers.

The International Council of Shopping Centers (ICSC) in Europe has initiated the Russian Council of Shopping Centers (RCSC), whose president is Michel Pascalis, a Jones Lang LaSalle director for Central and Eastern Europe.

Russia is evolving very rapidly and increasing consumer incomes are leading to the closing of several small traditional retailers to the profit of shopping centers : 50 new centers, totaling 2.5 million sq.m, are planned in the capital over the next 5 years.

✓New hypermarkets in Moscow and St Petersburg.

The 287th **Auchan** hyper-market, the first one and also the largest unit in Russia, was opened on

August 28th in 16,000 sq.m in Mytishi, in the northern suburbs of Moscow. The store allocates a larger space to Russian products and the average planned basket amounts to ∈ 16.28. It is the anchor store of a shopping gallery, which includes 47 stores and 13 restaurants. This first Auchan hypermarket will be followed by a second one this coming December in Kommunarka then by a third one in Marfino in the first half of 2003.

Perekriostok is launching two new big-box store chains in Moscow and St Petersburg under the « Mosmart » and « Rosmart » names. The first unit should be opened by 2003 in the capital and will cost US$ 20 to 30 million on average.

Okay, another hypermarket chain, should open seven hypermarkets in seven years in St Petersburg through the Dorinda holding from Luxemburg. The first unit has already opened with an average investment amounting to US$ 8 million. It will be followed by a second one by the end of this year and a third in the beginning of 2003. The assortment is 60% in food, 30% home improvement and 10% textile / shoes.

Pyatyorochka (100 stores in Moscow and St Petersburg), has opened its first supermarket this summer in 2,500 sq m in St Petersburg offering 8,500 items including food (60%), cosmetics (20%), home improvement, textile and gardening (20%).

SLOVAK REPUBLIC

✓**About big box stores.** A law was recently voted by the Parliament forcing stores above 1,000 sq m to propose their customers 3 different products in each category, when they exist, and to offer Slovakian items « proportionally ». Methods will be specified by joint decrees of the Departments of Agriculture and Economy.

WESTERN EUROPE

BELGIUM

✓**DELHAIZE LE LION GROUP reports second quarter 2002 results.**

The group warns that its earnings per share, before goodwill, amortization and exceptional elements would be flat compared to 2001, while it projected a 10 to 12%-growth, because of a weak dollar and a difficult economic and competitive environment in America.

In the second quarter in America, where it generates 3/4 of its sales, comparable store sales of Delhaize America amounted to ∈ 4.1 billion (US$ 3.7 billion) declining 1.2%.

Group sales amounted to ∈ 5.256 billion, a 4.4% decrease, and increased in the first half by 1.6 % to ∈ 10.659 billion. Organic sales growth was 3%. EBITDA (cash flow from operations) of Delhaize Group grew by 2.1% to ∈ 795.3 million. Through declining investments and significant cash flows the Group has been able to lower its debt to ∈ 4.1 billion.

Concerning 2002, it is expected that sales of the group will grow between 3 and 4% from 5% projected and Delhaize America should register positive sales but below +1% from the 1% to 2% previously expected.

2nd Q 2002 (mio ∈)			1st Half 2002 (mio ∈)	
sales	**EBITDA**		**Sales**	**EBITDA**
3,747.8(+ 0.7%)	305.3 (-4.0%	USA incl.Delhaize America	7,489.8 (+2.3%)	624.5 (+2.3%)
838.6 (+4.6%)	46.0 (+7.2%)	Belgium	1,642.7 (+4.4%)	83.3 (+0.6%)
291.0 (+8.1%)	12.1(+10.5%)	Other European countries	567.6 (+8.4%)	21.9 (+3.7%)
54.3 (+20.1%)	0.9 (-6.8%)	Asia	107.0 (+21.4%)	1.1 (+9.4%)
-	(3.5) (–25.6%)	corporate	-	(6.3) -3.1%
5,256.8 (-2.1%)	**386.6 (-6.3%)**	**total**	**10,659 (+3.2%)**	**795.3 (+2.2%)**

Source : Delhaize le Lion group

FRANCE

✓DECATHLON opened a new store in downtown Lille in the former site of a Sportiade.

In case of success, this test will adopt the Décat' logo, the new logo of this subsidiary of the Mulliez group. The average area is between 400 to 600 sq.m and the offer includes sport apparel, shoes, rollers and accessories (tennis, ping pong or golf balls) with home and national fashion brands. Targeted customers are urban consumers in their 20's and 30's.

Until now, Décathlon, the largest French sporting goods chain, has opened only big box stores in suburbs and shopping centers.

Sport 2000, the 4th largest French sporting goods chain (366 stores, ∈ 305 million sales, up 9.4%), is launching a new store concept in a French province (Calvados) featuring both sporting goods and fashion. Approximately 20 new stores are planned.

✓CARREFOUR : sales increased 3% on constant exchange rates in the first half.

Sales of the second largest retailer in the world fell 1.1% to ∈ 33.090 billion but considering constant exchange rates, sales grew by 3%. Recurring net profit group share before goodwill increased 11.9% to ∈ 558 million and 25% to ∈ 400 million after goodwill. EBITDA grew by 1.5% to ∈ 1,921.6 billion and EBIT by 4.4% to ∈ 1,084.9 billion. Currency devaluation in Argentina and Brazil had a significant impact on the group sales and shareholders'equity but this impact has been more limited on results.

These figures are the result of the good performances of hypermarkets and supermarkets in France, recovery of the hypermarkets in Spain, growth in Italy and Belgium and in Asia in spite of a slow down in Taiwan. The group reduced its financial expenses by more than 17.3% and overhead by 4%.

Concerning 2002 objectives, Carrefour should record an increase by around 5% in sales on constant exchange rates, by 4.3/4.4% of the operating margin and an increase by 10 to 15% of recurring net profit group share after goodwill amortization.

In the second half, expansion is accelerating with 31 new hyper-markets, 43 supermarkets and 146 hard discounts, a total of 220 units from 92 a year before.

The 215th French hypermarket, the first one in 7 years, was opened in the Carré Sénart shopping center on August 28th 2002 in 14,000 sq.m of selling area and two levels with 74 cash registers, representing an investment of ∈ 53 million. Carrefour plans ∈ 122 million in sales the first full year. The store offers a lot of innovations : a beauty department, lower shelves, wider aisles (2.40 m from 2.10), a special baby world, ready-to-cook or heat food in the butchery department, an interactive wine counter, a special book order counter…

This regional center is a project of Espace Expansion, a branch of Unibail. It includes besides Carrefour 110 small and middle-sized stores (Virgin, Zara, Go Sport, Darty…) in 65,000 sq. m GLA, 10 restaurants, 16 Gaumont cinemas (3,553 seats), 5,700 parking spaces on 2 levels. In total, the center represents an investment of almost ∈ 250 million. It plans 10 million visitors per year and will completed with a theme park by 2004/2005 (∈ 60 million investment). The environment is composed of ten villages and 97,000 inhabitants, 32 year-old households with children, middle incomes and in- home ownership access.

Recently Carrefour sold eleven shopping galleries in Northern Italy (67,800 sq.m) to the French property company Klépierre for ∈ 226 million. They should report an annual rent of ∈ 17 million. This subsidiary of the financial BNP Paribas group has also bought Eurocenter, which manages the Italian centers of Carrefour, for ∈ 203 million. Today shopping centers account for 70% of Klépierre's property portfolio including 71% in France, 15% in Spain and 13% in Italy.

In August, Klépierre also bought a 40% stake in IGC, a subsidiary of the Italian retail developer Finiper, for ∈ 31 million. It represents a yield of 7%. IGC owns 9 shopping centers in Northern Italy covering 67,315 sq.m.

In 2000, Klépierre had bought 160 Carrefour shopping centers for ∈ 1.7 billion.

✓CASINO reports consolidated sales, excluding tax, growing by 6.4% in the first half 2002 to ∈ 11.031 billion including ∈ 8.358 billion in France and 2.673 billion in other countries.

Casino's activity in France, which accounts for 76% of the consolidated sales, generated same-store sales growth of 3.8% including 2.4% in hypermarkets and 4.8% in supermarkets, above the FCD professional index. In Argentina same-store sales fell 54.4% compared to the same period one year earlier.

Franprix-Leader Price sales increased 14.1% to ∈ 1.739 billion. Net income group share after goodwill grew by 19%.

✓PINAULT PRINTEMPS REDOU-TE : sales declined 1.5% in the first semester to ∈ 13.31 billion.

In the first half 2002, same-store sales in retail activities fell 0.7% to ∈ 5.484 billion, luxury was down 1.0% to ∈ 1.319 billion and professional 4.1% to ∈ 6.126 billion. Credit and financial services grew by 2.2% to ∈ 402.7 million.

Concerning Gucci, in order to solve the controversy with LVMH (Louis Vuitton Moët Hennessy) in 2001, PPR promised to buy back the minority shares at US$ 101.5 per unit in 2004. Now, they fell below US$ 90, which means that the company will have to pay a lot of money. Consequently, the recovery and development of Gucci and YSL (Yves Saint Laurent) become essential.

Recently PPR announced it was selling Guilbert to the American Staples for ∈ 825 million. It groups the European activities of JPG and Bernard in France and in Belgium, Neat Ideas in Great Britain, Kalamazoo in Spain and Mondoffice in Italy (∈ 441 million sales in 2001). The decision is still dependent upon the EU authorities. However, Guilbert will continue operating its direct selling activity (∈ 1.4 billion sales).

Staples is the largest operator of office furniture and equipment stores in the world (∈ US$ 6.9 billion sales, 1,260 stores) since overtaking Office Depot in 2001.

✓Foir'Fouille to buy Pier Import.

Pier Import, through this operation to be closed by the end of this year, the French leader of low-price home wares will enlarge its merchandise mix, extend its presence in the country and grow sales by ∈ 106 million. The retailer also plans to return to its previous oriental image.

Under these conditions *« between 20-40 out of the 144 Pier Import stores, especially those above 1,000 sq.m located in suburbs, should progressively adopt the Foir'Fouille logo. »*

Foir'Fouille anticipates growing its sales by 2 and be positive the first year and chain stores will be franchised little by little.

The financial operation must be as follows : first, Foir'Fouille has taken 45% of the capital of FFD (Foncière et Financière de Distribution) which controls 42.38% of the capital and 55.1% of the voting rights of Pier Import Europe from both shareholders (Bernard and Didier Touret). Then, Foir'Fouille will buy the rest of the capital of FFD and the 12.36% held by the Tourets in Pier Import. Accordingly, it will hold, before its launches its bid, 55% of the capital and more than 72% of the voting rights.

GERMANY

✓METRO maintains its target for 2002 : sales to grow between 5.5% and

6% at currency change and profit per share by 10%.

In the first semester**,** EBIT of the largest German retailer (2,294 stores) amounted to ∈ 175.9 million with ∈ 23.87 billion sales increasing 3.4% or 3.7%, excluding currency change. International sales grew by 10% to ∈ 10.95 bilion. In the domestic market, sales fell by 5.7%.

The group's specialty stores, Media Saturn (electrical appliances), saw sales growing by 10.9% to ∈ 4.1 billion in the first semester and by 16.7% in the second quarter.

ITALY

✓Fashion interests investors but owners rarely sell.

Competition is keen and fashion very present in shopping centers accounting for more than 50% of the space according to Jones Lang LaSalle.

Even though the economic slow down of the past few months has led to an increase in the availability of high-street units, well-located sites are quickly taken up and factory outlet shopping centers abound in suburbs.

In this country, investments in shopping centers are highly sought by foreigners. According to Eurocommercial Properties, owner of seven centers, a few major formats are appearing on the market. Yields are around 7% and may reach between 7% and 8%. The following is a list of a few selected retail operations :

- **the German fund CGI** paid ∈ 38.5 million for an urban shopping center, located in Mestre (Venice), leased back to Coin, and the gross yield is 7%.
- **Nova Coop** sold the Novara center, located in Novare, for ∈ 38.77 million to a French investor. The yield was 6.25%.
- **the Italian Draco and the American Prime Retail** have created, in cooperation with the Sandretto family, a ∈ 400 million joint venture to build four factory outlets in Piemonte, Lombardy… and a multi-use complex in Valmontone, next to Roma, to be opened by end of 2003. They could occupy 136,000 sq.m of space. Value Retail is building another center (∈ 340 million) in Fidenza.
- **Ellisse**, a company controlled by West LB and Barclays Capital, is to build a fashion center with 70 shops, a hypermarket and restaurants in 45,000 sq.m next to the Milan airport Linate.
- **Zoppoli & Pulche** is building a leisure complex of 80,000 sq.m in Mondovi (Turin) including a multiplex, bowling, hypermarket and restaurants. A similar center with a cinema and a swimming pool is planned in Settimo (Turin),
- **the Coop** propose to invest ∈ 31.5 billion in building 19 shopping centers and at least 46 supermarkets,
- **the British developer Morrison** plans to invest ∈ 210 million in three factory centers in a partnership with the Italian companies Buontempo and Marzotto. Morrison is already working on 2 projects near Bologna and Bergamo, the latter to open this November in 13,000 sq.m.

NETHERLANDS

✓The largest food retailer in the Netherlands reported a net loss of ∈ 197.5 million in the second quarter because of ∈ 490 million of exceptional charges tied to Argentina.

Several factors impacted the retailer's situation that led to the share drop by 40% between the beginning of the year and July. Ahold was negatively affected by :

- **the deteriorating situation in Argentina** that impacted the net profit on the full year 2002. The ∈ 490 million change includes 410 million related the default of Velox Retail Holding, its former joint venture partner in Latin America, and ∈ 80 million to goodwill impairment for Argentina. Ahold was required to take over loans and purchase all of the remaining shares held by VRH in DAIH for US$ 490 million,

Ahold is now owner of 236 Disco supermarkets in Argentina (∈ 2.1 billion sales in 2001). The company

holds a 70%-stake in 117 Santa Isabel supermarkets including 76 in Chile, 30 in Peru and 11 in Paraguay with ∈ 771 million in sales. In addition, it plans to grow the capital in its Chilean Santa Isabel subsidiary from 69.7% to 100%,
- the prolonged integration of Spanish activities, Ahold Spain and Superdiplo, on the Spanish mainland. Under these conditions, operating earnings in Spain for the full year 2002 are expected to total ∈ 70 million from 100 million previously anticipated,
- the real estate gain at the lower end of the range is now projected at between ∈ 55-65 million or 30-40 million lower than anticipated.

In the second quarter, the operating earnings increase was 11.9% to ∈ 777.8 million and sales from 7.3% to ∈ 17.3 billion. Excluding currency impact, organic growth was 2.9%. For the full year 2002, forecasts are confirmed : earnings per common share will grow by 5 to 8%, excluding goodwill amortization, down since July forecasts. For the year 2003, Ahold's objective is to grow sales by 4 to 5% and it does not expect any major acquisition, henceforth there is no need for additional equity funding

Moreover, **Ahold decided to strengthen its presence in Poland** and reached an agreement in principle to acquire 5 Jumbo hypermarkets from Jeronimo Martins, its partner in Portugal, located in Poznan, Lodz and Bydgoszcz (∈ 75 million sales) for ∈ 20 million.

SPAIN

✓APPAREL : the Inditex empire seems to have no limit.

The industrial and commercial giant, based in La Coruna (Spain), owner of Zara and of five other apparel chains totaling 1,377 stores in 41 countries, sells fashion items at affordable prices. It announced recently it will open up to 275 new outlets worldwide in 2002 and launch a home line in 2003.

For the time being, its presence in the U.S.A is only nine Zara stores The company concentrates mainly on Europe : Spain accounts for 77% of its total sales. Germany is its key market but France and the United Kingdom are also important, as well as smaller countries such as Holland, Belgium and Austria. In 2001, it entered sevennew markets : Luxemburg, Iceland, Ireland, Italy, the Czech Republic, Jordan and Puerto Rico.

At the beginning of July, Amancio Ortega, the founder and chairman, sold 1.98% of its stake in the capital for US$ 255.6 million to institutional investors but he retains the majority (59.3%), the rest being owned by the company employees.

For fiscal 2001, boosted by Zara, Inditex reported net profit of US$ 296.4 million growing by 31.3% and the group sales rose 24% to US$ 2.83 billion. Sales broke down as follows : Zara (76.2%), Massimo Dutti (7.4%), Pull and Bear (6.9%), Bershka (6.2%), Stradivarius (2.9%) and the lingerie chain Oysho (0.2%). In the first quarter of fiscal 2002, net profit grew by 32% to US$ 66 million and sales by 28% to US$ 840.2 million due mainly to 53 new stores and the growth in same-store sales.

Inditex is a totally vertical operation based on teamwork and communication, market speed, tight inventory and quality control. The group is based on an efficient network of global suppliers : 25% of Zara new items and accessories are bought outside Spain per year. It buys its fabrics, especially cotton, from Spanish and Portuguese suppliers, leather from Turkey and other Asian countries, cosmetics are imported from Sweden, France and Germany. Dyeing, printing and cutting, or 35 million meters of fabric per year, and finishing are done on the spot, but sewing is done in 300 local workshops.

In order to compete with Inditex, **Sfera,** a new apparel chain was launched last July by the department stores of the El Corte Ingles group (∈ 11,9 billion sales, 481,8 million profit). The merchandise mix is very similar to

Zara, offering fashion for young women, men and children, accessories, cosmetics and perfumes. Nine stores are already operating on the Spanish market including three in Madrid shopping centers and three in Barcelona, thanks partly to Marks & Spencer stores bought last year. It plans to open about 20 stores within one year and to have a 3% share of the fashion market with ∈ 15.6 billion sales.

In the same line of trade**, Mango** is the second largest Spanish chain offering fashion for women only. It operates 600 stores in 68 countries and its 2002 sales should reach US$ 1.6 billion. Like Inditex, it makes the majority of its merchandise and targets the European market, especially U.K and France, but USA is projected for 2005.

Cortefiel, a manufacturer and retailer, operates seven subsidiaries, a worldwide network of 726 stores, 169 franchises and 24 shop-in-shops. Expansion in America is not planned for the time being, but its current strategy aims consolidation in the European market. In the first nine months of fiscal 2002, net profit declined by 72%

Source : Women's Wear Daily

UNITED KINGDOM

✓SAINSBURY will invest £ 250 million (∈ 395 million) to expand its Shaw's supermarkets in US.

Thirty new Shaw's outlets have been projected over the next 3 years that will be added to 186 already operating in New England. Ninety percent of the current portfolio assets will be redeveloped through revamping and extension at a cost of £ 952.000 (∈ 1.50 million) on average per store**.**

The British food retailer wants to extend its supermarkets into new regions.

✓MARKS & SPENCER : Roger Holmes appointed chief executive.

After a difficult period (but also successful) of restructuring of the British retailer, Luc Vandevelde, current chairman and ceo since 2000, has decided to appoint Roger Holmes as chief executive. After September 1st, Luc Vandevelde will revert to his original position as chairman part-time from January next year. However, he will keep the management of the group's financial services and responsibility committee.

For the year ended March 30th, Marks & Spencer reported a net profit of US$ 2,301 million vs. a US$ 6 million loss in the same period one year earlier and total sales increased 0.7% to US$ 12.2 billion.

Total sales grew by 7.7% in the first quarter, and comparable-store sales in apparel/shoes and gifts rose 12.7% in 14 weeks. It is the second succeassive quarter during which M&S increased it apparel market share. Women's wear was the best performer.

Marks & Spencer sold its American supermarket chain, Kings Super Markets (29 outlets), to D'Agostino for £ 101.8 million (∈ 161 million) over Gristede.

This operation will help D'Agostino, founded in 1932 by Nicolas and Patsy D'Agostino, to increase their store number from 23 to 52 and to expand from New York to New Jersey and Long Island. Sales will grow from £ 115 million (∈ 182 million) to more than £ 383.4 million (∈ 606.64 million). Both chains operate traditional food stores offering high-quality merchandise. Their difference is in their size , with D'Agostino operating 800 sq m average stores and Kings 2,000.

In the period ending in March, Kings operating profit rose to £ 11.5 million (∈ 18.19 million) and its net assets were valued at £ 64.4 million (∈ 101.89 million).

.../...

NORTH AMERICA
UNITED STATES

✓The new attitude of the American consumers.

More and more stressed and time-pressed, American shoppers are looking for a less complicated life leading to new buying patterns and less visits to stores during the last year according to a study by WSL.

Today, Americans generally shop 1.9 stores per week, down from 2.9 in 2000. Formerly, they used to run everywhere to find the best price, today the key is convenience. Thus, 24% of the persons studied said that in the 1st quarter 2002 they visited one department store once per week vs. 35% in 2000, 36% a discount from 55% two years ago, 54% a supermarket once per week from 76% in 2000 and only 11% a drugstore from 22%. This does not mean that price is no longer important but that convenience has become the first objective just as :

- the store location,
- the ability to find consistently the merchandise they want,
- a shopping environment that enables them to find and buy their items expeditiously.

Price is now ranked second to convenience according to a sample of 453 women and 199 men aged from 18 to 70 with annual average household incomes of US$ 46,000. The trend is now back to lifestyles of 50 years ago when Americans spent more time relaxing at home.

It is obvious that people travel less overall. Their car trips are 20% shorter than before September 11. Hence a new resurgence in local stores while a great number of shops in shopping centers have been showing monthly declines of 18%-16% in traffic. However, consumers shop in a wider variety of stores. This year supercenters were the most visited (50% vs. 32% in 2000) with Internet shopping being adopted by 24% of the population, up from 10% in 2000.

Source : Women's Wear Daily

✓BURGER KING sold for US$ 2.26 billion by Diageo, largest spirits manufacturer, which continues to refocus its operation.

Burger King, second largest fast food chain in the world, has been bought by the American investment fund, Texas Pacific Group with Bain Capital and Goldman Sachs Capital Partners. The deal should be closed in the 4th quarter 2002.

In the first half of the 2001/2002 exercise, Burger King reported an EBIT falling 29% to € 123.4 million (£ 79 million) because of growing marketing expenses and flat sales.

Burger King, founded in 1954 in the U.S.A, bought afterwards by the British Pillsbury, operates 11,000 fast food restaurants in 55 countries.

✓WAL MART reports record performance in the 2nd quarter.

The largest retailer in the world, now with 40 years in the discount industry, reports that income grew approximately by 26% to US$ 2.04 billion on sales growth of 13.1% to US$ 60.26 billion from 53.27 billon one year earlier. Same-store sales grew by 6.4%. During the period, 43 new supercenters were opened.

In the first half, income grew by 23% to US$ 3.69 bilion on sales growth of 13.7% to US$ 114,65 billion. For the full year, WM plans a growing earnings per share from US$ 1.76 to 1.78 from 1.74/1.76 previously forecasted.

Worldwide, the retail giant operates about 4,500 stores in North and Latin America, Europe and Asia. But international activity accounts for less than 20% of its total sales (US$ 218 billion) or around US$ 40 billion.

In Germany, difficulties appeared recently : some employees went on strike and two stores might be sold (Wilhelmshaven and Ingolstadt). Wal-Mart has been criticzed for not publishing its accounts since 1999, which is illegal in Germany.

✓AMES : the 4th largest American discount chain, under the protection

of chapter XI code, is to liquidate all its activities.

327 stores in the Northeast, Mid-Atlantic and Midwest states will be closed by the end of the year and 21,500 job positions cancelled.

This regional discount chain, founded in 1958 by Joseph Ettore, ranked behind Wal-Mart, Kmart and Target, sold furniture, gadgets and branded apparel at discount prices to customers with middle and lower-middle incomes. In 1998, it bought the Hills discount chain. At the end of February 2002, it reported US$ 3.2 billion sales and a loss of US$ 818 million.

Over the past two decades, several regional discounters have gone bankrupt including Hills, Jamesway, Caldor, Bradlees; some merged with others like Zayre with Ames.

✓In its new strategy, Sears shows its willingness to revitalize its stores and improve its profitability.

This retail non-food giant, who wanted recently to get out of apparel, is now committed to grow the business again and its willingness to invest in this sector goes beyond its last acquisition of Lands'End, which cost US$ 1.9 billion. As a result of this acquisition, Sears will house Land's End products in 500 sq.m departments in 184 stores in 10 key markets this fall. The department will include men's, women's and children's wear and shoes. The program will be extended to 400 additional next spring 2003 and to the others by the end of this year.

Sears reported record second quarter earnings of US$ 420 million compared to a net loss of US$ 197 million for the same period the year before. In the first half, net income climbed to US$ 339 million compared to a US$ 21 million loss in 2001. As the management is adapting its forecasts for the year, it is planning earnings growth of 22% for the year. Sears enjoyed a strong return from its credit and financial services and operating income grew by 19.4% to US$ 412 million on sales increasing 3.5% to US$ 1.3 billion in the second quarter. Since Sears launched its Gold MasterCard in 2000, nearly one-third of its company's cardholders have changed to the new product, which stimulated nearly 20 million accounts and US$ 8.5 billion in receivables.

The following initiatives are taking place :

- the introduction of a private sportswear brand in August, with which Sears plans to generate US$ 200 million sales in its first year,
- the development of the Canyon River Blues brand by introducing new items,
- the opening of boutiques offering national brands,
- the creation of areas for costume jewelry, sport shoes and children,
- the setting up central checkouts, beginning in July, for quicker transactions, credit applications and returns,
- the reorganizing and reducing staff with crews to focus on specific tasks such as markdowns…

In addition, 142 apparel and home textile labels will be discontinued by the end of the year as well as cosmetics. In fact, soft lines account for 40% of the Sears floor space but do not attract more than 30% of the customers.

Like other department store chains, Sears is attempting to improve the appeal of its apparel offer. May and Dillard have invested in new house brands; May and Federated are trying to launch new store formats, smaller units housing more specialty assortments. Other chains have already eliminated some categories over the last decade such as home electronics and furniture.

✓ GAP launches a new strategy through a new advertising campaign « For every generation, Gap. »

After having invested US$ 102.3 million in 2001 in U.S. only for Gap and Baby Gap, the apparel retailer, which admits that looking after the junior consumers with fashion items had no effective result at all, steps back and invests heavily in a new advertising campaign to win back its loyal customers.

✓**SEPHORA closed its Rockefeller flagship on August 31st in Manhattan (New York).**

This decision, taken by the subsidiary of LVMH Moët Hennessy Louis Vuitton, is a part of the new strategy of focusing on small and more profitable formats while it will continue operating its 71 other American stores, including six in New York. According to the president of US Sephora, *« We remain on track to achieve our near-term objective of positive operating profit and cash flow in 2003. »*

This store, opened on October 14th 1999 in 2,000 sq.m and 3 levels, cost US$ 30 million to build and was expected to do more than US$ 20 million in annual retail sales. Now, it should generate no more than US$ 15 million in 2002 in spite of a double-digit growth over 2001.

The total space will be leased to Façonnable, located since 1993 in New York, between 54th and 55th Streets in 1,000 sq.m. It is owned by the Norstrom department store chain, which bought the French brand at the end of 2000. It sells classic fashion items at affordable prices. Currently, Façonnable offers only men’s wear and a small selection for women. The future Rockefeller Center store will house an expanded assortment for men and complete women’s and accessories collections.

SOUTH AMERICA

BRAZIL

✓**JERONIMO MARTINS sells 60 supermarkets to Pao de Açucar.**

In an effort to reduce its debt, the Portuguese retailer is selling its « Se » Brazilian supermarkets (60 units) to Pao de Açucar of the CBD group, in which the French Casino holds a 25%-stake.

« Se » was operating at loss because of the declining Brazilian real. This deal will be transacted by a ∈ 80 million depreciation in Jeronimo Martins accounts.

ASIA

CHINA

“We want to become China’s Wal-Mart “ says Wang, chairman and CEO of Shanghai’s Lianhua Supermarket.

Lianhua, founded in Shanghai in 1991, is the first local retailer with 1,300 stores on the Chinese continent and profits of US$ 12 million on US$ 1.7 billion sales.

But local competition is increasing especially with two foreign players, the French Carrefour and the American Wal-Mart, who want to have a part of the Chinese market whose revenues hit US$ 459 billion in 2001 and might amount to US$ 688 billion in 2010 according to McKinsey.

In order to maintain its position, Lianhua needs money and skilled managers especially. The key to its strategy is quick expansion. By 2006, Lianhua plans to operate 6,000 stores across China including 200 hypermarkets, 2,300 traditional supermarkets, 3,200 convenience stores and 300 discount stores with US$ 9.7 billion sales. To finance its expansion, Lianhua hopes to go public on Hong Kong’s main board by 2003, then on the Shanghai market.

To remain competitive, Lianhua will have to use its money carefully, including recruiting 50 to 60 university graduates per year into management and store management. But it cannot match the skill of its older and richer competitors : its sales per sq.m are 30% lower than for foreign retailers according to McKinsey in Hong Kong. Carrefour, which entered China in 1995, operates 27 hypermarkets; Wal-Mart, having arrived in 1996, operates 15 hypermarkets, three Sam's Clubs and a small food supermarket. As both players are striving to expand very quickly, Lianhua will study its

competitors very attentively to become stronger.
Source : Fortune

HONG KONG

✓**DICKSON CONCEPTS : income decline 26.6%.**

For the year ended March 31st, the firm based in Hong Kong reported income falling 26.6% to US$ 5.3 million due to a first half decline impacted by the 9/11 terror attacks in the US, resulting in the deterioration of the commercial environment in Asia and the sharp decline in the international tourism. In the second half, profits increased 35.9% to US$ 301.1 million as a result of a stricter control on expenses. Sales grew by 5.2% to US$ 301.1 million in the year.

During the financial period, Dickson, present mainly in China and Taiwan, opened 119 shops and shop-in-shops throughout Asia bringing its number to 330. The firm, which operates also a large wholesale distribution network, declared it will open at least 50 new outlets over March 2003 (Kuala Lumpur, Manila, Singapore…). In Hong Kong, it is planning a stronger focus on younger consumers with the introduction of casual fashion lines, cosmetics and lingerie….

JAPAN

✓**FAST RETAILING is launching fresh food.** The mother company of the apparel chain **Uniqlo** will open several fresh food specialty stores with a mail-order business backup by 2004.

Fast Retailing plans to generate ∈ 12 to 24 million sales (1 to 2 billion yen) the first year, doubling this figure in the second and reaching ∈ 120 million (10 billion) the third.

The company needs to diversify but its new projects -selling electric cars or organic vegetables and opening supermarkets- are surprising because there is no synergy with the apparel sector.

MALAYSIA

✓**New guidelines for hypermarkets.**

A new set of guidelines has been imposed allowing hypermarkets to be built in an area of 350,000-inhabitants. The stores must be free standing and located 3.5 kilometers from town. In addition, every company has to put forth capital of RM 50 million (∈ 15 million) to open a hypermarket.

These new guidelines, designed to protect small and medium-sized retail businesses, were made public by the local Deputy Domestic Trade and Consumer Affairs Minister. Since then only one operator, whose identity has not been revealed, asked to open a hypermarket.

Today 33 hypermarkets are operating in Malaysia including six Carrefours, eight Makros, seven Giants, four Tescos, five Metro Jayas and three Xtras.

E-COMMERCE : Europeans suddenly flock to the Web, Amazon.com seems to be on the right track…

According to Taylor Nelson Sofres and a survey done between February and March 2002 in 37 countries on a sample of 42,000 persons, 19% of Internet users have purchased online vs. 12% in 2001 and 7% in 2000. The global average is approximately 15% in 2002 while the Internet users worldwide grew from 3 to 24%. In the U.S, 32% Internet users buy online, 31% in South Korea, followed by Norway.

Europeans flock to buy online. France is ranked 9th among countries to register the greatest number of online shoppers.

In 2002, there are 12.7 million new users in five countries (Great Britain, France, Germany, Italy and Spain) according to Nielsen / Net Ratings in London. That brings the active Net population at least once a month to 60 million, growing by 14% in the past six months. By comparison, American active users remain flat at 105 million over the same period.

It is clear that among these new users, there is a lot of people that send e-mails only. But as the SNCF (French national railways) discovered, Europeans spend more money online : it counted nearly 2 million visitors on its site in June, up 63% from 2001, with sales growing by more 70% to US$ 122 million in the first six months to become the N°1 e-commerce site in France. The British travel discounter, Lastminute.com, registered sales growing by 90% to US$ 12.9 million in the second quarter, reducing its loss before goodwill and taxes by 57% to US$ 6.1 million. EasyJet Airlines, Europe's largest discount carrier, sold US$ 80 million more tickets online in the six months (ended March 31) than it did a year earlier.

After a slow start, usage of the Net in Europe is finally beginning to catch up to the level registered for years in the U.S. The greatest growth is taking place in the southern countries. According to Nielsen / Net Ratings, the Net active users in Spain increased 54% and 25% in France since January 2002 and users spend 22% more time more online.

After the dot-com disaster, Europe like America is seeing the growth of the consolidation and domination phenomena by a small number of Web survivors. Several players are American, such as Amazon.com. In Europe, the British Take Egg, leader of online financial services, registered 205,000 new customers in the second quarter thanks mainly to the new design of its site. It thus more than doubled its operating income in this period to US$ 121 million.

European Internet service providers have also been stimulated by this new surge. Wanadoo (France Télécom) tripled its subscriber base to 833,000 contributing to increased sales in the first half by 33% to US$ 915 million.

However, this surge has not led to a new investment wave. Venture-capital financing of European Net-related activities declined 58% to US$ 1.4 billion in the first half compared to one year earlier. In spite of the current Internet usage upswing, online advertising is not growing in Europe and does not account for more than 1% on average of total advertising spending or less than US$ 500 million.

In spite of these conditions, the Net giants consider Europe as an expansion manna. Microsoft invested greatly in the region and its MSN portal has become the N°1 in Europe, 10 share points above Yahoo ! with 119 million visitors per month.

…/…

In the U.S, affluent households account for 25% of online shoppers.

Consumers with low incomes may be the fastest growing online category over the next few years but households earning more than US$ 75,000 per year will represent the largest part of the web population by 2006.

According to Jupiter Media Metrix, the number of households online, earning less than US$ 15,000, will grow by 55.9% in 2006 vs. 23.8% for those earning more than US$ 75,000. However, only 10.6 million households in the first category will shop online compared to 21.8 million of affluent households (17.6 million households today earn more than US$ 75,000 per year).

To continue this tendency, lower-income households should more than double their online spending over the next years from an average of US$ 204 in 2001 to US$ 412 in 2006. At the same time, the « affluent» will increase by 67.1%, growing from US$ 554 in 2001 to 926 in 2006.

34% of households earning US$ 75,000 and more declare that they want a better credit card security compared with 43% that earn less than US$ 45,000. Those between US$ 45,000 and 75,000 worry, 42% saying that it is a concern.

The most popular category of online shopping for the affluent households concerns travel-retaled goods: 59% of this population declare that they buy their airline ticket, pay hotel and car rental online. This is followed by apparel and accessories (46%) and consumer electronics (19.0%). Households earning less than US$ 45,000 spend as much in travel as in apparel/accessories (35%) followed by consumer electronics (14%).

French people are more timid concerning big ticket items and 61% of the web users spend less than ∈ 100 per month compared to 47% on the international average, online payment being still a barrier in all countries.

Marketing : the high cost of free deliveries and impact on sales.

At a time when online retailers are finally beginning to make profit, a price war has been declared that might lead them back into the red. In fact, a lot of promotions started in June when Amazon.com lowered the order limit for free shipping to US$ 49 from 99. It was followed by Buy.com, which sells everything from consumer electronics to books and CDs, cancelled shipping charges of many products and began undercutting Amazon's book prices by 10%. Circuit City and Best Buy joined the movement followed by Barnesandnoble.com which has cut by 30% books published in 2002.

In 2001, in full recession, online sales growth slowed to 25% from triple-digit growth in previous years because retailers reduced their marketing and increased their prices. As for 2002, sales should grow by 30% to US$ 39 billion.

The new marketing strategy is hazardous as the activity just started to be more profitable. 56% of the 109 largest online retailers reported operating profits in 2001 from 43% in 2000 according to a survey by the Boston Consulting Group and Forrester Research. Now, heavy discounts and free shipping might affect performance, especially if these practices last for months or become permanent.

Amazon.com and competition.

Amazon.com, the largest online retailer in the world, which generates more than US$ 3 billion sales, launched free shipping in January on orders of US$ 99 or more with the idea to boost sales but its takes 3-5 more days than normal. The offer worked in the first quarter and books, music and video sales increased 8% to US$ 410 million up from a 5% increase in the fourth quarter and a 14% decline in the third. Meanwhile, the company was able to reduce its global debt to US$ 23.2 million in the first quarter from US$ 234 million in 2001.

Today, as Amazon has lowered its free shipping threshold to US$ 49, betting that it can still stimulate sales, increase its gross profit and offset delivery costs. More than half of its books, movie and video orders are below US$ 50 and often involve single units on which it is losing money. If a new customer buys three books instead of one and waits a little longer for shipping, the company can save on postage and ship orders more efficiently.

The key lies in growing sales sufficiently to offset the shipping profit loss. On a US$ 60 order, Amazon generally generates a gross profit of US$ 15. Today, with the free shipping, it falls back to US$ 12 according to US Bancorp Piper Jaffray Inc. But if sales do not grow, Amazon might lose US$ 152.5 million in 2002 instead of US$ 92.5 million on US$ 3.7 billion sales.

Buy.com and its aggressive discount policy might hamper Amazon and its projects. In fact, it is in full restructuring and its cost reduction, including a reduction in staff by 82%, helped it to generate its first net profit in the first quarter of 2002. Its free shipping and its 10% rebates should grow book sales, which generally generate 20 to 25% margins. However, consumer electronics, which account for most of its sales, do not have more than a 10% margin. Even if margins are reduced from 15% now to 12%, Buy.com bets that it can increase sales and profits. In the first 3 weeks it cut prices, its average daily sales increased 50% to US$ 1.2 million from 800,000.

Until now, Amazon.com has not responded with heavy discounts. It has more than ten times Buy.com's revenues (US$ 380 million sales). Moreover, it estimates that Buy.com with only US$ 5 million cash will not be able to sustain its promotions sufficiently enough to take much profit.

Amazon.com international sales grew by 70% to ∈ 220 million in the second quarter.

Outside America, in United Kingdom, France, Germany and Japan, its sales increased by 70% annually in each of the past three months to top US$ 218 million or 27% of its total sales, in the quarter ended June 30. Including non-American purchases made through its flagship site, international sales of Amazon.com account for 34% of its sales today. In France, its traffic almost tripled in the last 12 months.

In total, in the second quarter, Amazon reported a pro forma operating result of US$ 26 million (from a US$ 140 million loss in the same period in 2001) excluding goodwill amortization and restructuring expenses on sales growth of 21% to US$ 806 million. Operating cash flow amounted to US$ 4.6 million.

In the first half, sales grew by 20.8% to US$ 1.65 billion, pro forma operating result amounted to US$ 50.7 million and net loss to US$ 116.7 million.

These strong figures were obtained thanks to a 32%-reduction in operating expenses and better management of the warehouses. The idea selling online used-items on the same page as new ones and the clever offer of free shipping on orders over US$ 49 boosted sales above forecasts. Under these conditions, Amazon is raising its objectives for the current year and plans sales growing by more than 18% or three points above its previous estimates and a positive net pro forma result. It plans also to have a positive available cash flow.

Sources : Business Week, Chain Store Age Executive, Fortune

◆ ◆ ◆ ◆

The American regional shopping center and the future of the department store.

Once the leader of retailing, department stores today are facing their greatest challenge for decades – the discount push.

For more than 30 years, shopping centers have depended on department stores. They have been their best partners in development. They are tenants with the largest stores and, traditionally, have drawn the most traffic. But the department store business is struggling and they have lost half of their market share to suburban discount stores and specialty stores in shopping centers over the last two decades. In the first half 2002, domestic discount store sales grew by 20.1%, while department stores sales declined to 2.6%, a new record low. In May alone, department store sales fell 6.2% according to the International Council of Shopping Centers. These figures are evident in apparel, a category in which department stores draw the major part of their profits.

But can malls live without department stores ? It seems that it would be difficult even though new formats that do not depend so much on department store anchors are appearing here and there across the continent. Consequently, investors and real estate owners are faced with a delicate situation because they cannot rely on department stores as much as in the past, but they cannot give up on their largest tenants either.

All surviving department store chains, even those that enjoy economies of scale following consolidations, are all looking at a way to adapt.

A few examples of department stores facing this situation.

As **Sears** bought Land’s End for US$ 1.9 billion, the move could help to revive its apparel sales integrating Land’s End merchandise in its stores by this fall (see the article on Sears) and launching a new private-label line for men, women and children. But it may be difficult to combine soft and hard goods under the same roof.

JCPenney is in a more favorable situation, in the second year of a five-year revitalization plan that has led a reduction in number of stores from 1,203 in 1998 to 1,075 today and the centralization of the merchandising, buying and pricing functions into the hands of the new president.

Nordstrom, a leader in fashion operating 133 units in 23 states, is also a leader launching new ideas : in March, it opened a store but not in a traditional shopping center but in an open-air mall in downtown Los Angeles, next to the very popular Farmers Market, in a smaller space (2,000 sq.m compared to 19,000 sq.m for a traditional store) which features a larger fashion department at the expense of the usual gift department.

The largest two national chains, **Federated** and **May**, are looking for ways to use their economies of scale and individual identity of brands to get ahead of discount stores. Federated, which has the largest portfolio of department stores, is betting on a new design, continues facing struggling sales and less efficiency. In August, it brought the Kaufmann, Filene’s and Meier & Frank subsidiaries under the same umbrella of the Robinsons-May division with hope to save US$ 60 million per year.

Kohl’s is a model, opening more than 90 units in 2002 and 80 in 2003. The company released same-store sales growth of 14.8% in June. *« Although the Kohl’s format is not that of a traditional department store* (but a junior department store*), it sells many of the same categories as today’s department stores »* according to Moody’s Investors

Service in New York, and merchandise at a good price.

Target (Dayton-Hudson Corp) consolidated its two department store brands under the Marshall Field's name at the beginning of 2001, Dayton's and Hudson's disappearing to the profit of Target Corp. The group that originally (1902) operated jewelry and department stores changed to adopt the name of its discount arm that accounts for more than 75% of its sales and pre tax profits.

The consolidation wave began in the department store industry 25 years ago when there were 20 national chains only ; today, there are seven left and only the best ones will survive and prosper.

Department stores compete with discount stores across the U.S : discount stores dominate.

Market share is not the only statistic that give discount stores an advantage over department stores. Facing more volatile and stronger competition, the latter have reacted by controlling expenses and inventories and trying to respond more quickly. However, the gap continues to widen according to statistics by J.P.Morgan Securities. In 2001, conventional and national department store chains accounted for 4% of the total retail market reporting combined sales of US$ 95.5 billion, a 5.5% decline from 2000.

Meanwhile, discounts stores, supercenters included, increased their sales by 12.1% to US$ 251 billion with 10.5% of the total US market share in 2001. From 1996 to 2001, their sales grew by 60.2% and department stores by just 0.4%.

In five years, discount stores also performed better than department stores in areas such as sales per sq.m, inventory turns, selling, general and administrative expenses as a percentage of sales, and return on invested capital.

However department stores generated higher margins but lower debt-to- equity ratio than discount stores led by Wal-Mart.

Beyond the growing disparity between the two sectors, the gap between the stronger and the weaker continues widening. Among the department stores, Kohl's still puts the bar higher with its quality format while many of its competitors are struggling. In the same way, the bankrupt Kmart is dragging down the performance of the discount stores while the sector includes two giants such as Wal-Mart and Target.

Apparel is the discount key.

Discount stores nibbled away at department store market share offering low-price apparel while improving quality. Wal-Mart, which generates approximately US$ 15 billion sales per year in this sector, strengthened quality control, opened a fashion office, and introduced trendier casual style and, recently, extended its George sport line that came from Asda, its British subsidiary.

Trendier but smaller than Wal-Mart, Target, the second largest US discount chain, generates approximately US$ 9 billion sales in apparel. It boosts its offer with exclusive franchise agreements and designers and, thanks to better quality and image, has strengthened its consumer franchise.

The improvement in product quality has changed discount stores' image among consumers who no longer consider them as simple tennis balls or low-price shoes purveyors. And, thanks to the focus on food and other consumables, discount stores have increased their traffic, visit frequency, and sales. Faster moving items turn more often and boost sales per sq.m.

A few ratios.

Between 1996 and 2001, department stores increased inventory turns on average 3.6 times a year and discount stores 5.7. Hence a still wider gap between the two retail segments. Meanwhile, sales per sq.m of gross space rose 2.6% to US$ 2,580 at department stores and US$ 3,110 at discounters (up 22.5%).

Faster inventory turns generate less available stock needs : inventories as a percentage of sales in the past six years accounted for 19.3% on average in department stores vs. 14.3% in discount stores. While department store gross margins (on a first-in-first-out basis) averaged 33.5% over the same period, gross margin among discount stores reached 25.3%.

Over the past six years, return on invested capital in department stores reached 8.8% compared to 9.6% in discount stores. In fact, discounts not only generate higher sales but their expenses are lower. Selling, general and administrative expense margins in department stores amounted to 27.2% compared to 20.4% in discount stores. It is clear that discount stores with higher sales and low cost structures register higher profits. In the surveyed period, earning per share growth of department stores averaging 4.3% is well below discounts (22.6%).

Discount stores are dominant but department stores are also powerful.

Department stores were able to minimize falling profitability since the 9/11 terror attacks. Their reaction was « impressive » and their tighter inventory control helped them to generate a better investment profitability in systems. But improving systems to better control the supply chain and better relationships with vendors seem to be only part of the answer.

Department stores knew how to maintain their debt to capital ratio at 46% between 2000 and 2001 and to keep it almost flat at 45% over the last 6 years. Discount stores, however, saw their ratio at 41% between 1996 and 2001 and jump seven percentage points to 48% between 2000 and 2001.

It can be seen that department stores are trying to generate sales and profits by opening units in new markets and new formats. "*As long as they continue to adapt, there will be a place for them in the retail landscape but there has to be a major consolidation and streamlining before profitability can return to historical levels.* " They say at JP Morgan.

A few comparative ratios : department stores vs. discounters between 1996 and 2001.

	Department Stores	Discount Stores
Sales growth	7.8%	9.6%
Same-store sales	1.5	5.7
Gross margin (1)	33.5	25.3
S,G & Administrative margins	27.2	20.4
Earning per share growth	4.3	22.6

Source : JP Morgan Securities. Figures are six-year averages
(1)First In First Out basis
sources : JP Morgan , Women's Wear Daily, Shopping Center World.

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

AUGUST-SEPTEMBER 2002

☐ **France regular rate**
(regular mail or e-mail) ∈488 (5.5% VAT)
☐ **Foreign regular rate**
(regular mail or e-mail) ∈ 488
☐ **Special foreign rate ∈ 420**

7 rue Fould, 78600 Le Mesnil le Roi (France)
33 (0) 1 39 12 17 93
Publisher : Patrice de Chabot,
Chief Editor : Brigitte Guillot,

e-mail : **bguillot@chabot-associates.com**