

# LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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## EUROPE

### ✓Planning regulations.

It is unlikely that countries such as the United Kingdom or Germany will build large shopping centers in the suburbs. However these are countries where the most new space is available, according to the analyst Hayley Myers and to Mintel Retail Intelligence.

According to Cushman & Wakefield/Healey & Baker, Italy has the largest number of centers in the pipeline in Europe for the next 18 months with 1.1 million sq.m.; the United Kingdom (790,000 sq.m) and Germany (760,000 sq.m) rank second and third.

Some smaller centers may profit from refurbishments and others may be cannibalized. Future expansion may come from factory outlet centers that are expanding in these three countries. However, in Germany, outlet centers have mixed success because of the power of discounters.

On its side, Eastern Europe has begun imposing restrictive planning policies.

Source : Retail Week

### ✓DIXONS plans to expand in Europe.

The subsidiary of the largest European consumer electronics chain will open four PC stores in France (two in Paris and two in the provinces) under the PC City brand by the end of this year.

Dixons opened its first Italian store on September 24th, then a Budapest store (Hungary) around Christmas after having tested the formula in Spain (nine stores). The chain will expand to 11 countries after having opened two Electro World

(electrical appliance stores) in October and November in the Czech Republic.

Dixons operates 120 units in the U.K, which generated an operating profit of € 25.31 million on € 1.3 billion sales in 2001/2002. The total group sales amount to € 7.5 billion (up 5%).

### ✓Intermarché signed an agreement with Eroski,

the largest Spanish food retailer, to create a common European central buying group.

This agreement signed between the French Groupement des Mousquetaires and the co-op Eroski, will represent € 41.75 billion in consolidated sales (based on 2001 results). The French independent group will delegate its buying to the Spanish Eroski ; Eroski will delegate its European buying to Agenor, a food central buying group of Intermarché, created after it bought Spar Germany, which generates approximately € 12 billion yearly sales.

Both groups created a common firm, on a 50/50 basis, for basic products, with headquarters in Switzerland (Geneva) where Agenor is already located. The new company could welcome two or three new independent groups.

Intermarché entered Spain in 1988 and now operates 109 supermarkets. Their sales in 2002 could grow by 20% to € 370 million with a 0.5% share of the market. Eroski, of Basque origin, founded in 1969, runs 1,800 stores including 56 hypermarkets, 800 supermarkets, and 700 self-service stores that generate € 4.57 billion with 10.5% share of the market.

→→→

### ✓Exchange offer of Carrefour with Centros Comerciales Carrefour.

The Carrefour group has launched a public exchange offer on the shares of its subsidiary which it controls directly or indirectly at 79.7%. This offer includes 20.3% of the equity or 68.5 million shares held by minority shareholders. The exchange parity is three Carrefour shares for 10 Centros Comerciales Carrefour shares.

Carrefour will complete the deal first by the use of treasury stock (around 12.7 million shares) and then by issuing new shares for the remainder.

Through this deal, which should be completed by December 2002 subject to the approval of the Spanish stock market authorities, Carrefour will continue growing in Europe after having acquired GS in Italy and GB in Belgium in 2000 and 2001.

The French group has issued a first debenture loan, in English pounds, of £ 500 million (€ 800 million) in this way attempting to finance one part of its short-term debt and the € 300 million loan coming to maturity on December 30th 2002. This new deal shows the willingness of the retailer to enlarge its investors and to diversify its financing.

## CENTRAL & EASTERN EUROPE LATVIA

### ✓Kesko will open between 50 to 60 Supernetto stores through 2006, which will represent a € 51 million investment by the Finnish retailer.

The first supermarket opened in Riga at the end of June 2002 in the affluent suburbs of Plavnieki in 600 sq.m. Four others, also in Riga, will follow by the end of this year.

Kesko, which already operates two «Citymarket» hypermarkets in Riga plus a third one this fall, is aiming at occupying 25% of the food retail market in the Baltic States.

The capital will revamp its central railway station and build a shopping center (a US\$ 146 million investment). For this project, which includes also three centers by Norwegians and Swedes, the Worldwide Bank lent US\$ 60 million.

## POLAND

### ✓Food retailing : market share of the major players in 2001.

1 Auchan	France	2.6%
2 Jeronimo Martins	Portugal	2.12
3 Casino	France	1.8
4 Metro	Germany	1.7
5 Carrefour	France	1.5
6 Ahold	Netherlands	1.4
7 Tesco	U.K	1.3
8 Tengelmann	Germany	1.2
9 Dohle	Germany	1.2
10 Rewe	Germany	1.1

Source: M+M Planet Retail 2001

Tesco recently bought 13 Hit hypermarkets from the German Dohle and thereby became the largest hypermarket owner in Poland in 2002.

### ✓CASINO has sold 11 shopping malls, anchored by its Géant hypermarkets, to GE Capital/Heitman Central Europe Property Partners for € 163 million.

The deal was handled through its Polish real estate subsidiary Domy Towarowe. Buyers are GE Capital Real Estate of the General Electric group that holds € 30 billion in property worldwide including more than € 10 billion in Europe. The rest is the investment fund of the international Heitman group (€ 11.3 billion property worldwide), already present in Eastern Europe mainly in Poland.

In the same deal, both investors purchased two other shopping galleries in Janki-Warsaw and Korona Wroclaw.

**Auchan plans to invest US\$ 120 million per year in Poland over the next five years, opening 15 to 20 hypermarkets** according to the Puls Biznesu newspaper.

The French retailer that entered Poland in 1996 operates 15 Auchan hypermarkets and 11 Billa

supermarkets in the country and has invested US\$ 17.38 million already.

## RUSSIA

### ✓THE NEW RUSSIA.

Four years after the devaluation of the ruble, Russia has set a new record for consumer spending. Spending has been increasing by 42% over the past two years, attracting not only international retailers such as the French Auchan but also major brands such as l'Oréal, Procter & Gamble, Nestlé and Ikéa.

Sales increases have been in every sector (l'Oréal sales grew by 52% in 2001), with the largest ones in food. The phenomenon is astonishing considering that most Russians earn a monthly wage of US\$ 144 according to official statistics. This wage level is far less below the pre-crisis but more than double the average wage in 1999 when the currency collapsed and wages fell to US\$ 63 per month. Since that time, high oil prices have generated a boom that not only replenished the government's coffer but also boosted wages across the country and gave businessmen in sectors other than energy the confidence to invest. Disposable income grew by 7.4% in the first half of 2002 or nearly twice as quickly as the GDP.

Multi-nationals such as Nestlé invest millions of dollars in advertising campaigns. The company succeeded in increasing its share of the market after declining in 1999. For example, in the shampoo sales sector, Beiersdorf, l'Oréal, P&G, Schwarzkopf-Henkel and Unilever control 63% of the market according to ACNielsen. But P&G is the only large firm investing in advertising, approximately US\$ 200 million in 2001, while the largest Russian advertiser, the beverage group WimmBillDann spent US\$ 40 million. The majority of these campaigns take place in the Moscow area that accounts for around 30% of the local retail market...

**Ikéa**, the furniture retailer from Sweden, since the September 2001

terror attacks, has registered growing net sales and invested more on expansion in Russia than anywhere else in the world. Ikéa operates two furniture stores now in Moscow (Khimki and Teply Stan). The third one will be opened on December 12th in the greater Moscow area, and will be the second largest Ikéa in Europe, located in a mall built by Ikéa, investing US\$ 250 million there : «Mega Mall» will include 250 stores, among which international brands, in 150,000 sq.m space and stretching over 53 hectares. It will include also a 3,000-seat fast food restaurant and 10,000 parking spaces. Twenty-five million visitors are expected each year and 5,000 new jobs have been created. An expansion of 25,000 sq.m is planned.

Moreover, the Swedish retailer is negotiating with St.Petersburg's government for the rental of sites on which to build one or two new units. According to Irina Vanenkova, a spokeswoman for Ikéa in Russia, it will take US\$ 40 million and nine months to open one store. She is also negotiating for new stores in Nijni Novgorod, Ufa, Kazan and Saratov.

**Obi**, the DIY branch of the German food retailer Tengelmann AG, signed an agreement beginning in September with Mega, a local partner present in the Moscow area, to build a first store in Russia. Obi will join a list of western food and home-improvement chains exploiting the growth in disposable income among Russian consumers.

## UKRAINE

### Big box stores are appearing.

The retail trade is restructuring, former State-owned stores disappearing, and small kiosks gaining strength in competition with convenience stores. Once privatized, stores have enlarged their merchandise mix because shoppers are more and more demanding, just as they are price sensitive. Open-air markets remain important, accounting for 30% to 55%

total retail sales, compared to 20% for retail stores.

#### Big box stores.

This format is expanding and gaining market share. Billa, a subsidiary of the German Rewe, is the first foreign group to enter the Ukraine, operating 10 units including three supermarkets in Kiev, the capital. In the first half 2002, Spar entered as well as Metro from Germany, which has planned to build three cash & carry markets in Kiev, the first one in May, 2003.

Beyond foreign chains, nationals have appeared, such as Fourchette, owned by Garantia, operating 10 stores in Kiev. National chains also include Silpo, Velyka Kychenia, Mega Market, Tiko Market...

Big box store and shopping center development is rapid in the capital and in the larger cities, as well as the expansion of non-food specialty centres : Kvadrat, Metrograd, Globus,

Brocard Bessarabsskii, Foxtrot, Eldorado, Mega Max (electrical appliances), Agromat, Budmax, Nova Linia...

According to the Kiev city government and its planning program, 13 food stores, totaling 58,800 sq.m, 18 non-food (117,600 sq.m) units and 18 restaurants (16,600 sq.m) have been planned in the 2001-2010 period. The former state-owned stores, which will be rebuilt, must be added to that total.

#### Retail trade and sales.

For the year 2002, sales should reach 40 billion hryvnas (US\$ 7.55 billion) according to estimates. Including the gray market that accounts, according to some sources, for 40 to 60% of the total, sales could then amount to US\$ 15-19 billion or between US\$ 24.5 to 30 per inhabitant only.

Big box stores are supplied by local companies, very few by foreign chains, with a Ukrainian product share of approximately 80%.

#### Evolution of retail stores.

	1995	1997	1998	1999	2000	2001
Retail stores/ restaurants	11,964	18,933	19,317	22,151	28,575	31,900
Incl.food products	63.1%	63.7	58.7	54.4	51.9	NA
Incl.non food products	36.9%	36.3	41.3	45.6	48.1	NA
Sales growth	86.1%	100.2	93.4	92.9	108.1	NA
Store count (000)	133.7	127.5	121	111.6	103.3	NA
Markets count	1,282	1,551	2,120	2,320	2,514	NA

Source □ Ukrainian statistics

NA □ not available

The retail and wholesale trade as well as restaurants have no legal framework. They are controlled by the Ministry of External Economic Relations. However, markets and kiosks are attempting to organize and are under the control of the local administration.

Source □ bulletin "Veille Internationale Distribution", economic mission network and CFCE

## WESTERN EUROPE

### BELGIUM

✓ **GIB GROUP** □ net profit group share grew by 54.0% to □ 308.9 million in the first half.

Consolidated sales excluding VAT fell 19.7% to □ 604.7 million due mainly to the sale of various

subsidiaries. Operating profit grew from □ 16.4 million to □ 16.6 million which is a non comparable figure because of the sale of the subsidiaries. Financial results increased to □ 3.2 million compared to a 5.3 million loss in 2001, reflecting investments following the sales. Consequently, profit for the period increased to □ 19.8 million from □ 11.1 million and net

profit group share to € 308.9 million from 54.0 in 2001.

Two Belgian holdings, Ackermans & van Haaren and La Compagnie Nationale de Portefeuille (CNP) joined their forces to launch a common bid on the capital of GIB.

## FRANCE

✓ **Galleries Lafayette** group reported a **14.3% decrease in net profit in the first half.**

Operating profit grew by 7.7% to € 75 million with sales revenue up 5% to € 2.59 billion in spite of higher amortization charges, due to increased investment in store renovation... Net profit slid 14.3% to € 21.8 million in part due to the acquisition of Marks & Spencer stores in 2001. Same-store sales increased 0.6% considering Galleries Lafayette and Nouvelles Galleries department store growth (1.6%) and Monoprix (2.4%). But BHV decreased 6.3%.

However, both co-chief executives confirm their operating and net profit group share forecasts «except in event of an environmental accident.» The economic situation will have a decisive impact on the annual results, the second half accounting for more than two thirds of operating profit.

They still have not made a decision concerning Monoprix, held at parity with Casino and valued at € 1.2 billion. Before June 27th 2003 they will have either to sell back their stake to Casino or keep their shares.

✓ **Carrefour** has opened a new warehouse dedicated to textiles in the Paris suburbs in mid-September.

This new warehouse, that cost € 100 million, managed by the logistics company Norbert Dentressangle for a nine-year period, receives the textile products from all the Carrefour suppliers. It supplies the 215 hypermarkets in France every day, enabling them to replenish shelves immediately.

Before it reaches its total operating capacity by 2004, the warehouse (90,000 sq.m and 23 hectares) will handle 300 million textile products per year. It should enable the group to increase its share of the market (6%), reduce shipping costs by approximately one third, and achieve automatic replenishment.

Carrefour is the largest textile retailer in France with more than 200 million units and € 1.6 billion in sales per year.

✓ **Two separate central buying groups created by Casino and Cora after the dissolution of Opera.**

Two central buying groups, EMC Distribution for Casino and Provera France, a subsidiary of the Belgian group Louis Delhaize, in operation since September 16th, have put an end to Opera, the common central buying group of the companies, operating since 1999. Both teams will work on the same location, but will be totally separated.

Casino was accused by the Belgian group, Louis Delhaize, controlled by the Bouriez family, of not having respected their agreement, i.e., having signed an equity swap with Deutsche Bank to buy the 42.39% ownership of GMB, a French holding of Louis Delhaize (Cora, Match, Truffaut), held by Carrefour until 2001.

✓ **Go Sport continues facing difficulties in a difficult environment.**

Go Sport, a subsidiary of the Rallye Group, that merged at the end of 2000 with Courir, generated a sales growth of 1.1% to € 290 million but same-store sales declined 4.3%. However, Courir and Moviesport increased 9.3%. International sales fell by 8.7% and the Antwerp store (Belgium) was closed.

Margin grew by 1.4 points to 44.1% and Go Sport by 1.5% to 43.6% thanks to improving business conditions and buying management. But operating profit declined 45% from € 5.1 million to 2.8 million because of amortization (more than € 1 million

compared to 2001) and rising rents (up  $\square$  3.7 million). Consequently, net profit fell also to  $\square$  0.9 million.

In the year 2002, the group will invest  $\square$  19 million in 20 new sport stores (Belgium, Poland...). At the end of this year, it will run 320 stores under the Courir (180), Go Sport (130) and Moviesport (10) brands.

It is Go Sport's objective to concentrate on improving margin, reduce logistic costs and develop Courir outside France.

**✓IKEA  $\square$  sales grew by 6.6% to  $\square$  943 million in the year 2001/2002 ended August 31th.2002.**

In a slow-growing economic environment, the furniture market fell between 3 and 4% in the first months of 2002, but Ikéa resisted and enjoyed a better situation than its competitors with same-store sales declining by only 2.2%. Ikéa is the third largest furniture chain in France operating 12 stores with a 7.3% share of the market behind Conforama (181 units and 20.8%) and But (237, 7.4%).

France is Ikéa's fourth largest market after Germany (29 units), the United Kingdom (133) and Sweden (8). In three years, four stores have been opened. The next openings will take place in Montpellier (2003), Marseille La Valentine (2004) and Franconville (2005) and, over the long term, Nice and Lyons. During the most recent period, Ikéa will have sent out nine million catalogs, with Internet activity accounting for 13% of its non-store sales, and 3.8 million pages consulted per month.

The group reported sales growth of 6% to  $\square$  11 billion including 80% in Europe, 17% in North America and 3% in Asia. A new store will open in Florence (Italy) in November 2002, a second unit in Montreal and Munich... Helsinki, Moscow, St Petersburg, Shanghai and Beijing will follow... In total, there are 175 company-owned and franchised Ikéa stores in 31 countries and territories.

## GERMANY

**✓A difficult first half in retail trade.**

According to the Federal Office of Statistics, retail sales fell 3.7% at constant exchange rates from the same period one year earlier. In the various retail segments, sales fell 5% in food/drinks/tobacco, in specialty stores, 9.2%, in home improvement/DIY and 5.4% in textile-apparel/shoes. Moreover, 30,000 jobs in retail will have been eliminated by the end of this year, according to the Wholesale Trade Association.

However, according to GfK, consumption should increase thanks mainly to a very low index that should not fall again due to new consumer confidence and steady current consumer product prices.

**✓METRO  $\square$  new 2003 projects in Russia and Ukraine.**

The largest German food retailer (2,294 units) will open its first cash & carry in Ukraine (Kiev), an 8,000 sq.m unit, next May. Metro also expects to open three more in the capital.

According to Kirill Banov, manager of projects in Ukraine, several other units will also open in other cities such as Kharkiv, Odessa, Dnepropetrovsk, Donetsk and Zaporizhzhia with a population of more than 1 million inhabitants. Later, the German retailer will extend to regional cities with 300,000 to 500,000 population.

Metro will also open its first cash & carry in St Petersburg (the second in Russia) next year and 20 supermarkets in Moscow in three to five years, representing at least a US\$ 500 million investment. An agreement was signed on September 18th between Real Holding from the Metro group and Moscow Developers' Co., affiliated with Moscow city government in order to be supplied with sites. Metro also expects to enter India in the first half of 2003.

## NETHERLANDS

✓ **VENDEX KBB, the Netherlands' largest non-food retailer, is planning to reposition.**

Since the beginning of this year, economic conditions have been deteriorating in the Netherlands. Facing a negative environment, the group is attempting to revitalize its business by focusing on four main activities (department stores, fashion, consumer electronics and do-it-yourself).

Vendex plans to

- double the Hema variety stores in Belgium, tested in Germany, investing further € 50 million
- grow its M&S fashion stores to 180 units, investing € 80 million,
- launch the Hunkemöller lingerie chain in France,

Vendex KBB reports € 2.2 billion in sales in the first half. Total operating profit amounts to € 188 million and net profit rose sharply to 148 from € 33 million a year before due mainly to the sale of six businesses to the British CVC Capital, including retail stores such as opticians, sport and shoe stores, representing around 15% of the company's total sales.

During this period, Vendex KBB undertook a one-off charge of € 48 million for the revitalization of the losing V&D department stores in the Netherlands, which caused operating profits from continued operations to fall 62.5% to € 24 million from € 64 million before goodwill and excluding real estate. The write-off (€ 12 million) of some real estate in Brazil was a surprise.

	<u>units</u>	<u>sales</u>	<u>s.area</u>
		(€ mio)	(sq.m)
Bijenkorf	10	406	94,000
Hema	279*	924	287,000
Vroom & Dreesmann	70	890	334,000
<b>total</b>	<b>359</b>	<b>2,220</b>	<b>715,000</b>

(\*)incl. 24 in Belgium. Company data, July 2002

✓ **LAURUS has sold its unprofitable Spanish subsidiary that runs 600 El Arbol stores to the British venture capital group CVC.**

Laurus supermarkets reported a € 44 million loss in the first half, the same as last year, which can be attributed to aging Konmar stores, high overheads in the Netherlands and losses in Spain and in Belgium. The operating loss is even higher with € 29 million, up from € 20 million a year earlier.

Sales in Spain fell 14.7% to € 377 million following the closure of 62 small unprofitable units. In Belgium, sales also fell 10.4% to € 293 million. Total sales declined 11% to € 2.86 billion following the closure of the Basismarkt hard discount stores and the sale of their Spar ownership in the Netherlands. However, the Super de Boer and Edah supermarket chains improved, the former with same-store sales growing by 9.5% and the latter by 3.6%. Operating profit fell to € 29 million but sharply improved from the second half 2001 (€ 116 million).

A restructuring plan has been proposed in Belgium involving the loss of 180 jobs. This year the French Casino group has taken a 37.6% stake in Laurus and has an option to take full control with 51%.

## SPAIN

✓ **INDITEX reports net profit growing by 32% to € 120.8 million on sales growth of 25% to € 1.660 billion in the first half.**

Zara generated approximately 75% of the Spanish fashion group sales (€ 1.232 billion, up 23%) but Bershka registered the strongest growth (49%) to € 109.7 million. During the period, 92 new stores were opened worldwide.

Inditex operates 7 chains and 1,377 fashion stores in 41 countries including 484 under the Zara brand, (cf.LLDI Aug./Sept. 2002).

During 2002, investments should rise to € 510-560 million including opening of 245-280 new stores in and outside Spain, mainly in the United Kingdom and France.

Inditex aims to maintain the average growth rate of the five past years, which have seen sales increases

of 26% and net profit increases of 36%. Operating costs increased less than sales (20%). While the company's long-term financial debt fell from £ 218.8

million to 201.4 million, net worth increased 19% to £ 1.485 billion.

#### In short...

✓ **Carrefour opened its 23rd hypermarket in Korea** – four to six new units will follow by 2003... **Veropoulos**, which operates supermarkets in Greece, is ready to open its first hypermarket in Serbia this November. It has been operating six supermarkets in Macedonia for three years... **Winmarkt Romania** will invest US\$ to open shopping centers over the next three years, including one in Bucharest. Winmarkt, founded in 2001, owns 12 centers and plans to transform all its property assets into western-style shopping centers... **CTA Makro**, a joint venture between Dutch SHV Holding NV and China Trade Association, that runs two units in Beijing, announced it **will open three cash & carry units in Northern China in 2003** including one in Tianjin before February 2003... **H&M**, the fashion retailer from Sweden, plans to enter a new market in 2003 and is interested in Portugal, Italy and, according to the chief financial officer, "Poland is interesting as well." In the third quarter, net profit increased 53% to £ 136.1 million and gross margin grew 54% from 51.3% one year earlier. In the 4<sup>th</sup> quarter, 39 new stores will be opened mainly in Germany (9), Spain (8) and 4 will be closed...

## UNITED KINGDOM

✓ **HOMEWARES MARKET SHARES** – the top 11 specialty retailers.

rank	firms	1999	2000	2001
1	Argos Retail Group*	6.0%	5.9%	6.0%
2	John Lewis	5.1	5.1	5.1
3	Ikea	4.2	4.7	5.0
4	Woolworths	4.0	4.1	4.0
5	Homestyle	2.3	3.4	3.5
6	Debenhams	3.1	3.2	3.4
7	Marks & Spencer	2.6	2.6	2.6
8	Tesco	1.9	2.2	2.5
9	Wilkinson	2.0	2.2	2.4
10	Asda,	1.9	2.1	2.3
11	Bhs	2.6	2.4	2.3

Source: Verdict Analysis/Retail Week  
(\* combined sales of Argos and GUS)

✓ **Shopping centers** – strong competition between property investors.

According to Nelson Bakewell and its Shopping Centre Overview, yields were as high as 6% in primary and secondary centers because investors demand exceeded supply. Totally, 60 centers worth £ 2.3 billion (£ 3.60 billion) have been sold so far and in June a further £ 1.1 billion was still in the pipeline

The greatest demand for new space comes from Alders, Selfridges,

Debenhams and House of Fraser department store chains. Demand from coffee houses and mobile phone retailers is declining. Rents remain flat, but retailers think it is difficult to pay the rents demanded by the large successful shopping centers.

Source: Europroperty

✓ **TESCO** – the largest food retailer in the U.K. operating 760 stores continues to expand internationally.

In the first half, the company's before-tax profits increased 13.3% to £ 545 million (£ 863 million) and net profit 15% to £ 373 million (£ 590.18 million) on sales growth of 10.6% to £ 12.7 billion (£ 20 billion). In a tougher domestic market, sales grew by 3.9% compared to only 7% in the same period in 2001 because of a price war for market share between Sainsbury and Asda, the subsidiary of the American Wal-Mart (cf. LLDI July 2002).

For the full year, Tesco maintained a before-tax profit of £ 1.39 billion (£ 2.20 billion) forecast and the creation of 21,000 jobs.

Outside the United Kingdom, Tesco, present in Eastern Europe (having just become the largest hypermarket owner in Poland) and in Asia, generated sales growth of 32% to

£ 2.3 billion (□ 3.64 billion) and profit of 79% to £ 59 million (□ 93.65 billion).

For 2002 the company plans £ 140 to 160 million (□ 221.51 million to 253.16 million). Its investment, which includes mainly the recent acquisition of the Polish HIT from the German Dohle, is estimated at £ 2.1 billion (□ 3.32 billion). According to management, the net debt will amount to £ 4.6 billion (□ 7.27 billion). Tesco's Internet activity generated sales growth of 27% to £ 186 million (□ 294 million) and a profit of £ 1.9 million (□ 3 million) in the first half.

✓ **KINGFISHER** □ retail sales grew by 10.1% to £ 5.072 billion (□ 8.069 billion) and EBIT by 19.8% to £ 294.3 million (□ 465.66 million) in the first half.

**DIY activity** (595 stores, 3.980 million sq.m) generated total sales growth of 14.6% to £ 3.422 billion (□ 5.41 billion), comp-sales by 2.8% and EBIT by 24.9% to £ 256.1 million (□ 405 million). During the same period, eight new warehouses and two supercenters were opened in the U.K. and Ireland. In France, Castorama reported sales growth of 1.7% and same-store sales by 0.9%. International sales increased 21.3%, except in Brazil and in Belgium. Comp-sales increased 5.5%.

The **consumer electronics and furniture sector** (1,433 units and 5.03 million sq.m) generated sales of 1.650 billion growing by 1.7% with same-store sales declining 1.5%. EBIT fell 6.1% to £ 38.2 million (□ 60.44 million) because of a lack of consumer confidence in France. Darty sales grew by 0.6% in local currency but same-store sales declined 1.5%. But the chain suffered also with sales falling 0.6% to £ 200.6 million (□ 317.40 million) and EBIT amounting to £ 23.8 million (□ 37.65 million). In the U.K., Comet sales grew but continued deteriorating in Germany.

Jean-Hugues Loyez, CEO, left Castorama at the beginning of September. On September 22nd, Kingfisher already held more than

66.67% of the capital of Castorama and consequently more than two-thirds of the capital and voting rights, the closing date for the bid being October 16<sup>th</sup>, 2002.

## NORTH AMERICA UNITED STATES

✓ **Property acquisitions** □ retail is ranked second to hotels in June 2002.

An acquisition of US\$ 1,028 M in □

- Hotels □ 34.8%
- Retail 33.8%
- Residential 21.7%
- Offices 8.1%
- Industry 1.6%

Source □ SNL Data Source □ Real Estate Module

✓ **MACY'S Herald Square in New York, the world's largest department store, will celebrate its 100 years anniversary on November 8<sup>th</sup>, 2002.**

Macy's is the third most popular attraction of New York after the Statue of Liberty and the Empire State Building with 35,000 shoppers a day, up to 75,000 in peak periods. It is an entity of 100,000 sq.m selling area on 10 levels, suffering from a lack of service and fashion innovation. The store's future is uncertain if it does not change rapidly by simplifying the way products are priced and putting more punch into fashion marketing.

However, approximately US\$ 200 million have been invested in the past five years to renovate this flagship and reposition it. Shopping patterns are changing so rapidly that Macy's has difficulties keeping up and needs to double its efforts to present itself as a modern showcase for new products and fashions.

On February 1<sup>st</sup>, 2003, Macy's will begin to reposition and renovate, expanding existing lines and launching new ones in contemporary sportswear, shoes, accessories, juniors and cosmetics... to continue attracting a younger, more fashionable customer.

In 2001, Macy's Herald Square generated sales of US\$ 600 million with

the best performing departments being juniors, jewelry, accessories, and contemporary, active ready-to-wear.

Macy's began when Rowland H. Macy opened a small dry goods store in 1858 in New York with first-day sales totaling US\$ 11.06. When he died unexpectedly at the age of 54 on a business trip to Paris, the store was bought by the Straus brothers. In 1902, the flagship opened on Herald Square. In 1992 after several acquisitions and mergers, Macy's filed for protection under Chapter 11 and was bought two years later by Federated which became the largest operator of department stores in the nation.

Source: Women's Wear Daily

✓ **Kmart situation worsening with a 2<sup>nd</sup>-quarter loss of US\$ 377 million.**

The second largest discount chain, under the protection of the chapter XI code since January 22nd, unveiled new negative figures in the second quarter 2002/2003 ended July 31<sup>st</sup>, with a loss of US\$ 377 million the same amount as a year ago. Excluding non-comparable items, discontinued operations and reorganization costs, the loss reached US\$ 333 million in this quarter compared to 304 a year before. Sales fell 15.7% to US\$ 7.52 billion in the quarter; same-store sales fell 11% (and 12% in August only) not taking into account the closure of 283 stores in June.

For the first half ended July 31, the loss amounted to US\$ 1.83 billion from US\$ 610 million one year earlier. Sales dropped to US\$ 15.16 billion from US\$ 17.25 billion and same-stores sales fell 11.4%.

In addition to the store closures, 600 jobs have been eliminated, including 400 at headquarters mid-August, and the drastic reduction of costs everywhere. It seems questionable that Kmart will see the end of its problems by 2003.

**However, the discounter is testing a new prototype in two markets.** The first «Store of the Future» is to be completed this month in Michigan, featuring a new look and

layout, better lighting, wider aisles, stronger emphasis on children's apparel and accessories, and an improved pharmacy.

Kmart is depending upon new marketing programs, differentiation through emphasis on brands and a new store concept to regain its loyal customers. The company publishes advertising circulars in Spanish in 10 Spanish-language newspapers. Part of its success will depend on its capacity to serve ethnic groups efficiently.

✓ **The Home Depot recently opened «Landscape Supply stores», a new garden center prototype in Atlanta (Georgia) suburbs. A 4th unit will also be opened in the Dallas market (Texas).**

The Home Depot opened three 1,200 sq.m stores of a new generation in August and September in Georgia, catering to professional landscapers and convenience-seeking DIYers-gardeners. The stores are divided into two areas with separate entrances and checkouts and offer an expert service, better value and a broader merchandise mix.

The professional side of the store looks more like a warehouse with products on racks or displayed on pallets and specialty equipment. The traditional do-it-yourself side includes a large choice of indoor plants, accessories, and tools on wooden fixtures. At the rear of the store, there is a greenhouse of 2,500 sq.m that can be closed in the wintertime.

These new garden centers are different from the traditional Home Depot stores, being positioned as convenience stores. After a test period, HD will study the profitability of the concept before deciding to roll it out. Previously HD successively launched Expo Design Center, The Floor Store, Home Depot Supply and Villager's Hardware, which was later transformed into a small Home Depot.

**HD just opened its 9th store (7,700 sq.m) in Mexicali, Mexico,** which is also its first store built from scratch in this country. It plans to build

three more by the end of the year in Tijuana, Culiacan and San Luis Potosi.

✓ **Ahold's American foodservice subsidiary, U.S. Foodservice, to acquire Lady Baltimore** assets (net working capital and goodwill), a regional broadline foodservice distributor.

The deal is expected to be completed in the third quarter 2002. It should enable U.S. Foodservice to improve its presence in the heavily competitive markets of Kansas and Missouri.

Lady Baltimore sells and distributes over 14,000 food items and kitchen supplies to restaurants, schools, and hospitals in seven States. The company, established in 1946, operates from a 46,000 sq.m warehouse in Kansas City (Kansas).

U.S. Foodservice, acquired by Ahold in April 2000, now serves more than 300,000 institutional customers with some 43,000 food products and related items.

## **SOUTH AMERICA**

### **ARGENTINA**

✓ **CARREFOUR** is the largest food retailer in Argentina (389 units, \$ 4.3 billion and a 30% share of the market), will invest \$ 25 million to reposition the Norte supermarkets.

\$ 13.9 million will be invested in approximately 12 new stores to be opened in Mendoza, in the western part of the country, before the end of this year, thanks to an agreement with Metro that will lend Norte its former sites for a period of 20 years. The remainder will be invested to change the Tia, Abud, Los Hermanitos and Lozano units to the Norte standards and refocus the Norte brand on quality and service.

Argentinean supermarket sales, affected by the consumer spending crisis, fell 26.1% in August compared to the same month last year and increased 4.9% versus July 2002. Shopping center sales dropped 20.9% in August from a year ago but

increased 2.8% versus July, according to the government statistics. Norte sales were down 15.7% in local currency and market share reached 15.5%, down from 18% in the Buenos Aires area during the same period.

Carrefour hypermarkets reported sales falling by 58.8% in euros to \$ 378 million, but growing by 3.8% in local currency.

✓ **Competition is growing between Wal-Mart and three local retail groups.**

**Wal-Mart** operates 579 food stores, warehouse clubs and restaurants in Mexico and plans to invest US\$ 600 million to open 63 new units by the mid-2003. Although local competitors are suffering from the recession that has been going on for a year, its sales are growing 5.4% in the first 7 months of 2002. Under these circumstances, the Mexican division, which generated US\$ 458 million profit in 2001 on US\$ 9.7 billion in sales, will easily reach US\$ 10 billion in 2002.

**Soriana** (US\$ 3 billion in sales) is quite profitable and will invest US\$ 250 million to open 12 stores in northern Mexico. The second and third largest food chains, Controladora Comercial Mexicana and Grupo Gigante are in competition, whereas Wal-Mart accounts for half of Mexico's food sales one decade after it entered the market. With a low inflation rate, consumers are inclined to spend, and Wal-Mart's strategy of offering every-day-low prices is strengthening its appeal.

**Comerci** in Mexico operates 225 food stores and restaurants including 20 wholesale clubs in partnership with the American Costco, mainly located in Northern Mexico, where WM invests heavily. Comerci's profits fell 34% in 2001 to US\$ 83 million on US\$ 3.6 billion sales. Same-store sales were down 11% in the first half of 2002. The company is attempting to compete with Wal-Mart by offering every-day low prices for staples, computers and electronics, a gamble since it operates

only three warehouses that handle 25% of its merchandise compared with 10 warehouses that move 75% of Wal-Mart's merchandise.

**Gigante** (445 stores) is also suffering and its same-store sales were down 2% in the first quarter and 6.7% in the second.

	Walmex	Commercial Mexicana	Gigante	Soriana
net sales (US\$ bil.)	9.67	3.61	3.25	3.03
net profit (million)	458	82.9	68.7	160.30
store count	579	225	445*	115

\*incl.3 in California sources □ company reports (2001 data), Business Week

## ASIA CHINA

✓ **Dairy Farm** decided to slow down the expansion of its 7-Eleven convenience store chain because of «stronger than expected» competition in southern China.

DFI originally projected opening at least 70 units in 2002 as part of its US\$ 20 million expansion plan. Now, management admits that competition from hypermarkets, supermarkets and small stores had been underestimated. These are all modern retail formats which the Chinese consumer is just learning to understand.

At the same time, rents in Shenzhen and Guangzhou, especially for prime sites, are higher than anticipated, another reason to slow down expansion.

DFI operates more than 720 stores in Southern Asia including approximately 330 in Singapore, 99 in Malaysia, 195 in Indonesia and 99 in India. This year, six new Giant hypermarkets have been planned, including one in Singapore, four in Malaysia and one in Indonesia.

✓ **DO IT YOURSELF** □ US\$ 2 billion in sales in Asia as follows □

- Homemart 4.0%
- Total Home 3.0
- B&Q 2.9
- Home Way 2.6
- Obi 2.4
- others 85.1 (1)

source □ Fiducia Management Consultants

(1) incl. traditional lumber, building material, hardware and home decor outlets.

**Homemart**, the largest state-owned DIY retailer, continues to dominate the Shanghai market in store numbers. In March 2002, it opened its eighth unit in Beijing with a new identity and an updated look.

**Obi** from Germany, a branch of Tengelmann, opened two stores in Shanghai in 2001 and a fourth in Nanjing. Obi's expansion has been slower than its competitors and its results are satisfactory according to its corporate parent □ «Our two Shanghai stores are now numbers three and five worldwide in terms of sales» said Harald Lux, Obi's president. Obi is focusing on decoration, which in China means the total outfitting of an apartment from plumbing and electricity to painting and home furnishings, and accounts for 25% of the Chinese business.

**Ace Hardware**, an American buying cooperative, has already created a joint venture with Orient Home which is expanding outside Beijing opening a «convenience» store of 5,000 to 6,000 sq. m in the Beijing area this summer.

**B&Q** is investing £ 50 million (□ 77.74 million) in new stores in China. The DIY arm of the British Kingfisher wants to have 60 units by 2007 (it has opened only eight since 1999) but intends to open eight next year alone, including the first one in Beijing, the second in Hangzhou and the fifth in Shanghai.

**The Home Way** is a three-unit chain based in Tianjin, 160 kilometers from Beijing. It was the pioneer of the format in Asia because it opened the first western-style DIY warehouse in

1996, in cooperation with Home Depot. However, both companies no longer have any links today. In recent years new competitors have appeared causing the store's sales to fall. **Leroy Merlin**, the second largest French DIY firm, signed a letter of intention with The Home Way at the end of 2001.

The government continues to encourage home ownership by commercializing state-owned retailers. This reform has been luring hundreds of foreign firms, which try to invest on

the housing market. Misawa Homes, a Japanese builder, wants to associate with New Building Materials in Beijing, the largest Chinese supplier. Nippon Steel expects to build 30,000 houses over the next four years. Low prices and tariffs on wood and building materials have caught the attention of 84 Lumber from America which has begun to ship pre-fabricated houses and wood materials to Southern China....

company	corporate parent	2001 sales (mil.US\$)	2000 sales (mil. US\$)	growth 2000/2001	stores 2001	average area (sq.m)
1 Homemart	Homemart Decoration Co	83	53.6	+55%	7 (6 in 2000)	9,150
2 Orient Home	Orient Group	62	29.0	+113	5 (-)	10,000
3 B&Q	Kingfisher (United Kingdom)	60	28.3	+111	6 (2)	10,000
4 The Home Way	Tianjin N.Building Material Co	53	40.9	+29	3 (-)	10,000
5 Obi	Obi (Germany)	48	18.1	+167	3 (1)	12,000

Source □ WP

## JAPAN

✓ **Seiyu, the fifth largest Japanese food retailer, and the U.S.'s Wal-Mart decided to join their forces to sell apparel and other products at low prices in Japan as early as spring 2003** according to the Nihon Keizai Shimbun newspaper.

These items, produced mainly in China and in other Asian countries, will be sold in Seiyu shops up to 40% less expensive than by local companies. They will include shirts, shoes, sneakers, and processed foods could be added in the future.

Both partners also plan to renovate 10-15 Seiyu units mainly in the Tokyo area as early as spring 2003, selling the jointly purchased products. The stores may use both the Seiyu and Wal-Mart brands. The stores are trying to lower Seiyu purchasing costs while enjoying Wal-Mart's power.

If tests are positive, they will open supercenters by 2004. WM, present in the capital of Seiyu since April, sent employees to Japan before deciding to raise its 6.1% stake to 33.4% before the end of this year.

✓ **MC.DONALD'S □ share trading fell as well as profits in the first half 2002.**

In Asia, sales declined 7% when the mad cow disease scare appeared in September 2001. In the first half, net profit of Mc.Donald's Japan fell 81.4% to □ 12 million (1.41 billion yen) from 2001 and sales 13.9% to □ 1.35 billion (158.33 billion). The Japanese company, a 54.9% subsidiary of the American giant, saw share trading fall 0.75% on August 6th, one year after being listed on the Tokyo stock market. It represents more than a 48% loss compared to its highest level after its first valuation. ■

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## **Starbucks must go global rapidly in order to maintain its expansion rate.**

Starbucks purchases and roasts high-quality whole bean coffees and sells them with a variety of coffee beverages, pastries and coffee-related accessories and equipment, primarily through company-operated retail stores and coffee shops. The company has expanded progressively on four continents—the Americas, Europe and Asia, and 28 countries and operates today 5,689 units including 1,400 outside the U.S., compared to 281 in 1999. And this is only the beginning of its international expansion.

### **The Starbucks phenomenon is spectacular.**

Starbucks, which was inspired by European-style coffee houses, became the largest American firm of its type in three decades, growing from a small «corner» in the Seattle market (Washington) to an international chain. Sales growth followed international expansion, increasing an average of 20% per year to US\$ 2.6 billion while profits climbed 30% to US\$ 181.2 million in 2001. In the first three quarters of the current fiscal year, sales grew by 24% on a yearly basis and profits, excluding charges and capital gains, by 25% to US\$ 159.5 million.

Starbucks has become one of the fastest-growing worldwide brands. At a time when a depressed economic climate is affecting the globe, the chain reports a 25% yearly sales and profit growth for 2002. Its stock has soared more than 2,200% in the past decade, surpassing Wal-Mart, General Electric, PepsiCo, Coca-Cola, Microsoft and IBM in total return.

After the 9/11 terror attacks and the economic slowdown during the winter, Starbucks business activity regained at full speed and sales in stores opened at least 13 months grew by 6% in the 43-week-period ended July 28th 2002. Monthly same-store sales growth of 7% is predicted until

the end of the fiscal year. This is, however, below the 9% growth of 2000.

### **Maintaining expansion rate.**

Starbucks management is eager to make new profits in the U.S., which is becoming a saturated market. In spite of its 4,247 outlets across the U.S. and Canada, eight states still do not have a Starbucks café. In Seattle, there is one unit for every 9,400 persons; in Manhattan 124 cafés and four new in the pipeline before the end of this year, or one for every 12,000 persons. Considering such a concentration, at least a 10% same-store sales growth is possible if Starbucks maintains its expansion pace.

### **Exporting the concept is the first challenge.**

Some analysts give Starbucks only two years before it reaches total saturation of the American market. This means a 15% growth of its square footage or 550 new outlets in the USA. Then, maintaining its 20% annual revenue growth will depend on its overseas development.

Outside its home market, Starbucks is present around the world from Beijing to Bristol in the U.K., but several countries are not yet covered. Four hundred of its 1,200 outlets planned for 2002 will be outside the U.S., which means a 35% growth of international operations, with hopes to grow this number to 10,000 within three years.

During the past 12 months, Starbucks has entered Vienna, Zurich, Madrid, Berlin and even Jakarta. The first Greek store was opened in Athens in mid-September, then Starbucks intends to expand to the country's second city Thessaloniki and subsequently nationally via a joint venture with Marinopoulos, which holds 80% of the capital. Marinopoulos, a former partner of the French Promodès (that became

Carrefour), operates 140 hypermarkets and supermarkets in the country. By 2003, Starbucks will have entered Mexico and Puerto Rico.

But global expansion generates risks because the firm earns less money on each new outlet, as most are operated with local partners. At the same time, it is easier to enter a foreign country because share of profits scales back by only 20% to 50%.

### **The other challenge.**

The first challenge is to become a mature company in America. After having met great success with the baby boomers through the nineties, Starbucks feels the hostility of its future consumers, Generation X (now in their 20's and 30's). These consumers do not appreciate having to pay US\$ 3 a cup for designer coffee.

The other challenge is low morale among its store managers. Stock options that were granted to part-timers in the restaurant business were a Starbucks innovation that inspired respect. Today, even if employees are better paid than other comparable workers at US\$ 7 per hour, many consider this to be normal. Now, as overtime payment does not satisfy some people, the quality of normal service has been affected just as the coffee, say some observers. Some frustrated managers in California sued Starbucks in 2001 for refusing to pay overtime. The problem was settled last April but the company had to pay US\$ 18 million.

However, it is essential to maintain expansion. Since the company has practically no debt, Starbucks is financing expansion with internal cash flow. Starbucks can maintain its image due to strong control because it owns its outlets. There are no franchisees. Relying on its mystique and reputation, in America or overseas, Starbucks saves on marketing costs. Since most consumer companies spend up to US\$ 300

million per year in advertising, Starbucks invests just US\$ 30 million, or approximately 1% of its revenues to launch new flavors of coffee and products such as in-store Web service. Unlike McDonald's or Gap that grew rapidly in the U.S, Starbucks has no national competitor.

In Vienna, Starbucks has met with great success. In Japan, its best market, the chain operates 368 outlets since it entered in 1996. But sales have fallen in the past 10 months because of competitors selling similar products. Moreover, the economic situation in Japan has not helped to improve Starbucks position. Even if it plans for net profit to grow by 30% to US\$ 8 million on record sales of US\$ 516 million for the year beginning in April 2002, same-store sales fell 14% at the end of June. Starbucks expects to have a thousand units by 2007 including 500 by September 2003 and at least 120 annually thereafter. In order to reduce its costs, it thinks of building roasting facilities in Asia. At the same time, in the U.K., its second best foreign market with 310 stores, imitators are appearing here and there and taking away market share.

Entering the Italian market may prove to be difficult. The idea that consumers will leave their 200,000 coffee bars for Starbucks seems an illusion because Italian coffee bars are prosperous, selling food as well as coffee, a sector in which the US chain is not yet very efficient. Then because Italian coffee is less expensive than U.S. coffee—67 cents for an espresso in northern Italy and 55 cents in the south compared to US\$ 1.50 in the States.

### **Its power.**

Starbucks is managed by Schultz, chairman and chief global strategist, who estimates that there is still room to grow in the U.S. even in communities where the chain operates already dozens of stores. He thinks that clustering them increases total revenues and share of the market even when individual stores cannibalize each other. This strategy works, he

says, because of Starbucks' size. It is important to absorb operating losses as new stores open and rapidly after total sales grow beyond estimates. At the same time, it is less expensive to supply and manage stores located close together, with clustering permitting rapid local market domination.

Starbucks is still capable of conceiving and opening a store in 16 weeks, even less, and to write off its initial investment in three years.

#### Expansion through new products.

Starbucks depends on its overseas expansion if it wants to maintain its annual 20% revenue growth. Its plans to fuel growth by selling more food and products other than coffee did not materialize. At the end of the 90's, the current chairman thought that offering sandwiches at US\$ 8, desserts and CDs in its stores and sell packaged coffee in its supermarkets would strongly boost sales. Today this specialty activity accounts for 16% of total sales but growth has been below expectations: 19% in 2002 is far below the 38% growth in 2000. This means that if coffee may be sold at an expensive price in a recession period, food may not be, at least in Starbucks stores. Consequently, as one of its current targets is to improve performance in this area, Starbucks is today testing a new format which consists of offering hot breakfasts in 20 Seattle stores that may develop its supermarket sales.

#### Its innovations.

Starbucks proved that it was an innovator in selling its main product, coffee. In 800 units, it put automatic espresso machines to speed up service. In November 2001, it began selling pre-paid Starbucks cards from US\$ 5 to 500 (it has sold US\$ 70 million of them today), which cuts the transaction time by half.

At the beginning of August, Starbucks Express was launched, a daring venture that combines coffee, web technology and quicker service. In 60 stores in the Denver area (Colorado), customers can pre-order and pre-pay their beverages and pastries by phone or on the Starbucks Express website. When they enter the store, the beverage is waiting and their name is printed on the cup. After a test period, Starbucks will decide next January whether it will roll out the concept nationally.

On August 21st, Starbucks announced the expansion of its high-speed wireless Internet service in 1,200 Starbucks in North America and Europe, in partnership with Mobile International (a subsidiary of Deutsche Telekom) and Hewlett-Packard. Customers sit in a store, send an e-mail, surf the web or download multimedia programs without looking for connections. They begin with 24 hours free before choosing among several plans of monthly subscriptions.

Starbucks hopes that all these innovations will help it to attract new consumer generations, including the young who do not feel at ease in its outlets. ■ Source: Business Week, Stanley Holms (Seattle, USA), Drake Bennett (Paris), Kate Carlisle (Rome) and Chester Dawson (Tokyo).

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