LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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INTERNATIONAL

✓**The best cities to locate a business today : although London continues in the leading position, Paris has the strongest representation of foreign companies** according to the annual survey by Cushman & Wake-field/Healey & Baker.

Paris is seen as the best city ahead of London, Madrid and Brussels for expansion projects over 2006.

The top 10 European cities :

	2002 rank	2001 rank
London	1	1
Paris	2	2
Frankfort	3	3
Brussels	4	4
Amsterdam	5	5
Barcelona	6	6
Madrid	7	8
Milan	8	11
Berlin	9	9
Zurich	10	7

To conduct this survey, which shows the most significant factors influencing their companies, 500 managers of the main European companies were interviewed. Warsaw plans largest influx of companies within the next 5 years. But Budapest, Prague, London and Moscow are also among their expansion plans. The choice criteria are the availability of skilled staff, the easy access to markets and customers and lastly means of transportation to other cities and telecommunication quality.

The same Europeans firms were questioned on cities outside Europe where they think they would expand by 2005 :

cities	firm count
Shanghai	18
Sao Paulo	17
Beijing	15
New-York	14
Buenos Aires	11
Tokyo	11
Sydney	10
Los Angeles	19
Hong Kong	8
Mexico City	8

✓**The 11 most important and expensive streets in the world.**

streets	cities	countries	rent per sq.m
Fifth Avenue	N.Y	U.S.A	US$ 8,600-12,910
Madison Ave	N.Y	U.S.A	US$ 7,530-8,610
East 57th Street	N.Y	U.S.A	US$ 7,530
New Bond Str.	London	U.K	US$ 7,565
Oxford Street	London	U.K	US$ 7,166
Champs-Elysées	Paris	France	US$ 5,910
Sloane Street	London	U.K	US$ 5,100
Causeway Bay	H.Kong	China	US$ 5,035
Pitt Street Mall	Sydney	Australia	US$ 4,580
Faubourg St Honoré	Paris	France	US$ 4,035
Ave.Montaigne	Paris	France	US$ 3,400-3,800

Source : Original Reporting, Bureaus/Women's Wear Daily

✓**The World Bank and global retail development.**

IFC, the International Finance Corp, a private subsidiary of the World Bank, provides retailers with funds for international expansion in developing countries.

After having successfully helped the U.S.A.'s PriceSmart in Mexico, Philippines and Jamaica and Sweden's IKEA in Moscow, IFC is now seeking even larger retail clients.

Although retail trade does not account for more than 2% of its total portfolio, IFC hopes to increase activities in this area. Major retailers can have an even greater impact on the sector's efficiency than smaller chains in developing countries.

IFC has created a department to work with small businesses that must adapt to a new retail environment when more efficient players enter. Currently, it has 30 projects that account for a US$ 300 million portfolio investment.

CENTRAL & EASTERN EUROPE

HUNGARY

✓REWE sells its Hungarian Billa supermarkets.

The second largest food retailer in Germany is selling its 14 Billa supermarkets, operated by Rewe Austria, to Spiag Management, a branch of the Spar group. Rewe has decided to focus on its 130 small Penny supermarkets that dominate the local market. The transformation of Billa into Penny would have not been cost effective.

Rewe operates Billa outlets in Slovakia, Romania, Croatia, Bulgaria, Ukraine and the Czech Republic.

Spar in Hungary plans to open 4 new supermarkets by the end of this year and 1 or two hypermarkets plus 10 supermarkets during 2003. As a result of the takeover of Billa, Spar Hungary will operate 134 stores.

ROMANIA

✓Delhaize le Lion□will open Mega Image supermarkets this December.

Mega Image, operating supermarkets in Romania and 49% controlled by the Belgian group Delhaize le Lion, will open 3 supermarkets at the beginning of December for a total investment of US$ 2.5 million. One unit in a 900 sq.m retail space will be located in the Iancului district of Bucharest where Mega Image is already present with 11 outlet. The others, the first ones outside the capital, will be in Ploiesti (1,900 sq.m) and Constanza (2,300 sq.m).

RUSSIA

✓Sales tax.

The Russian government announced that it may extend the 5% sales tax for one year or two beyond January 1st, 2004. It had previously declared that this tax would be abolished, as part of the government's global tax reform. According to the Finance minister, Aleksei Kudrin, it would disappear by 2007.

Regional authorities, responsible for collecting the tax from retailers, are opposed to its cancellation as it is a major source of revenues for them□ in 2001 it accounted for 23.3 billion rubles (□ 856 million) or 4.4% of their budget.

WESTERN EUROPE

✓Retail shrinkage□ U.K is still the leader of retail crime in Western Europe.

Shrinkage, in % of sales:

	2000-2001	2001-2002	% growth
U.K	1.76	1.77	0.6
Norway	1.56	1.59	1.9
Greece	1.44	1.53	6.3
France	1.42	1.49	4.9
Netherlands	1.42	1.48	4.2
Finland	1.44	1.48	2.8
Spain	1.42	1.47	3.5
Portugal	1.38	1.42	2.9
Italy	1.30	1.41	8.5
Belgium/ Luxembourg	1.28	1.36	6.3
Ireland	1.24	1.34	8.1
Denmark	1.21	1.32	9.1
Germany	1.21	1.19	-1.7
Sweden	1.31	1.37	4.6
Austria	0.98	0.97	-1.0
Switzerland	0.87	0.85	-2.3
Total	**1.42**	**1.45**	**2.4**

Source□The European Retail Theft Barometer, Sept.02

While comparing the new barometer published by the Centre for Retail Research in Nottingham, it appears that the cost of retail shrinkage grew by 2.7% in six months and that it cost £ 49.61 (□ 78.92) per European consumer from £ 47.63 (□ 75.77).

Actual shrinkage (the cost of stock loss from crime or waste) for retailers in 16 European countries grew by 5% since the Centre published its first Barometer in January. Highest growth rates were in Italy, Ireland and Greece but the U.K is ahead of these countries with an average rate of 1.77% of sales, up from 1.45% in the first half. It cost £ 69.89 (□ 111.18) per year per British consumer, up from £ 61.84 (□ 98.36) in January. The increase is attributed to social problems and drugs.

In spite of retailers' to control retail shrinkage, the cost of shrinkage continues to increase because investments in security prevention are included in the shrinkage figure. Consequently, the global cost amounts to € 30.41 billion, including € 24.76 billion for crime and € 5.64 billion for security… Employee theft accounts for 26%, customers 48% and suppliers 8%; internal mistakes 18%.

Shoplifting cost European retailers € 14.670 billion, employee theft € 7.82 billion and supplier theft € 2.27 billion.

This second Barometer is based on surveys from 476 European retailers with combined sales of € 491.42 billion, operating 31,525 stores and accounting for 23% of the European retailing.

Shrinkage by line of trade (in % of sales)

	2000/1	2001/2
Food:	1.22	1.09
. Super et hyper	1.11	0.96
. Specialists	1.56	1.54
General stores	0.72	0.77
Department stores	1.69	0.59
Apparel/textile	1.62	1.69
Electrical/video/music	0.96	1.06
Hardware/DIY/furniture	1.68	1.75
Shoes	0.60	0.64
Other non food	1.94	1.98
Total	**1.42**	**1.45**

Source: The European Retail Theft Barometer, Sept.02

Articles that are the most frequently stolen are chocolate, cosmetics and beauty aids, CDs, video and DVD, Kodak film, Gillette razors, sunglasses, leather belts, wallets, spirits, tea and coffee and sportswear.

Source: Retail Week

FRANCE

✓CARREFOUR : third quarter figures.

In the third quarter, considering constant exchange rates, the group sales including VAT increased by 5.6% to € 18.936 billion. The Americas reported the highest increase growing by 11.0% to € 1.378 billion. During the period, 16 hypermarkets, 9 supermarkets and 50 small food stores (hard discount stores) were opened.

In the first 9 months, with exchange rates, sales grew by 3.9%. After impact of this rate, they declined 1.5%. The Americas reported the strongest decline (34.1%).

✓HYPARLO reported a loss in the first half of 2002.

The first Carrefour franchised partner, which operates 12 hypermarkets in France, 2 in Italy and 1 in Romania, has reported a net loss of € 610,000 in the first half compared to a €1.3 million profit in the same period last year on € 528.2 million sales, growing by 4.7%.

The first half 2001 showed € 5.8 million in sales – as a result of the sale of one Italian store (Senigallia) with windfall profits. The sitation is due to Romania, which registered very high inflation and a loss in the exchange rate of € 4 million « in the joint-venture level and € 2 million in the Hyparlo accounts. »

Nevertheless, the group is going forward with its expansion in Romania: a second hypermarket will be opened in the 4th quarter 2003 and in Italy with a 3rd hypermarket (Florence).

For 2002, Hyparlo maintains its forecasts, sales growing by 5%, € 8 million in net income from recurring operations and operating profit improving above 30%.

✓PINAULT PRINTEMPS REDOUTE (PPR) has sold its distance selling business Guilbert to the American Staples for € 825 million. This represents 16 times the company's operating profit estimate for 2002.

Guilbert (US$ 441 million) is the largest company specialized in this activity in France, Italy and Spain gathering JPG and Bernard in France and in Belgium, MondOffice in Italy, Kalamazoo in Spain and Neat Ideas in U.K.

As a result of this acquisition, **Staples** will enter new markets such as France, Italy, Spain and Belgium and will gain strength in U.K. It is the largest company in the world specializing in office equipment and supplies with US$ 6.9 billion sales and 1,260 outlets. In 2001 it overtook Office Depot.

The French group PPR, focusing on activities showing high growth and profitability, **announced the first phase of discontinuation of its Credit and Financial Services activity, Finaref. PPR** is discussing with Crédit Agricole for the totality of the activity except Facet 90% of which has been sold to BNP Paribas for € 869 million. Facet managed the Conforama private card and credit (2 million store cards, € 1.2 billion in outstanding loans) 60% of which is owned by Finaref.

During the third quarter consolidated sales of PPR amounted to € 6.420 billion; considering comparable exchange rates, same-store sales fell 0.5% versus -1.8% in the first half. It appears that the retail and professional (B to B) activities have improved: retail was up 1.3% versus -0.3% and B to B -2.6% versus -3.4% in the first half.

In the first nine months, on September 30th, group sales amounted to € 19.735 billion down by 1.5% in real terms, reflecting the positive impact of changes in the group structure. On a comparable basis in terms of structure and exchange rate same-store sales fell 1.4% versus -1.8% in the first half 2002.

✓Décathlon speeds up foreign expansion.

The largest French sporting goods chain generated € 2.7 billion sales in 2001 including 25% outside France. In 2002, it will have opened 19 stores in Spain, Italy, Belgium, Germany, United Kingdom and Portugal plus 3 outlets in France and approximately 10 expanded stores, bringing the total number to 320 including 105 in 10 countries.

In 2003, 15 units will be opened mainly outside France including the first one in China (Shanghai). In total, 12,000 people will be hired in 2 years between 2002 and 2003. Décathlon has installed a new layout by merchandise world in its stores: mountain, sea, and collective sports….

GERMANY

✓METRO will sell its German retail assets for € 3 billion.

This will be accomplished through the sale of AIB Asset Immobilienbeteiligungen, a joint-venture company between the retailer (49%) and the German bank WestLB (51%).

These assets include more than 130 Kaufhof department stores, totaling 1.3 million sq.m, located in 80 German cities, generally downtown sites transformed into « galleries », plus a certain number of Praktiker DIY units and Real hypermarkets. Fifteen further sites, occupied by the Belgian department store chain Inno that Kaufhof recently bought, could also be included in the transaction.

AIB was created at the end of 1999 and most of Metro assets were transferred, except the cash & carry stores that remain on Metro's balance sheet.

Real operates 277 hypermarkets including 246 in Germany and 31 in foreign countries (Poland, Turkey…), Praktiker 347 DIY units including 297 in Germany and 50 in Austria, Poland, Turkey, Hungary, Greece and Luxembourg.

✓Kingfisher increased its stake in the German Hornbach for € 36.2 million.

The British retailer increased its total stake to 21.2% in Hornbach which operates 99 DIY warehouse stores in 6 European countries (Germany, Austria, Netherlands, the Czech Republic, Luxembourg and Switzerland) and 3 garden centers under the Hornbach Lafiora Florapark brand.

Kingfisher also bought 5.5% of the common shares of Hornbach Baumarkt AG for € 21.5 million. Hornbach Holding AG holds 80% of Hornbach Baumarkt AG.

Kingfisher now holds 99.11% of the capital and 99.34% of the voting rights of Castorama or 98.90% of the totally diluted capital of CDI.

ITALY

✓Auchan/Rinascente: both partners confirm the agreements between the Ifil holding company and the French retailer until 2012 on a parity basis.

Auchan and Ifil have decided that their common subsidiary, Rinascente, 58.6% owned by the Luxembourg holding Eurofind, will no longer be listed. The two companies have made a bid of € 735.4 million on the remaining capital and plan to sell 20% to banks.

Eurofind, 51% owned by Ifil and 49% by Auchan, will make a bid on all the Rinascente shares at € 4.45 per ordinary share. But before launching the operation, Eurofind's capital parity will be restored and increased at parity by both partners in order to finance the operation. In the end, Eurofind capital will be as follows : 40% owned by Auchan, 40% by Ifil and 20% by banks.

In 2001, the Italian Rinascente group, the 4th largest retail group behind Coop, Conad and Carrefour, generated a net profit of € 59 million on € 5.75 billion sales with a 9.2% share of the market.

NETHERLANDS

✓AHOLD : creation of ACE (Ahold Central Europe).

The new organization, operating in Prague (Czech Republic), will combine the back office and management functions of Ahold's activities in Poland, the Czech and Slovak Republics while maintaining localized operations in these three countries.

Through ACE, these countries will merge their supply, human resources development, marketing, formats and administration functions in order to better utilize economies of scale and share knowledge in the region under the responsibility of Jacquot Boelen.

The daily operations for the stores and distribution centers will remain localized through separate country organizations and offices, each managed by a chief operating officer reporting directly to Boelen. ACE will manage more than 400 Albert supermarkets and Hypernova hypermarkets in Central Europe combining € 1.3 billion sales in 2001.

In the third quarter, Ahold reported € 16.4 billion sales, a 5.8% increase over the € 15.5 billion in 2001. Organic sales growth, excluding currency impact, amounted to 1.5% for the quarter versus 6.5% in 2001.

- **US** retail same-store sales grew by 0.6% versus 3.8% in 2001 and US foodservice sales increased by 43.3% to US$ 4.04 billion,
- **in South America**, sales decreased by 49.3% to € 586 million and organic growth sales, excluding currency impact, was 6.0%,
- **in Asia**, sales grew by 16.8% to € 109 million and organic growth was 21.7%,
- **in Central America**, sales amounted to € 372 million and organic growth was 17.1%,
- **in the 13 European countries,** sales increased by 6.6% to € 5.5 billion and organic sales growth, excluding currency impact, amounted to 4.8%.

PORTUGAL

✓SONAE is planning to transfer its stakes in shopping centers to an investment fund.

The Portuguese company, 67% owned by the Sonae SGPS conglomerate and 33% by the British property company Grosvenor, would be attempting to attract institutional investors.

Sonae, with 14 shopping centers and a factory outlet centers in Portugal, is beginning construction of other projects in Spain, Italy, Austria, Germany and Greece. All these projects are led with joint-venture partners and assets are often owned jointly with international investors. Thus, ING owns 50% of Sonae's Via Caterina and Colombo shopping centers.

Sonae has just announced it is building its second Greek center, Pylea (50,000 sq.m retail area) in Salonica, northern of the country, jointly with the Greek real estate company Lamda Development. It is a € 100 million project.

✓In Lisbon, a major renovation project will enlarge the central business center of the Portuguese capital.

Campolide Parque is a mixed-use project built by a private investor consortium in the northern office part of the city. Formerly it was a military campus that was sold by the municipality.

It includes 4 L-shaped blocks combining office, residential space, a shopping gallery and a fifth block to the south :

- 63,965 sq.m of offices,
- 61,700 sq.m of housing,
- 10,130 sq.m of shops,
- 3,500 sq.m of leisure activities.

Its construction will begin by the end of 2003.

UNITED KINGDOM

✓Sainsbury : sales decreased in the second quarter.

The second largest food retailer in U.K generated 2.4% sales growth on constant exchange rates in the second quarter ended October 12th, compared to 2.7% in the first quarter.

Sainsubury, the U.K.'s leading food retailer from 1992 to 2001, is undertaking a restructuring plan to move ahead of Tesco : approximately 30 supermarkets, 100 central urban units and local convenience stores will be opened from now until 2004 ; in 2002, 13 outlets will be refurbished and 20 enlarged. Sainsbury is reducing costs (€ 1.093 million) and plans to increase its margin now at 3.8%.

Competing with Asda, Sainsbury might be overtaken since its share of the market has dipped to 17.2% in 2001 while Asda increased to 16.3%, according to Taylor Nelson Sofres.

✓Marks & Spencer in a much better situation.

The UK's textile retailer with 11% share of the British market seems be on the path to recovery and, according to Mintel Retail Intelligence, remains the largest among European clothing retailers in 2001, followed by H&M from Sweden.

In the third quarter, Marks & Spencer's total sales increased 11.1% and 13.8% in clothing, reporting a two-digit growth in women's, men's and lingerie departments. Food, which accounts for 45% of sales, grew by 7.5% and its share of the market jumped 1% in the last six months.

As of September 1st, Roger Holmes has been appointed chief executive. Luc Vandevelde will revert to his original position as part-time chairman beginning in January next year while remaining head of the group's financial services and management committee.

✓Burberry's is planning a first Italian store by the end of 2003.

Burberry opened its first Spanish store in Barcelona and a unit in Florida (USA) in September and announced it will open the first one in Italy, in Milan, in the golden shopping triangle across the street from Gucci and Yves Saint-Laurent later next year. The store will be a 800 sq.m unit of Burberry's collections for local consumers as well as tourists. On October 30th, the company opened a new unit in New York and will open a second flagship in London (Knights-bridge) before the end of 2002.

Currently, Europe accounts for 60% of Burberry sales, followed by North America and Asia.

But Burberry is facing an identity crisis : fashion or luxury ?

The apparel retailer, positioned between giants such as Gucci and Hermès on one side and more fashion oriented Ralph Lauren on the other, was listed on London's Stock Exchange on July 12th 2002 but the first day of trading, it closed down 2% at US$ 3.38, although this was not a favorable period for retail in general. Over the past two years, sales have more than doubled to US$ 750 million and net profit more than tripled to US$ 84.8 million. From 2001 to 2002, Burberry's operating margin jumped from 16.4% to 18.1%.

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IN SHORT…

✓**Inditex, the Spanish fashion group, has signed a lease for 12 years with the Swedish property company Hufvudstaden AB to open its first Zara store in Sweden (Stockholm) by fall 2003.** The store will be a 1,600 sq.m unit located not far from H&M. Inditex is already present in this country with its Massimo Dutti chain… **PT Matahari Putra Prima,** the Indonesian retailer, who operates 77 department stores and 64 supermarkets, **expects to open 2 stores in Jakarta at the end of November**, representing an investment of US$ 6.65 billion… **Dixon's,** a branch of the British and largest European consumer electronic chains, opened its first Electroworld store at the beginning of October in 4,000 sq.m of retail space in Prague (Czech Republic) offering mainly high-tech electronics… Dixon's acquired the remaining shares of the second largest Italian specialist, UniEuro, increasing to 95.71%, in order to further expand in Europe, mainly in the fourth largest electronics market estimated at € 12 billion… **Uniqlo**, the Japanese fashion retailer that operates 15 stores in the U.K, generated € 25.45 million in sales in the first half. It plans to have 50 outlets in the U.K. by 2004.

NORTH AMERICA

UNITED STATES

✓**New concepts.**

Kohl's, a chain of mid-level department stores, is testing smaller formats for markets with lower population: four-6,000 sq.m outlets, or two-thirds of an average store, have been recently opened in Wisconsin, Iowa, Michigan and North Carolina.

Chico's, an apparel retailer, is trying to attract the younger feminine customer, from 25 to 35, sensitive to fashion, with its new Pazo stores: eight units will be opened in the first quarter of 2003 offering European and American fashion at attractive prices, in an environment similar to that of a boutique.

✓**AMAZON has published better figures than expected in the third quarter.**

For the tenth successive quarter, the American cyber retailer has released strong figures: revenues grew by 33% to US$ 851 million and a net loss decreased to US$ 35 million, compared to 170 million one year earlier. Pro forma operating profit, before goodwill amortization and restructuring expenses, amounted to US$ 27 million versus 8 to 17 million previously announced (cf.LLDI, September 2002).

Under these conditions, for the 4th quarter, Jeff Bezos expects revenues between US$ 1.33 and 1.44 billion and a pro forma operating profit of US$ 70 to 95 million. For the year, it anticipates sales growth of at least 10% and an operating profit above US$ 200 million.

✓**Target to gain strength in food.**

The second largest American discount chain (1,189 units, US$ 39.888 billion sales) wants to accelerate its development in food. Target expects to position itself as a major player, while strengthening its niche as a higher-end retailer.

The company has opened Starbucks coffeehouses in all its SuperTarget supercenters (hyper-markets), plans to emphasize organic foods and enlarge its SKUs by 20% in the fresh and frozen departments.

Under these circumstances, within the next 10 years, Target could generate US$ 45 billion sales in food with an 8-to-9% share of the market while opening 30-40 new supercenters per year. Consequently, its new food expansion combined with discount development could help the company to generate US$ 160 billion in total sales by 2012. In order to reach this goal, Target will have to maximize productivity in terms of sales per sq. m.

The discounter will also have to consider expanding outside the U.S within the next five years in order to generate the high returns expected by its shareholders. Its first foray could be into

Canada where it will meet competition from Wal -Mart.

Comparing Target to Wal-Mart, 12% of Target customers shop Target every week, compared to one third at Wal-Mart (35%). Moreover, 53% of Target monthly customers shop Wal-Mart compared to 27% of Wal-Mart customers that visit Target. Concerning profitability, Target generated US$ 2,950 average sales per sq.m compared to US$4,368 by WM in 2001.

Target's store strategy, with wide aisles and spacious product presentations, attracts customers but dilutes sales per square meter.

✓Kmart to exit from chapter XI protection by March 2003 instead of July.

According to the chief financial officer, Al Koch: «If we're not able to exit early sometime next year, it's not because we're not ready. After we get through the major items that need to be resolved such as reviewing the store base and the major contracts, there's little more that we need from the bankruptcy process to help us with.» Probably 450 outlets should be closed instead of 250.

The second largest American discount chain improved its inventory level and the merchandise allocation. «We are controlling the inventory better, removing some of the slower-selling sku's from the lineup and resetting the departments that have more of the higher-selling items.»

✓GAP: Mickey Drexler has left the company.

The president and CEO of the apparel chain resigned October 11th after 19 years at the head of the company while retaining 1.5% of the Gap shares or 13 million. Paul Pressler succeeds him.

Gap, which runs more than 4,000 Gap, Banana Republic and Old Navy stores, announced same-store sales decreasing 2% in September due to low traffic and a higher level of promotions.

Recently, Gap admitting that catering to younger consumers with fashion items had no result, invested heavily in a new advertising campaign «For every generation, Gap» to win back its loyal customers.

✓TECHNOLOGY IN RETAIL STORES: Prada in New York.

In a New York Prada store, a tiny silicon chip inside a black envelope and attached to the garment by a string, transmits a signal to a computer located at the store's back room that logs any movement. The computer, in turn, transmits a command to a flat-screen monitor located near the customer in the dressing room. The monitor shows an image of the garment the customer is trying on, including all details (cut, fabric and color). Electronic tags register all kinds of information: the exact garment location within the store, how many times it has been tried on, how many pieces of its kind are in stock…

The store is equipped to be a virtual laboratory which studies the customer's profile. So that for every person who signs a loyalty program with Prada, the store registers and tracks what they try on and end up buying.

Like Prada, hundreds of retail firms have recently begun testing new technologies to study their customers more precisely. They use digital monitors hidden between racks of merchandise, employees with mobile computers can read magnetic labels. Dressing room doors are scanner-equipped to control merchandise coming in and out.

Systems register how long a person stays in certain areas of the store so that merchandise presentations that do not seem to inspire customers can be rearranged rapidly. Electronic sensors count the customer numbers in certain areas, which helps to better deploy staff.

This behavior observation is particularly significant given that the average time spent in a store is down to 11.27 minutes for a buyer and to 2.36 minutes for a visitor. Considering that 60 to 70% of purchases are made on impulse, it is particularly interesting knowing what is capturing consumers' attention.

Source: The International Herald Tribune

✓Home Depot launching a computer initiative.

The largest home-improvement chain in the world is capitalizing on past experience by planning its future strategies, announced Bob Nardelli, CEO, «We have tremendous amounts of data on sales, products, services, store performance and customer buying patterns….»

Thanks to this new computer capacity of data-warehousing, The Home Depot will be able to profit from data collection, analysis and use to better serve its customers individually and collectively. Nardelli says, «We know that more timely analysis of customer buying patterns will help us better anticipate their needs. Now we will be able to do a better job of predicting these needs and providing the right assortment of goods and services for each set of customers, whether they are do-it-yourself enthusiasts or professionals.»

✓McDonald's problems are tied to food and staff quality.

In the first 9 months, profits continued to decrease (9%) to US$ 1.2 billion on US$ 11.5 billion sales growing by 4%. Consolidated sales, including franchisees, increased 2% to US$ 31 billion.

In the third quarter, the company reported profits falling 11% (US$ 486.7 million) compared to a 13% growth in the second quarter (US$ 497.5 million) on US$ 4 billion sales (up 4%). The share course has been collapsing. Sales are declining in the Asia-Pacific-Middle-East and Africa and jobs will be cut…

The main problems remain in the United States where the chain is competing with Wendy's and Burger King and also with new fast food concepts such as Panera Bread and Cosi. McDonald's has been unable to stimulate food and service quality quickly enough to keep its customers.

Facing this situation, the world's hamburger giant has responded by lowering prices, increasing advertising and renovating its restaurants. Since November, the chain has planned to launch a one dollar menu backed up by a campaign of US$ 20 million and will invest US$ 400 million to renovate its older restaurants.

Investors do not think the strategy will work because McDonald's new menu at one dollar will only bring the chain to parity with competitors and renovating restaurants may only be a distraction from improving poor service. For the first time in 2002, McDonald's admits that long queues and unkind employees affected sales. Since the beginning of the year, mystery shoppers have been sent on the spot to evaluate food quality, cleanliness and service.

Improving service means solving problems with discontented employees, who complain about the new computerized-kitchen configuration which allows them to prepare the menu «Made For You» launched three years ago. Employees are now able to make fresh sandwiches rather than keeping them warm under lamps.

Now, improving food quality has been achieved to the detriment of fast service because more time is needed to cook individual orders. In addition, McDonald's has increased tensions with franchisees who own 85% of its restaurants : McDonald's declares that they do not use the equipment properly, franchisees complain that the equipment has not been designed properly!! For this reason the parent company pushes franchisees to hire more people at lunchtime but franchisees rarely agree because the practice leads to decreasing profit margins. In short, the company is losing customers.

In 2003, McDonald's will open 600 fast food restaurants, or 450 less than in 2002 and will reduce investments in Latin America, in the Asia-Pacific-Middle East, USA and Europe.

ASIA

✓Dairy Farm acquired IKEA in Hong Kong and Taiwan.

At the end of October, DFI acquired IKEA in Hong Kong and Taiwan for US$ 27 million from Jardine

Pacific Holdings Ltd, a branch of the Jardine Matheson group.

Jardine Pacific held the license to operate IKEA in Hong Kong since 1988 and in Taiwan since 1994.

According to the agreement, DFI acquired 4 IKEA stores in Hong Kong and 1 in Taipei, totaling 44,000 sq.m, from internal cash.

JAPAN

✓Ito Yokado seems to be recovering.

The supermarket chain reported that sales increased by 5.3% to Y 1.657 trillion (€ 13.67 billion) and operating profit by 20% to Y 100.76 billion (€ 83.12 million) in the first half 2002 ended August 31st crossing the Y 100 billion mark for the first time in three years.

These results were obtained thanks to the solid performance of the Seven-11 convenience stores that reported sales growing by 8.8% to Y 212.90 billion (€ 1.763 billion) and operating profit by 4.0% to Y 81.79 billion (€ 675 million). Net profit amounted to Y 44.47 billion (€ 369 million, up 4.1%).

For the whole year, Ito Yokado has maintained sales growth of 5.9% to Y 3.383 trillion (€ 28 billion), operating profit growth by 17% to Y 192 billion but net profit decreasing 24% to Y 34.5 billion.

However, Ito Yokado has suffered from the startup of its new financial services, IY Bank, that has installed automated teller machines in the group stores, and IY Credit Service.

In the second half, 2 stores will be opened, one closed, 12 refurbished bringing the total count to 179 outlets by next February.

THAILAND

✓TESCO opened the largest Lotus hypermarket in Thailand in Bangkok (Bang Kapi).

The store is located in a shopping center (34,224 sq.m total commercial space, 3 levels) including 77 shops, located in front of The Mall shopping center, a Makro cash & carry, a wet market and 7-Eleven and Family Mart convenience stores.

It is the 39th store opened by Tesco in Thailand while local retailers are pressuring authorities to control big box store proliferation.

It is also the 5th Tesco opened in 2002 so far. In mid-November a new Tesco will be opened in Ko Samui and another at the end of December in Kanchanaburi. In 2003, Tesco plans 6 new units including some supermarkets.

NEAR EAST

ISRAEL

✓Retail trade evolution.

Over the past 15 years, Israel has enjoyed a demographic change and a revolution in the retail trade. The country has experienced population growth since the beginning of the 90s with a million of new immigrants from the Eastern European countries bringing the total to 6.5 million inhabitants today, all working to improve their standard of living. Consequently in a few years the household incomes of the emigrants has reached the same level as the average Israeli.

Eager for products of which they were totally deprived under the communist regime, they rushed into shopping centers and supermarkets. The result was a rapid growth in new consumer electronics, food stores, real estate agencies, and car showrooms.

This major population growth combined with a period of economic prosperity lasted until 1996. Retail stores have been expanded and new shopping centers built at an astonishing pace. According to Business Data, the selling space of Supersol, leader in food retailing, increased from 139,000 sq.m in 1994 to 337,000 sq.m in 2000 and Co-op Haribua Hakahol, the second largest local food retailer, increased its selling space at the same rate.

In 1996, chains that accounted for 40% of the food retail trade increased to 50% today and expect to reach 70%. Facing the development of the modern retail stores, small food shops have taken measures to survive and have become small self-service units, which include at least 2 checkouts. Their assortment has been modified to offer more convenience products and catering with more cooked foods. The result has been a growth in small food manufacturers.

Marketing practices have also changed. Formerly, retail stores did not give any information on their customers' shopping habits to their suppliers; this is no longer the case. Logistics have changed also. In the past, suppliers delivered their merchandise directly to stores. Today retailers operate sophisticated logistic centers that receive the goods and deliver them to stores according to organized plans which have increased their profitability by 10%.

Recently, Israeli retailers entered the private label market. Although sales volume does not exceed 3 or 4%, rertailers do not focus enough on quality products and lack inadequate resources in stores and brand positioning in the media. For two years, performance has improved and Supersol now generates 10% of its sales in private label. Co-Op Haribua Hakahol, affiliated with the French Leader Price, invests heavily in positioning in stores as well as in the media.

Several retail chains offer shopping by phone and home delivery via the Internet.

3rd quarter 2001	Supersol	Blue Square
sales (mil. US$)	340	300
growth	7.7%	6.4
net profit (mil.US$)	10	8
store count	159	171
surface (sq.m)	350,000	276,000

Source: Stores & Shops

Blue Square, a pioneer of modern food retailing in Israel, is number two in the industry.

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WAL MART, expansion acceleration.

The world's largest retailer will focus on organic expansion, the acquisition of firms with development potential, profitability improvement and will adapt its offer to changing consumer demands.

Aggressive new store development program.

Wal-Mart is accelerating the development of its **supercenter** format: in fiscal 2002/2003, 192 units will be opened, including 59 in the next 4 months. In 2003, 200-210 units will be opened, «with similar growth planned for the next five years» declared Tom Coughlin, president and chief executive officer of Wal-Mart Stores division and Sam's Club USA during the ninth annual meeting with analysts.

By the end of this year, Wal-Mart will operate 1,258 supercenters compared to 1,569 discount stores. «Supercenters will be our main growth vehicle as we go forward,» declared Coughlin, «and, by the end of this year, supercenters will account for the largest percentage of sales in the division.» The number of Wal-Mart supercenters will equal the number of discount stores by 2003.

Development of **Neighborhood Markets** will not be as aggressive, with 20-25 new units planned for 2003 compared to 19 in 2002. The goal is to have 50 outlets in operation by fall 2003.

As Wal-Mart is accelerating the pace of new supercenters, Sam's warehouse clubs will scale back to its roots, i.e. focusing on small businesses. «We're in business first to serve small businesses with their wholesale needs; second, to serve their personal needs by offering treasure-hunt merchandise; and third, to make sure our individual members benefit from the first two.» Thus, during the transition period, the Sam's division will not open more than forty to fifty warehouse clubs in 2003 compared to fifty to fifty-five in 2002, «Our focus will not be on becoming the dominant club but on being profitable at a lower volume rate.»

Lee Scott, president and CEO of Wal-Mart Stores, will invest US$ 11 billion in 2003. Beyond supercenters, Neighborhood Markets and Sam's Clubs, he will open 45 to 55 discount stores plus 120 to 130 «Suburbia» apparel stores and 2 restaurants and supermarkets in Mexico.

Apparel expansion plans.

Apparel is a sector in which Wal-Mart will combine quality and fashion trend. «We can do both... We understand who our customers are and what they are looking for in apparel: it's value and we have to stay focused on that.» Recently the giant entered the fashion field with its George apparel line and rolled it out into all its flagship stores in September.

According to John Menzer, president and ceo of the international division, WM will concentrate on apparel outside the U.S. with a program of lifestyle brands and accelerated product development. «Demographics and statistics just aren't enough» he said, «You have to understand lifestyles and segmentation. As we look at lifestyle segmentation we look at what people look like and how their lifestyles influence what they purchase.» He identifies 3 customer styles: the traditional perceived as elegant, the neo-traditional and the contemporary.

International product development will be accelerated through identification of key trends, thanks to partnerships with designers and manufacturers. The goal will be to enable six-to-eight weeks lead time. «Being the biggest is no longer the key, Menzer said, with trend and demand shifting so quickly, the retailer must also be fast.»

In short, WM will open 4.8 million sq.m of commercial area during the fiscal 2003/2004, growing by 8% from 4.6 million (up 9%) in 2002/2003.

Wal-Mart is testing a new service concept.

This new service, called Wal-Mart Personal Business Center, is a bank, a post office and an office located in a superstore (20,000 sq.m) in Tampa (Florida). In the test concept, which opened in September, the focus is on service rather than on product: national and international money transfer, payroll check cashing, express credit approval for small businesses looking for a credit account… there are also an ATM and a special kiosque to order checks by phone…

WM announced lower than expected same-store sales in October.■

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SPECIALTY DISCOUNT IN THE U.S. IN 2001

The top 5 full-line discout store chains.

	sales (mil US$)		% growth	store number	
	2001	**2000**		**1/1/2001**	**1/1/2002**
Wal-Mart	63,100	59,900	5.34	1,736	1,647
Kmart	31,054	31,828	(2.43)	1,987	1,719
Target	29,364	27,658	6.17	947	1,056
Ames	3,254	3,954	(17.70)	452	320
Shopko	2,539	2,539	(6.34)	164	141

Sources: company reports and DSN Research (loss)

The top Three are still the leaders. Kmart continued converting its traditional discount department stores into supercenters in 2001 but at the end of the fiscal year filed for protection under Chapter XI. Its restructuring program caused the closure of 283 units. Wal-Mart revealed sales growth in its discount department stores. Target strove to improve its merchandise mix.

The top 5 supercenter chains by sales.

	sales (mil US$)		% growth	store number	
	2001	**2000**		**1/1/2001**	**1/1/2002**
Wal-Mart	76,000	61,900	22.78	888	1,065
Meijer	11,923	11,000	8.39	143	155
Super K Mart	5,097	5,200	(1.98)	118	124
Fred Meyer	4,950	4,220	17.30	133	134
SuperTarget	3,224	1,620	99.01	30	62

Sources: company reports and DSN Research (loss)

Supercenters remain the growth vehicle of the U.S. retail trade. Convenience, everything under the same roof and low prices attract shoppers. Wal-Mart is the leader. Target, Meijer, Fred Meyer and Kmart struggled to increase sales. Target continued expanding the supercenter concept to double the number to 62 by the end of its fiscal year. Meijer seems to be slowing down expansion with 10 new units only in 2002 compared to 12 in 2001. Kmart had planned to open 3 in 2002; 12 will be closed.

The top 4 warehouse-club chains according to sales.

	sales (mil US$)		% growth	store number	
	2001	**2000**		**1/1/2001**	**1/1/2002**
Costco	34,797	32,164	8.19	237	264
Sam's	29,395	26,798	9.69	475	500
BJ'S	5,280	4,932	7.05	118	130
Smart & Final	1,947	1,864	4.44	214	224
Total	**71,419**	**65,758**	**8.61**	**1,044**	**1,118**

Sources: company reports and DSN Research

Costco maintained its impressive sales growth by unit. Sam's opened its 500th unit in 2001 and BJ's launched a pharmacy.

The top 11 hardlines chains : sport, auto accessories, consumer electronics and bookstores.

	sales (mil US$)		% growth	store number	
	2001	2000		1/1/2001	1/1/2002
. Best Buy	19,597	15,327	27.86	1,750	1,910
. Circuit City	9,590	10,458	(8.30)	594	624
. CompUSA	5,067	4,152	22.04	224	225
. Radio Shack	4,776	4,795	(0.40)	5,109	5,127
. The Good Guys	820	874	(6.18)	79	79
. Barnes & Noble	3,360	2,170	5.99	569	591
. Borders Books & Music	2,234	2,108	5.98	336	385
. The Sports Authority	1,416	1,486	(4.72)	198	198
. Dick's Sporting Goods	1,100	893	23.18	105	126
. AutoZone	4,818	4,483	7.48	2,915	3,019
. Advance Auto Parts	2,518	2,288	10.05	1,729	2,484

Sources : company reports and DSN Research

Consumer electronics was a high performer in 2001. In spite of the economic slowdown, American consumers have displayed an insatiable appetite for technology in specialty stores as well as in discount department stores. Best Buy is the leader of the category in sales and profits. Circuit City continued its refurbishment program and Radio Shack focused again on its core activity, batteries and accessories. A high-end retailer, The Good Guys, was less fortunate in 2001 as sales decreased.

Bookstores such as Barnes & Noble or Borders have led aggressive advertising campaigns offering deep rebates to stimulate sales. Borders has been able to improve its profits through an agreement with Amazon.com.

Sporting goods retailers enjoyed a good year in spite of difficult economic conditions. The Sports Authority remained at the top of the category even though total sales decreased 5%. Dick's continued expanding and reached the billion mark. Number of stores grew by 20%, as the company entered new markets and opened a 8,000 sq.m prototype on 2 levels in a shopping centre.

The top 6 Internet retail chains.

	sales (mil US$)		% growth	store number	
	2001	2000		1/1/2001	1/1/2002
QVC Network	3,917	3,536	10.77	722	619
Amazon.com	3,122	2,762	13.03	(412)	(864)
Home Shopping Network	1,660	1,530	8.50	411	264
Buy.com	475	788	(39.72)	(88)	(123)
Lands'End	408	397	2.77	Inc.	Inc.
Bluefly.com	23	18	27.78	(12)	(21)

Sources : company reports and DSN Research *(decline)*

The top 5 home center chains.

	2001 sales (mil US$)	% growth	operating profit (% of sales)	operating profit (% of total assets)
Home Depot	53,553	17.1	9.2	18.7
Lowe's	22,111	17.7	10.5	16.9
BMC West	1,092	7.8	3.8	8.6
Wickes Lumber	1,000	-2.6	1.7	5.7
Wolohan Lumber	239,773	-23.8	3.2	9.0
Total	**77,997**	**11,6**	**9.4**	**17.8**

Sources : company reports, DSN and Chain Store Age Research

The discount store category grew by 7.4% to US$ 555.3 billion sales in 2001. Its main forms are the following:

(mil US$)	2001	2000	% growth
Discount dept.stores	134,352	130,900	2.64
Supercenters	102,515	85,272	20.22
Membership warehouse clubs	71,419	65,758	8.61
Mass merchandisers (Sears, Penney…)	54,090	54,184	(0.17)
Consumer electronics	43,287	38,734	11.75
Off-price apparel chains	30,928	28,990	6.69
Office supply chains	17,252	18,507	(6.78)
Auto accessories	12,775	12,308	3.79
Dollar stores	11,916	10,229	16.49

Source: company reports and DSN Retailing Today Research

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RUSSIA:

Developers target the new Muscovite middle-class.

Thanks to growing revenues, a real explosion took place in Moscow and began transforming it into a city which consumes western culture. 10% of the population and more than 30% of the retail activities are concentrated in the capital and 15% of GNP is generated there.

Appearance of a new middle class.

The purchasing power of the Moscow's inhabitants is much higher than in other Eastern capitals thanks to a new middle-class eager to spend resulting in a commercial boom that is , however, limited to the Moscow region.

During the first decade that followed the collapse of communism, a small group of privileged people having accumulated great wealth appeared. In the past two years, however, thanks to the economic recovery, more Muscovites have become wealthy. Henceforth, they want more service for their money, according to Nikoil Investment Banking.

Retail trade explosion.

Retailing, the main economic vehicle in Moscow, generates 38% of the capital revenues. For the time being, its development is still modest but very rapid. Since 1998, US$ 200 million have been invested in commercial activities. At the end of 2002, another US$ 250 million will be added. Between January 1st and December 31st 2002, business activity will have tripled.

Suburban shopping centers are developing and their rents are particularly high: from US$ 1,000 to 3,000 per square meter. A lot of big-box food stores are opening every week. Coffee houses appear here and there. However, department stores are lacking in the capital: existing units are obsolete and their renovation is too expensive. This is the reason why all new units are located in entirely new buildings.

A few examples of new shopping centers.

- **Atrium** is almost the first western-style shopping center, the most American and the most middle-class. Built by Altoon & Partners from Los Angeles, it opened in May 2002 in the Moscow suburbs in a 100,000 sq.m space. It includes a «7th Continent» cash & carry (4,500 sq.m selling area), open 24 hours, an electrical Partia store and a household Domino store (2,200 sq.m). There is also a shopping gallery with 90 shops including Reebok, Adidas, Puma, Mango...

A 700-space underground parking garage has also been built. In the leisure section, there is a 9-screen multiplex cinema.

In 2003 a children's leisure park will be added with clowns, actors and video games. The Moscow municipality holds a 40% stake in this complex that sees as many as 35,000 to 40,000 shoppers each weekend.

- **Crocus City**, in the suburbs of the capital, is a very large shopping and exhibition center in a 300,000 sq.m space with an investment of US$ 120 million. The first phase, including the shopping center itself, was opened in September 2001 in 45,000 sq.m. There is also a DIY and big-box furniture store « Your Home ».

The second phase, about to open in the 4th quarter of this year, includes an exclusive shopping gallery (61,000 sq.m) with 180 shops that cater to affluent customers.

The third phase, that is planned to be opened next fall 2003, will house an exhibition center and an international class hotel. It will also include a wine cellar for private consumers as well as for neighboring restaurants. A leisure area will be added in a 15,000 sq.m space.

The first store of the **IKEA** Swedish firm in 2000 was a sign of something new. 40,000 Muscovites rushed in on opening day, making it the number one unit in the worldwide chain. Soon after the first unit, a second one was opened last winter and « Mega Malls » have been announced. The first of this new generation of shopping centers built by IKEA will be opened on December 12th (cf.LLDI October 2002) in a 150,000 sq.m space in Kommunarka. It will include a hypermarket of the French Auchan chain (31,000 sq.m), an IKEA (31,000 sq.m), a consumer electronics Technosila store (5,000 sq.m) and a DIY unit (16,000 sq.m). These « Mega » are built as theme centers : fashion, home, family… A sales volume of US$ 675 million is expected.

Auchan opened its first hypermarket on August 28th in a 16,000 sq.m space in the northern suburbs of Mytishi. It is located in a shopping gallery that includes approximately sixty stores and 13 restaurants and cafés and 2,700 parking spaces. This hypermarket, plus the Kommunarka unit, will be followed by two more in 2003 including one in the first quarter in Marfino.

Other projects.

Spar from Germany entered the capital for the first time this year and has already opened 2 cash & carry units and plans 4 more by 2005.

The Turkish **Ramenka** chain has been present on this market since 1997 and currently owns 10 Ramstore supermarkets and 4 shopping centers in Moscow. This coming December, it will open a « Ramstore City » shopping center of 70,000 sq.m and the first Imax movie theater of the country.

The government is striving to accelerate this retail development. The mayor, Youri Luzhkov, has reserved 20 pieces of land along the outer ring road for future shopping centers and is working to reduce the number of unregulated open-air markets. Hence the growing extinction of the kiosques and small pavilions located next to the underground.

According to analysts, 400,000 sq.m of new commercial space will be added in 2002, bringing the total count to approximately 900,000 sq.m in the Russian capital. According to Renaissance Capital, 435,000 other sq.m will be added.

In total, at the beginning 2002 there were 40 sq.m of retail space per person. This will grow to 130 sq.m by 2003 still far from Berlin (210 sq.m), London (280) and Paris (400). Moscow is the third most expensive European city for rents. *Sources : The Washington Post, The International Herald Tribune, Stores & Shops*