

# LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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## INTERNATIONAL

✓ **SPAR INTERNATIONAL** operates 15,829 stores that generate more than € 25.7 billion sales in 27 countries.

Countries	Sales (000 €)	Store Nbr
Germany	5,317,436	3,031
Austria	3,635,677	1,499
U.K	3,122,031	2,538
Italy	2,493,185	1,664
Japan	2,181,952	1,347
South Africa	1,317,385	726
Norway	1,224,273	327
Finland	910,065	328
Spain	852,375	1,388
Denmark	644,615	419
Ireland	580,270	362
Belgium	544,825	423
France	512,557	622
<b>Total 27 countries</b>	<b>25,724,788</b>	<b>15,829</b>
<b>including :</b>		
<b>Total top 13 countries</b>	<b>23,336,646</b>	<b>14,674</b>
<b>Ukraine</b>	1 <sup>st</sup> unit in Kiev in May 2002	
<b>Cyprus</b>	1 <sup>st</sup> unit in 2002	

Source : *Distribution d'Aujourd'hui*

The first Russian Eurospar was opened in 1,800 sq.m of space in Moscow in 2002. It is the first unit of a chain that will include about 30 by the end of 2005. SPAR Moscow also plans to open franchised stores in Russia.

The first SPAR unit in Ukraine was opened in May 2002 in Kiev and the first Interspar in Croatia will be opened in 2003. SPAR activities will resume in Lithuania on a new agreement basis, different from the agreement signed with Baltic Foods which is now in financial difficulties.

**SPAR** convenience stores and supermarkets account for 93% of the total store number and 77% of the yearly sales. There are 3,500 supermarkets (36% of these sales) of 400 to 1,000 sq.m in

operation. **Eurospar** is a large supermarket format and **Interspar** a hypermarket.

## EASTERN & CENTRAL EUROPE

✓ **METRO, a major player in the East.**

Metro's presence in Central and Eastern Europe, which accounted for 11% of US\$ 50 billion sales in 2001, will boost its expansion once the last trade barriers between East and West and the risks tied to the currency fluctuations have been eliminated when new members adopt the euro in 2006.

Metro's cash and carry formats, accounting for more than half of its profits in 2001 (US\$ 449 million), are a good formula for emerging markets. Customers are limited to small and medium businesses (restaurants, hotels) that are developing in Eastern Europe. Although customers must prove that they manage businesses to obtain a Metro card, cardholders also buy personal products and bring their friends there to shop. Most items, such as milk or televisions, are sold only in bulk.

To reduce costs, Metro has no-frills product displays and builds its stores on cheap land, generally on the outskirts of towns. All efforts are made to keep prices 10 to 15% below those of typical department stores or supermarkets. Because of its size, Metro can negotiate with producers and suppliers to obtain favorable terms and can be supplied locally in order to reduce costs and meet local consumer needs.

In Poland, competition is gaining strength. Metro's Real hypermarkets are competing with the French Carrefour and the British Tesco. In fact, in Poland 141 hypermarkets and 400 supermarkets are

operated by foreign chains, compared to 50 in 1995 according to the local Polish Market Review consulting firm.

**Metro sales in Central Europe in 2001 : 11% of global sales.**

	(millions US\$)
Poland	2,732
Hungary	1,011
Czech Republic	835
Romania	524
Bulgaria	258
<b>total</b>	<b>5,531</b>

\*incl.Slovakia and Croatia  
sources : Metro/Business Week

✓**TK Development, a Danish developer, has sold 80% of 4 shopping centers located in the Czech Republic to GE Capital** : they are Futurum Hradec Kralové (25,000 sq.m), opened in November 2000, Futurum Ostrava (33,000 sq.m) in May 2000, Futurum Brno (35,000 m2) in October 2001 and Hana (16,000 sq.m) in September 2002.

GE Capital is expanding in Central Europe (see article Foncière Euris and Apsys below).

TK has entered the Baltic States through an agreement with Denmark's Investment Fund for Central and Eastern Europe and ICA/Ahold in order to jointly build shopping centers managed by ICA.

## POLAND

✓**Galeria Mokotow in south Warsaw** : Rodamco Europe has taken a 50% stake in one of the country's largest regional shopping centers for € 85 million.

This stake is based on an asset valuation of approximately € 170 million, a net initial yield above 10%.

Phase I of 48,000 sq.m GLA was opened in September 2000 and phase II of 11,000 sq.m in October 2002 :

- 240 shops and services on 3 levels including international retailers such as Ahold, Peek & Cloppenburg, Marks & Spencer, Giacomelli, Mango and Polish retailers: Galeria Centrum, Royal Collection, Smyk and Euro RTV AGD,
- developer : Globe Trade Centre from Israel, backed by the Deutsche Bank,
- parking for 2,100 cars

Rodamco is also owner of a 50% stake in the Zlote Tarasy center, located in Warsaw, bought for € 150-175 million in 2001 and to be completed by 2005.

✓**Foncière Euris, Casino and Apsys signed an agreement to sell 12 shopping galleries in Poland, located in Warsaw and Wroclaw.**

Two investors, GE Capital Real Estate, the property arm of General Electric, and HCEPP, the investment fund of the international Heitman Group, acquired them.

Apsys renewed the leasing management agreement of all the shopping centers sold, for a period of 5 years. Beyond its flagship Manufakura format, which includes retail, leisure and culture in a 150,000 sq.m space in Central Europe, Apsys continues to expand in Poland, where it is building 4 projects in Zabrze, Poznan, Gdynia and Lodz.

## RUSSIA

✓**PARC POBEDY is a shopping center project in the St Petersburg's suburbs of Moskovsky:**

- 75,000 sq.m GLA,
- a 14,000 sq.m shopping gallery with 120 shops and 2 middle-sized stores,
- 3 main anchors: a hypermarket (18,000 sq.m), a home-furnishing big-box store (30,000 sq.m) and a DIY (11,000 sq.m),
- leisure and restaurants : a fast food court (610 sq.m) and cinemas (4,000 sq.m),
- developer : Vinci Construction,
- market studies : Chabot & Associates,
- design : Design Architectural,
- trading area : 2,650,000 inhabitants including 650,000 in the primary area, mainly middle-class households,
- 4,090 parking lots.

Construction will begin fall 2003 to be completed by 2004.

## UKRAINE

✓**UnivermagUkraina in downtown Kiev : this shopping center (25,000 sq.m, 4 levels) is now undergoing a US\$ 20 million renovation.**

Originally, Univermag was a state-owned department store, opened in 1966, in Victory Square, in the heart of the Ukraine capital, next to the main train station and within an easy walk of the local bus, tram and metro system.

The renovation includes upgrading the complex to meet western standards, modernizing all the trading areas and escalators, improving the interior lighting... A five-story parking complex

housing 700 cars is being built. The redevelopment is due for completion by mid-2003.

Old Mutual Properties from South Africa will provide leasing, marketing and management for two years. 7% of the capital of the complex belongs to private investors and 93% to NHC Capital from New York targeting the emerging markets of the former Soviet Union and Eastern Europe. Old Mutual Properties has direct investments in more than 100 companies in Russia, Latvia, Bulgaria, Estonia, Kazakhstan, Ukraine, Lithuania, Romania and Moldova.

## WESTERN EUROPE

### BELGIUM

#### ✓ **DELHAIZE LE LION : 3rd quarter 2002 results.**

Organic growth of group sales was positive 2.0%. However, total sales fell by 7.5% to € 5.0 billion compared to 2001, due to the weakening of the US dollar, weak sales at two of its U.S. companies and the closing of Super Discount markets in the fourth quarter of 2001. In the third quarter, EBITDA amounted to € 344.7 million (or 6.8% of sales) but declined 16.8%. Earnings grew to € 23.8 million during the first nine months of 2002; this figure is more than the double of last year (€ 118.6 million); before goodwill it fell to € 57.9 million, a negative impact on the free cash flow (US\$ 21.2 million).

During this third quarter,  
 - **in the U.S.A.**, Delhaize America same-store sales fell by 2.0% to US\$ 3.8 billion (€ 3.9 billion),  
 - **in Europe**, Delhaize Belgium sales increased by 8.5% to € 857.6 million; in Central and Eastern Europe the group's sales increased by 9.1% to € 280.6 million,  
 - **in Asia**, the group sales grew by 18.0% to € 53.6 million.

The Belgian retailer will open a first supermarket in Germany in 2003 (Aachen) near the Belgium border. It will also open a convenience store by fall 2003.

### FRANCE

#### ✓ **« Les boutiques Gare du Nord » were opened in Paris on November 19th.2002 in the Gare du Nord:**

They include :

- 33 shops including Naf Naf, Yves Rocher : 35% food, 26% family ready-to-wear, 18% HBA, 17% leisure and 4% services,
- 3,500 sq.m selling area,
- open 7 days a week,
- A2C, a wholly-owned subsidiary of SNCF (French railway) was in charge of the operation management,
- investment : € 17.5 million financed by A2C, Altarea and the French Railway network,
- developer : Altarea that built and leased 30 shopping centres totaling 750,000 sq.m since 1994,
- architects : Design Architectural,
- customers : 152.2 million travelers per year, arriving 40-45 minutes before train departure, pass through the largest railway station in Europe.

It is the first partnership experience between the French railway network and a private developer. The development will be followed by similar ventures in other Parisian railway stations such as Austerlitz, St Lazare that will be expanded to 10,000 sq.m, East (10,000 sq.m) and Lyon (15,000 sq.m), opened in 2008, in cooperation with Ségécé.

#### ✓ **Auchan and Casino have jointly created IRTS, an international services company.**

International Retail and Trade Services (IRTS) has been created for large multinational suppliers and small-and-medium businesses trying to develop outside France. This company, based in Geneva and equally owned by both partners, will:

- both organize services to answer the 120 large multinationals of French retailers that represent a € 15 billion commercial volume and want to promote and develop their brands in foreign countries, and speed up the simultaneous introduction of new products in several countries or establish international promotion operations,
- advise or help small-and-medium-sized businesses that want to develop outside France by making their contacts with the national central buying groups easier and facilitate their development in local markets.

Both partners, present in 26 different markets (17 for Casino and 14 for Auchan) insisted that their agreement is not an international buying group and

IRTS is not a substitute for national central groups that remain independent. As a result of this agreement, Auchan and Casino, respectively ranked 19th and 22nd in the world's largest retailers classification, will improve their ability to compete.

IRTS' creation has been indicated to the Brussels authorities.

## GERMANY

### ✓KARSTADT QUELLE has revised its provisions for 2002.

The German department store and Mail Order group, that generates 89% of its sales in Germany, said sales will decline by 3% in 2002 compared to 2001 and revised downwards its profit before tax and amortization to € 250 million from € 382 million in 2001 on € 11 billion sales.

The group that reports growing mail order activity suffers from the declining sales of the department stores, exceptional charges tied to its restructuring, and difficulties in its Thomas Cook tourism subsidiary... It is present in 4 sectors: retail trade, mail order, services and real estate and is trying to sign new agreements, strengthen its expansion into services, and open stores to partners.

## ITALY

### ✓FNAC is expanding in Italy: it opened a new store in Verona on November 25th 2002, its fourth unit in this country.

Fnac entered Italy in October 2000 following a joint-venture agreement created in 1999 with the Italian Coin group, which owns 19% of the capital. It will open a fifth unit in Naples in March 2003 and is interested in metro areas such as Rome, Bologna and Florence and in a new site in Milan. It expects € 48 million sales in 2002 and € 85 million in 2003.

Fnac is a branch of the Pinault-Printemps-Redoute group that operates 32 units outside France including 6 in Belgium, 8 in Spain, 6 in Portugal, 3 in Brazil, 4 in Italy, 3 in Switzerland and 2 in Taiwan totaling 66,000 sq.m of commercial area and accounting for about 20% of its total sales in 2001 (€ 700 million).

## NETHERLANDS

### ✓AHOLD cuts earnings forecast.

Ahold, the world's third grocer after the French Carrefour and Wal-Mart, reported net earnings falling by 15% in the third quarter, ended October 6th, to € 257.6 million from € 304.2 million in 2001. However, its operating earnings grew by 13.3% to € 756.2 million on sales up by 5.8% to € 16.4 billion mainly thanks to the contribution of US activities.

Profit per share, excluding goodwill amortization, exceptional items and currency impact, was revised downwards and should decline by 6%-8% in 2002 compared to a 15.3% rise initially expected, then revised downwards to 5-8% in July. This decline is due to a net earnings decline by 58.9% to € 388.1 million in the first nine months of the year.

For the year 2003, Ahold's forecast is the following : sales growth by 4-5% excluding acquisitions and earnings growth excluding currency impact.

According to Cees van der Hoeven, ceo, « Ahold will focus on its core businesses and strengthen positions in leading markets. All non-core businesses will be divested, either in whole or in part. Consistently under-performing core businesses will be rigorously scrutinized with a view to significantly improve performance or consider divestment. » Stores in Paraguay and Chile will be either closed or sold; this could also happen in Asia; subsidiaries in the Czech Republic and Poland are losing money... in the U.S, foodservice growth declined in the first nine months and Bi-Lo and Bruno's stores could be closed also...

**Ahold and Aegon to agree on a joint venture.** Ahold's Scandinavian joint venture, ICA Ahold and Aegon The Netherlands, expect to conclude negotiations on a 50/50 joint venture in the ICA Ahold subsidiary ICA Banken, for the provision of financial services through ICA Ahold's retail network outlets in Sweden.

ICA Ahold intends to sell a 50% stake in ICA Banken to Aegon. Ica Banken is a subsidiary of ICA Ahold launched in 2001 that offers financial services to ICA Ahold customers in Sweden.

Aegon is one of the world's largest life-insurance groups. The agreement is

subject to the regulatory approvals of the relevant authorities.

## PORTUGAL

✓ **Parque Nascente in Greater Oporto is a shopping center to be completed by September 2003. It is the country's fifth largest scheme in Portugal.**

- 56,600 sq.m GLA on 3 levels,
- main anchors : two brands of the French Auchan group: a Jumbo hypermarket (9,000 sq.m) and a Leroy-Merlin DIY big-box store (8,600 sq.m), the first store under this brand in the country,
- 140 stores including Zara, Pull & Bear, C&A, Benetton..., a dozen anchors including Norauto (1,200 sq.m), 3 middle-sized stores...
- 3,900 sq.m restaurants : Pizza Hut, KFC, McDonald's,
- a complex of 14 cinemas (6,500 sq.m),
- visitor forecast number : 12 to 14 million per year,
- investment : € 120 million,
- 3,600 parking spaces,
- developers : Auchan and Eiffage Immobilier,
- Greater Oporto population : 1.3 million inhabitants.

Auchan operates 11 Jumbo hypermarkets and 2 Pao de Açucar supermarkets in Portugal.

## SPAIN

✓ **CARREFOUR: at the end of November the Spanish stock market authorities approved the exchange offer of the Carrefour group on the shares of its subsidiary Centros Comerciales Carrefour, officially released on September 18th 2002.**

This offer includes 20.3% of the equity of Centros Comerciales Carrefour that it controls directly or indirectly at 79.7% or 68.5 million shares held by minority shareholders. The proposed exchange parity is three Carrefour shares for ten Centros Comerciales Carrefour.

The operation should be completed by December 27th 2002.

✓ **Madrid Xanadu Snow Park is a shopping and leisure center to open Spring 2003 about 20 kilometers south of the capital.**

The first phase of 134,000 sq.m GLA will include :

- anchors : a department store and a Hipercor hypermarket of El Corte Ingles,
- 220 stores including Zara, Bershka, Stradivarius, Benetton, H&M, C&A...
- leisure activities including a cinema and the Snow Dome, the largest indoor ski facility in Europe, a ski rental shop and a ski school for all levels,
- project cost : € 400 million,
- this center should attract 30 million visitors per year and consumers in a 80-kilometre radius.

The second phase will include a hotel and a leisure centre in a 184,000 sq.m GLA space.

Madrid Xanadu is a joint-venture between Parcelatoria Gonzalo Chacon (PGC) and the American developer The Mills Corp.

Source : *Europroperty*

✓ **In Ortuella, in the outskirts of Bilbao, one of the largest suburban complexes in the country, is to be built.**

The project includes a shopping centre, retail park, factory outlet, hypermarket and leisure areas (cafés, restaurants and cinemas) in a 170,000 sq.m space representing a € 270 million investment. Ikea and Decathlon should be among the retailers to rent space there.

The developer is Assetalia, a real estate firm created by Paul Whight, Pradera's chairman who holds 75% of the capital in partnership with a Spanish group, to build suburban centers in Spain.

Pradera, which is 50% owned by Henderson Global Investors, is an investment fund specializing in suburban retail warehouses in eurozone.

## UNITED KINGDOM

✓ **Sainsbury : better figures have been released for the fourth consecutive half.**

In the first half 2002, the second largest British grocer improved its figures as profit before tax grew by 10% to € 557 million and net profit to € 203 million on € 9.74 billion sales including tax increasing by 2.8%. During the period, the company invested € 837 million and € 1.9 billion should be expected in the whole year.

→→→

✓ **SAFeway : sales decline in the second and third quarters.**

During the semester ended October 12th, profit before tax and exceptional items of the 4<sup>th</sup> largest British grocer grew by 4% to € 296.82 million (£ 188 million) vs. 286.39 million (£ 181 million) in 2001. Same-store sales increased also by 1.9% and gross margin by 0.4%. However, Safeway reported a sales decline by 1.1% in the second quarter and the same is expected in the third quarter.

In order to stop the downward trend, Safeway initiated high price discounts on 5,000 items.

✓ **GREAT UNIVERSAL STORES has bought Homebase for € 1.4 billion.**

GUS has bought Homebase, the second largest British DIY chain (€ 2.28 billion sales, € 139.90 million operating profit), operating 273 stores with 12% share of the market.

Since 70% of its capital has been bought for € 1.1 billion by the investment fund Permira in 2000 from Sainsbury, Homebase registered same-store sales growth of 16% and tripling of operating profit.

GUS (€ 10.58 billion sales) is the owner of Burberry, Experian (services) and Argos Retail group (catalog showrooms). This group has registered a profit before tax and exceptional items of € 402.28 million in the first half of 2002/2003, ended September, growing by 19.9% on € 4.95 billion sales increasing by 6%.

✓ **Burberry : the luxury brand recently released good figures in the first half.**

Sales grew by 15% to € 430 million and same-store profit by 32%. Profit before interest, tax and amortization amounted to € 89.74 million and gross margin increased to 55% (cf.LLDI November 2002) in the same period.

The British apparel retailer opened 2 stores recently, one in New York and a second one in London (Knightsbridge), bringing the total count to 55 units in operation.

✓ **Will Kingfisher list Kesa on the stock market or sell it ?**

Kingfisher announced that Ian Cheshire, Group's International General

Manager, was appointed Chairman of Castorama, France. In the U.K, Gerry Murphy succeeds Geoffrey Mulcahy, group chief executive, who left the company recently.

The group is thinking about listing Kesa during the first half of 2003, but is also considering selling this consumer electronics activity by branch in order to focus on DIY.

Kesa includes But, Darty (in France), Comet (U.K), and Promarkt (Germany).

More precisely, But might be sold, the under-performing German arm Promarkt closed, Comet bought by LBO and Darty sold to the British Dixons or bought by LBO.

Kesa generates € 5.95 billion sales (£ 3.785 billion), broken down as follows :  
Darty : € 2.029 billion (£ 1.291 billion),  
Comet : € 1.970 billion (£ 1.253 billion),  
ProMarkt : € 982 million (£ 625 million),  
But : € 643 million (£ 409 million) and  
various : € 325 million (£ 207 million).

Moreover the group is selling for € 786 million (£ 500 million) real estate assets via Chartwell Land, totally 15 shopping complexes plus 5 other sites. Kingfisher will retain € 3.14 billion (£ 2 billion) in assets, including three-quarters that belong to Castorama.

## NORTH AMERICA UNITED STATES

✓ **e-commerce : sales jumped in percentage of total retail sales in two years.**

	Total retail sales including e-com.	
1st Q 2000	US\$ 711.60 bil.	US\$ 5.81 bil. : 0.8% of total
1st Q 2002	US\$ 743.81	US\$ 9.88 bil. : 1.3%
2 <sup>nd</sup> Q 2000	US\$ 771.69	US\$ 6.34 bil. : 0.8%
2 <sup>nd</sup> Q 2002	US\$ 825.53	US\$ 10.24 bil.:1.2%

Source : US Census Bureau

✓ **Profile of the American baby boomer generation.**

Baby boomers comprise the largest generation controlling half of the American consumer budget. Some belong to affluent households without children; others help their children or their aging parents. They are expected to spend a growing part of their revenues in personal care, travel and leisure.

According to the American Demographics magazine, the main issues are the following :

**1) « Baby boomers » are big spenders.**

Almost one in five, or 19% of the group, have annual incomes below US\$ 25,000 but 17% have incomes of US\$ 100,000 or more. According to statistics, they have US\$ 2.2 trillion to spend annually : half by 34-44 year olds and the remaining by 45-54 year olds. According to the Federal Reserve Bank of Cleveland, 80% of Baby Boomers will receive inheritances of US\$ 125,000, while a much more limited sector, those whose net worth classify them among the top 5% of the American households, will inherit around US\$ 1 million.

Past trends regarding incomes and spending observed among the 50-64 year old boomers will be useful to forecast their attitude as they enter the category. Today, 45-54 year olds account for a growing share of the consolidated spending in apparel, food, travel and leisure activities.

**2) « Baby boomers » are getting old and retiring.**

In reality, they are likely to postpone retirement because they have good jobs, they need income and there is a growing demand for part-timers, 55 year-olds and older. According to the Bureau of Labor Statistics, in 2010, 33% of the American population will be 55-64 year old. Moreover, they are more active than ten years ago and hope to keep their physical strength.

**3) « Baby boomers » are monolithic.**

They account for a fragmented share : among three groups of boomers, two-thirds of the 35-44 year olds still have children at home as well as 56% of the 45-49 year olds compared to only 12% of the 50-54.

Over the next twelve years, their spending habits will change totally. With less to spend for their children and households, they will invest more in secondary homes, health care, leisure, travel and so on... Apparel should be the strongest category.



**4) « Baby boomers » are white.**

Nine million boomers, or 24% of the 78 million-member generation, are non- white. Until 2007, the white percentage of baby boomers should grow at least by 2% while Asian-Americans will grow by 27%, Hispanics by 12% and African-Americans by 4%.

Afro-Americans, that saw their education level and incomes strongly grow since 1990, account for 12% of the boomers, Hispanics for 10% and Asian Americans 4%.

**5) « Baby boomers » reflect the sixties and seventies.**

This generation is twice as conservative as it was twenty years ago. Its members are more religious and they believe in the traditional division of labor between men and women... All are not former hippies and they show the desire to look young.

*Source : Valerie Seckler for Women's Wear Daily*

**✓WAL-MART : in the third quarter sales grew by 11.5% to US\$ 58.8 billion from US\$ 52.74 billion one year earlier. Same-stores sales swelled by 3.5%. Net profit amounted to US\$ 1.8 billion (up 23%).**

Profits of the 1,567 self-service discount department stores and 1,243 supercenters grew by 15.5% to US\$ 2.68 billion and sales by 11.8% to US\$ 37.57 billion compared to US\$ 33.6 billion one year earlier. Sam's clubs profits declined 2.4% to US\$ 240 million and sales increased 6.1% to US\$ 7.74 billion and same-store sales 0.4%. Wal-Mart's international division generated US\$ 9.9 billion sales growing by 14.4% and US\$ 314 million operating profits. In November, Wal-Mart anticipates a 2% increase of its sales.

**Wal-Mart is exploring several concepts** such as a dollar store concept « Hey Buck ! » and a new convenience store format. In fact, WM does not announce anything before having tested it. It is exploring approximately 10 store formats and more than twenty categories trying to beat the category killers on their turf: in fact, it sells more DVDs than Blockbuster and more toys than Toys R Us... Its international division is testing a new shoe department and home deliveries of online orders; in Mexico, it is opening

restaurants and department stores including some as small as 1,000 sq.m. In the beginning of summer 2002, it also tested the idea of selling used cars in parking lots of land adjacent to five of its Houston stores.

A new idea is targeting more affluent households, those with US\$ 75,000 incomes with a department store format, compared to US\$ 25,000 to 50,000 who account for its customer base today. This can be seen through the introduction of gourmet food in its supercenters, production of its own brand wine, expansion of its home furnishing department, and sale of 18-karat gold jewelry, expensive consumer electronic items and televisions...

A new branch has been created to sell land adjacent to its supercenters and Sam's. The concept might be extended to residential property transactions. WM has also acquired several small regional banks.... !!

✓ **Ahold : a deal has been closed to acquire Allen Foods through its American subsidiary, U.S.Foodservice.**

Allen is a foodservice distributor (4,500 customers, 11,000 items) that services the markets of Kansas and south Illinois, with net sales amounting to US\$ 245 million. The transaction does not include Halben Food Manufacturing whose Allen shareholders retain the ownership.

Thanks to this operation, Allen and U.S.Foodservice will strengthen their business to better service their customers.

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

✓ **GAP : the apparel retailer reported its first same-store sales growth in October for two-and-a-half years.**

In October, group sales grew by 11% mainly driven by Old Navy (up 24%): in the third quarter, ended November 2<sup>nd</sup>, its same-store sales increased by 6% compared to a 18% decline in the same period last year.

Globally, Gap same-store sales grew by 2% and total sales by 17%. Old

Navy and Gap opened online-shops in partnership with Amazon.com.

✓ **NIKE back on the way to recovery.**

In a difficult situation Nike is exploring multiple directions. A few years after the apparent decline of the brand as witnessed by disappointing results following product launches, today Nike seems showing a financial discipline for the first time which seems to prove that it is possible to expand in a sector other than shoes, a category which drives half of American sporting goods annual sales (US\$ 9.9 billion).

Even apparel, a rather under performing category, contributes greatly to this growth: shirts, shorts and other clothing generated US\$ 2.9 billion sales in the fiscal year ended May 31st, or 30% of the total, and for the first time significant profits have been reported. Soccer sales grew by 24% to US\$ 450 million in 2001 and Nike seems to be on the trail to becoming a strong brand in golf.

Nike showed, once again, two-digit earnings growth in 2002, while net income rose by 12% to US\$ 663.3 million. Thirteen percent growth is also expected in 2002/2003 on sales growing only by 5% according to Wells Fargo Securities.

After a difficult period in the middle of the nineties during which sales fell and profits, that had risen to US\$ 795 million in 1997, declined to US\$ 451 million in 1999. Apparently part of the problem was linked to the CEO, who had occupied the functions of chairman, CEO, and president. Nike's situation began improving when he passed part of his responsibilities over to company's veterans, two co-presidents. One, originally a shoe designer, brought innovations. The other used his sales experience to reduce a near one billion in inventory that threatened to implode the supply chain. He also installed new computer systems to better track merchandise.

Then, for the first time in ten years, gross margin exceeded 40% of sales in the last quarter. At the same time, Mindy Grossman, coming from Polo Ralph Lauren, transformed the apparel business and gave it more life, cutting long lead

times from 18 to 11 months and launching a line of active lifestyle fashion products.

In order to maintain its position ahead of solid competitors such as Adidas and New Balance Athletic Shoe that are gaining market share in America, Nike will have to capitalize on its new discipline and its brand strength. However, recent figures are not very good: sales in the quarter ended August 31st and orders of the next quarters fell by 3%. Its largest customer, Foot Locker, accounting for 11% of its sales, cancelled US\$ 250 million worth of orders and Nike will need time for its premium shoe line to grow again. Its greatest challenge consists in proving that it can be a force in lower-prices shoes.

Fortunately, Nike is less dependent on the American market. Its international sales grew increasingly to US\$ 4.4 billion, nearly equaling its US revenues of US\$ 4.7 billion. In the last quarter, sales grew by 15% in Europe and 24% in Asia.

**Currently Nike is targeting the 74 million active women who spend US\$ 17 billion in sports apparel per year.** However, female customers have not embraced the Niketown format, launched in 1992, and the 14 units do not account for more than 10% of sales in the U.S. NIKEGoodness was born in 2001 under two formulas: a free-standing store and an « in-store boutique » of 400 to 600 sq.m. Merchandise is presented in two ways : the « boutique » style store where a few articles only are displayed; and, the traditional section where merchandise is replaced by photos and graphics that are used as décor.

This format targets youth as well as 25-31 year-old active women, generally with a college background with incomes above US\$ 60,000. The target is to double women's product sales from US\$ 1.5 billion to 3 billion over 2005. These customers are essential for Nike because, according to MarketResearch, sales of sport shoes and apparel will amount to US\$ 39 billion by 2005. Moreover, as these customers buy for their friends, husbands and children as well as for themselves, they account for 81% of the total apparel sales.

## ASIA CHINA

✓ **Wal-Mart signed a joint-venture agreement with the Chinese Citic Group in order to expand in the eastern part of the country.**

Citic is the parent company of several companies listed in Hong Kong, Shenzhen...

Wal-Mart, which operates 22 stores on the continent, is not present in Shanghai where it plans to expand thanks to this joint-venture. As a result, it will meet competition from the French Carrefour, which has a strong presence in the city and suburbs.

In 2001, Wal-Mart bought directly more than US\$ 10 billion Chinese merchandise that was sold in its stores worldwide. In 2002, this amount should exceed US\$ 12 billion.

According to Chinese sources, **Carrefour** would become the first foreign retailer to acquire a national firm, Tianjin Quanyechang. In fact, the French retailer would have signed a letter of intention to create the Tianjin Quanye Carrefour Supermarket Co and 4 supermarkets affiliated to the group would be part of the transaction.

When China joined the World Trade Organization, the country had promised to open gradually to foreign competition. International retailers are required to partner with local companies and are not authorized to own more than 65% of the capital. They are also limited geographically and must obtain the approval of the central government to open new stores.

Today, international retailers operate almost a quarter of the food big box stores in China according to the State Economic and Trade Commission (SET) in China, which predicts their expansion to all regions over 12 to 14 months.

## JAPAN

✓ **Luxury business expands.**

Japan's economic situation is still lagging : unemployment has been at 5.4% for more than 4 months, the stock market at its lowest point in 19 years, and there are 20,000 bankruptcies per year.

However luxury is prosperous : luxury brands are taking advantage of real

estate price depression to invest for the future. Louis Vuitton, Gucci and Prada still report record sales thanks to women in their 20s and 30s, who are fashion conscious, seeking special and unique items, and eager to spend money.

In Ginza where rents are as high as US\$ 3,230 to 3,800 per sq.m, Chaumet, Lancel and Longchamp have opened boutiques this fall; Hermès opened a flagship last year and Bulgari renovated its existing store. Burberry is also present and Prada announced it will open soon a new store in a 1,000 sq.m space and 3 levels vacated by Sephora.

Other stores are opened in the districts of Harajuku, Omotesando and Aoyama. In the first half, Nina Ricci, Hugo Boss, Zara and Lacoste opened there. This rush has been facilitated by companies in financial difficulty seeking to sell their real estate assets in order to decrease their debts.

According to the Mitsubishi research institute, traditional luxury brands, whose main clients are older and richer, meet difficulties while the luxury brands like Vuitton and Christian Dior who offer more fashionable items, are gaining popularity among the younger generation.

Department stores (291 units) are having the most problems. Total sales fell 1.2% to US\$ 4.9 billion in September compared to 2001. It was the sixth consecutive decrease due to slow start in sales this fall and to less consumption by main companies, according to the Japan Department Stores Association. Apparel sales, that account for 41.4% of the total volume, declined by 1.7%.

Discounters are also affected by the situation. In September also, according to the Japan Chain Stores Association, at 6,231 chain stores, or 369 fewer units than last year in the same period, total sales fell 8.9% and same-store sales 1.3% following 9.4% in August. In September, sales in apparel stores fell 16.5% after 17.5% in August. At Uniqlo, they declined by 25%. Sales continued to decrease since March 1997, except in March 2002 when same-store sales increased 2.1%

After the 9/11 terror attacks, Japanese, who like traveling, with more than 10% of the population traveling per year, did not leave the country during their holidays and spent their money at home. Today, the situation has returned to pre 9/11 levels.

The strategy, which includes opening large free-standing units and offering exclusive products, helps brands maintain continuous growth. However, low prices are not always a successful tactic. For this reason a chain like Uniqlo is meeting difficulties. *Source : Women's Wear Daily*

#### ✓ **Costco, Metro, Carrefour : expansion projects in Japan.**

**Costco**, the largest American membership warehouse-club chain (400 units worldwide including 264 in the U.S.A, US\$ 34.797 billion sales) expects opening 70 units in Japan in 20 years. It entered the market in 1997 opening the first store in 1999.

**Carrefour**, which opened its first hypermarket in Japan in December 2000, inaugurated its 4th unit last October. In the beginning, it had planned to open 13 by 2003, revising downwards its target to 7 by end of 2003. Its stores offer more than 8,000 products and are supplied locally compared to 4,000 for Costco that imports 40% of its items.

**Metro has opened its first cash & carry near Tokyo in a 5,000 sq.m space on December 4th.** It expects 10 units in Japan, where it invests € 25 million. Plans are for € 50 million sales the first year and to be profitable by 2004. Metro signed a partnership agreement with the trading house, Marubeni that holds a 20% stake in the capital. Targeted customers are hotels and restaurants as well as small grocers. Ten thousand are already members of Metro and enjoy price breaks of 10-20%.

On December 7th, Metro opened its second store in Vietnam and its first 2 units in India in 2003.

#### ✓ **Takashimaya cancelled the opening of a new department store in Tokyo suburbs in a 35,000 sq.m space area by the end of March 2007.**

The department store company operates 18 stores in Japan, including 9 in the capital and its suburbs and 9 in the Kansai area, west. At the beginning of

September, it revised downward its outlook of sales and profits for the fiscal year ending February 2003. Takashimaya expects a net profit group share of ¥ 4.1 billion (€ 338 million) on ¥ 1.210 trillion

(€ 9.98 billion) sales because of flat sales and a lagging mail order activity.■



## **ASIA : habits are changing in food shopping.**

A new survey has been conducted on more than 75 million consumers by A.C. Nielsen in October 2001 in the key-cities of the following countries: Japan, Singapore, Korea, Malaysia, Thailand, Philippines and Indonesia among 6,000 households composed of 16-year-old adults and over.

### **The Asian consumer.**

The typical customer is generally a married woman between 25 and 44, with children. She is a little younger in developing countries of South-Eastern Asia while in Japan and Singapore almost 50% of main shoppers are over 45.

In Thailand and in Singapore, almost 60% of them balance their shopping with work.

In all these countries there is a significant minority of buyers who classify themselves as not « main buyers » but who regularly participate in household shopping and influence their decisions. They are particularly strong in Thailand and Singapore with 40% of the sample. These are men, younger than the main shoppers, but they are not necessarily the husbands.

These « influential persons » declare that the average frequency of their visits to big-box stores is comparable with those of the « main buyers ». Beyond husbands, other family members who visit supermarkets believe that they influence also their decisions. Consequently, for Asian retailers, it may be not sufficient to target only « the housewife ». They must have real

opportunities to gain market share while improving shopping for other members of the family.

### **Where do they shop?**

More than 70% of the shoppers visit modern self-service stores as their main outlets and spend the most on grocery purchases there. The relative development of modern retail trade in these countries is tied to their economic development, highest in Japan (98%) and the lowest in Indonesia (25%).

Thailand is the exception because it is a country where more than three-quarters of the shoppers declare that they very often use modern stores, a much

higher percentage than in Malaysia and Singapore. This is probably due to the strong presence of the leading international chains in the last 4 years.

Supermarkets are the leading stores in these regions with almost 85% of the shoppers visiting one in the past 4 weeks. They are particularly dominant in Japan, Singapore, Philippines and Korea and 80% of them visit one per week.

The Japanese consumer visits supermarkets every other day because their homes are limited in space and also because these stores are considered as their main source for fresh food. Koreans visit supermarkets two or three times a week beyond their weekly visit to the hypermarket.

Korea and Thailand are the leading countries in number of hypermarkets with almost 90% of the shoppers visited a hypermarket within the last 4 weeks. The format is the main store for almost 50% of the Thais and Koreans.

In Malaysia, almost half of the shoppers visit hypermarkets at least once a month. But 85% of them still use their traditional stores as their main stores and one third spends more in hypermarkets.

In all these countries, big-box stores are visited by younger, more educated and more affluent customers. Even if the downward trend of traditional stores is accurate, nevertheless 80 to 90% of the shoppers still regularly frequent wet markets for their fresh food products, except in Japan.

However, small traditional stores did not totally disappear: 80% of the shoppers used them in the past 4 weeks in Indonesia, Philippines, Malaysia and Thailand for their impulse items (confectionery, HBA and household products). Along with wet markets, they are the most frequently used units by more than two million of shoppers in Indonesia and Philippines (in this last country it is the case almost every day).

Convenience stores are still in the early level of their development: they are very developed in Japan and Thailand where over three-quarters of the shoppers visited them in the past month.

### **Visit frequency and importance of spending.**

In Thailand and Indonesia visiting frequency is more than one visit per day, and only one every other day in Singapore and Malaysia. For frequent small shopping, customers use traditional stores or wet markets.

In Japan, almost 90% of the customers declare they shop « a main

store » at least 3 times a week compared to 60% in Singapore once a week even less. In these two countries, typical spending in their favorite supermarket are as high as US\$ 30 but in terms of total expenditures the average in Japan grows to US\$ 640 per month compared to less than US\$ 300 in Singapore.

Korea is similar to Japan in the number of visits to the local supermarket but the pattern is different in Indonesia where frequency of visits to traditional stores is perceived as the opportunity for a major shopping event, even if the average spending is far lower than the visits to supermarkets in other countries.

In Indonesia, shoppers spend very little in grocery (US\$ 63 per month) but this figure is very high (36%) adjusted to the household incomes. For people with low incomes, grocery shopping accounts for nearly 60% of their total income. When they visit a supermarket, they spend much less than shoppers in other countries (US\$ 13 per visit).

### **Store choice.**

More and more importance in Japan is tied to opening hours and to « easy to find what I need. » Other elements are also important such as price, product availability, shopping environment and the quality of fresh products. Price/value perception is more important than product range or the store environment. In Korea, price and offer are key elements, and environment and quality are linked to « the global environment/quality of the offer. »

In Malaysia, shoppers seek fresh product quality at competitive price. In Indonesia, price and quality are particularly important. In Thailand, Philippines and Singapore, there is more specificity in shopping motivations between the various types of stores: quality of fresh food for wet markets, location of traditional

groceries and price/assortment for supermarkets.

### **How do shoppers perceive differences between stores ?**

In all markets, there are differences based upon the degree of knowledge of the store or the importance level people are likely to give it.

Thailand, which has a developed and competitive retail trade is much more interested in image. This may be the reason why Thailand influences other Asian markets by display, promotions, offer, and store environment. However, location and « awareness » remain important.

### **Store « awareness ».**

Fairprice in Singapore is ranked first for 65% of the consumers and more than 90% of them cite it spontaneously. The only chain in the region with an equivalent level is E-Mart that is first for 45% of Koreans. Giant and Big C are also leading chains in Malaysia and Thailand for three-quarters of the shoppers.

### **Number of stores shopped.**

On average, shoppers frequent 2 supermarkets or hypermarkets regularly. In Singapore, 55% of them use only one store and this is the reason why NTUC Fairprice is so successful. Koreans shop an average of nearly 4 stores. 56% of the Japanese shop 3 or more. 44% of Filipinos tend to shop at least 3 or more on a regularly basis.

### **Location.**

Location is an important driver in all these countries mainly in Japan even if 73% of the buyers say they shop « several » very well located supermarkets.

### **Price/value.**

In Japan, price and quality are closely associated with food quality and store environment. In Korea, price/value seems less important than

environment. In Malaysia, it is closely associated with fresh food.

### **« Shop environment ».**

In Asia, the distinction between stores is based on their ease of access, comfort of environment and hygiene. Globally, if one compares quality, service and environment with « basic » drivers (price, location, « awareness » and number of stores shopped), it appears that in Thailand and Korea people are more selective, and may be more sophisticated in their distinctions between stores.

### **Development of private label.**

Approximately one third of all shoppers have bought one private-label item in the 4 past weeks. In Singapore, private label development is the highest. Malaysia is the country where the penetration rate is at 13% of the shoppers only.

### **How people shop?**

In some countries, a significant part of shoppers has no set day for their grocery shopping. In Korea, this is the case for more than 70% of them.

For those who have a preferred day, 70% do their main shopping during the weekend, with Malaysia having the highest percentage (85%). In Japan, it is during the week for more than 50% of the shoppers. In Malaysia, customers prefer the evening; in Japan almost 50% prefer the afternoon, whereas in Indonesia it is the morning. In Singapore, frequency is equally split during the day but customers who do not work are more eager to go shopping in the morning.

Korea, Japan and Singapore register the highest level of Internet access (20%). Korea has the highest level of online shoppers (19% of the total). ■

*Sources: ACNielsen, Food Chain Asia*



## **H&M, or the success of fashion at affordable price.**

### **The success formula.**

In the beginning price was important. Then it was quality. The formula today consists of "treating fashion as if it were perishable produce, keep it fresh and keep it moving." This means "spotting the trends even before the trendoids do, turning the ideas into affordable clothes and making the apparel fly off the rack," declares Karl Gunnar Lagerfeld, head of buying. Totally : 550 million items are sold per year for 15 to 30-year-old women, men and children.

They are no luxury merchandise, and items do not exceed one season. They are designed by in-house staff, who draw their inspiration from real life. Based in Stockholm, they are Swedish and also Dutch, British, South-Africans and Americans and the average age is 30 years. They travel worldwide in order to spot trends and outsource production to a large network of 900 suppliers in 21 countries in Asia and Europe including Bangladesh, China and Turkey in order to maintain low prices. H&M launches two large collections per year and also new items every day to maintain customers' interest and make them come regularly even if they spend less than US\$ 30 per visit.

While keeping close touch with their suppliers, the 21 local production offices have helped to reduce lead times to 3 weeks. Only Zara has a faster turnaround, but the Spanish company has 300 fewer stores. Moreover, its parent-company, Inditex, is owner of its production units in Galicia (Spain) which helps it to reduce its lead time to only 2 weeks. Gap operates on a 9-month basis...

H&M's speed maximizes its capacity to launch « hot » items in any

season while minimizing its risk of error. Every day, the buying head and his team track data on sales per country, per store and merchandise type. Stores are replenished daily and sometimes it is not enough ! Quicker turnarounds generate higher sales, and allow low prices generating 53% gross margins.

### **Strategic power.**

H&M relies mainly on an organic growth thanks to US\$ 1.1 billion in cash. Its market capitalization of US\$ 15 billion outperforms Gap (US\$ 9.4 billion) and Zara. Although share activity declined this year, it has doubled since 1998.

Its power is not only due to expansion but lies in same-store sales which will likely increase by 4% to 5% this year. H&M also buys cheaply and keeps overhead expenses low. In 2001, sales reached US\$ 3.8 billion and profits US\$ 367 million with 809 stores. Concerning 2002, a US\$ 833 million in profits, growing by 34% is forecasted on US\$ 5.8 billion sales according to Goldman Sachs.

H&M is launching a global program of new store expansion which will bring the total count to 844 units by end 2002, a 75% growth in the past 6 years. This is still behind Gap at 4,261 units.

### **H&M on the American continent.**

The Swedish company is present on 14 countries, mainly in Europe, and generates 88% of its sales outside Sweden. In America, it operates 44 stores including 2 in New York (5th Avenue and Harlem since November 1st 2002). Twenty new units will be opened by fall 2003. « No other European retailer has expanded so quickly and so successfully beyond its own borders as H&M » said analysts at Goldman Sachs. However, these units

are operating at a loss because of the lagging economic situation and the 9/11 terror attacks. Consequently, it has to balance high costs and rents.

With that goal in mind, H&M is relying on its past experience: in Germany, it had lost money for 6 years; today Germany is not only its largest market but also the most profitable. The United Kingdom that also met difficulties, but today is making profits. In the U.S, H&M succeeded in reducing its loss to US\$ 6 million in the first quarter of this year and it aims to break even by the end of 2002. The company is ambitious but H&M always succeeded in all the markets it entered and registered a 20% average growth per year of its sales during the past two decades.

On the American continent H&M encountered more difficulties than expected. In Europe, the retailer sells a range of clothing for the whole family. In the U.S.A it caters to young, fashion-conscious women. Menswear that is popular in Europe is not very popular with American men and, as a result, the line has been reduced or even eliminated in the U.S. Moreover, some stores, opened in 2000, are too large or their site badly chosen. The company is now showing interest in high-end shopping centers and dynamic downtown locations.

### H&M's origin.

Erling Persson, who died on October 28 at the age of 85, began his career working for his father delivering cheese by bicycle to restaurants in Stockholm. On a trip to New York in 1947, he was dazzled by the success of the Macy's department stores. When he came back he launched the women's wear chain Hennes. Its low prices were astonishing at the time in Europe. In 1968, Hennes became H&M through the acquisition of the Swedish men's retailer Mauritz. Then the company

expanded on the Scandinavian peninsula and abroad. Although H&M has been listed on the Stockholm stock market since 1974, it is still operated as a family company, the founder's son holding 69% of the voting rights.

### Projects.

Today H&M's strategy is to enter a new country every two years. In 2002, it was Portugal. Italy, Canada, and Eastern Europe should be next. This expansion is not without risks: Germany, which accounts for 31% of its sales, reported sales growing by 10% in the first 9 months of 2002, while the total retail trade fell by 10% there.

Remember that Benetton tried to become the first global fashion retailer but had to retreat after a bad experience in the U.S. in the 80's. Gap, a concept that was very successful in America, never really made it abroad. Body Shop and Sephora had similar bad experiences. ■

Sources : Paola Hjelt, *Fortune* and Kerry Capell in *Stockholm* and Gerry Khermouch in *New York, Business Week*

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