

# LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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## CENTRAL & EASTERN EUROPE POLAND

✓ **BLUE CITY is a new leisure and retail project in Aleje Jerozolimskie (Warsaw suburbs) will be completed by Spring 2004.**

Its design follows several themes addressing different groups of customers : the "Village" has been inspired by New York's Greenwich Village, « Marketplace » is reminiscent of a European market, « The Strip » is looking like the Las Vegas Strip and « The Boulevard » is the most upscale of the areas of the centre. It includes :

- 50,000 sq.m GLA,
- 200 shops approximately,
- main partner : MagiCorp, a Canadian firm managing leisure parks worldwide to invest US\$ 15-20 million in the leisure part located on the highest floor,
- anchor store : a caterer and not a hypermarket as there are many big box stores around the center,
- a three-star hotel (216 rooms),
- office space : in excess of 20,000 sq.m
- construction : Bovis Lend Lease, famous for having built the Petronas Towers in Kuala Lumpur, Sapporo Dome Stadium in Japan, Bluewater shopping center in England and Disneyland Paris,
- investor/ developer : Blue City company,
- architects : Laguarda Low in cooperation with Apa Wojciechowski, a Polish firm,
- consultants : International, responsible for planning design and functional requirements,
- leasing : DTZ Zadelhoff,
- total investment : US\$ 160 million,
- catchment area : 800,000 inhabitants.

## ROMANIA

✓ **Franchise development.**

The franchise market share in the Romanian retail trade is continuously

increasing and might double over the next ten years. It is a highly appreciated formula used by international firms trying to enter the market as the legal frame is not very restricting. Services still have a potential development but fast food restaurants seem to be partly saturated.

Currently, more than 300 franchisees use approximately forty brands and fifty agreements will be signed in 2003 in Romania according to specialists.

Products/services	Franchisee networks
Hotels/restaurants	Novotel, Hilton, Sofitel, Ibis, Holiday Inn McDonald's, KFC, Pizza Hut, Burger King...
Food	Coca-Cola
Cosmetics	Body Shop, Yves Rocher, Beauty Shop
Ready-to-wear/apparel	Lacoste, Marks & Spencer
Various	Shell, Computerland, Europcar, Avis, Hertz

Source : *Veille Internationale of the economic mission network and CFCE*

## RUSSIA

✓ **Ikea in Russia : the Swedish firm just obtained the permission to build its first Mega store in St Petersburg** to be completed before December 2003. Further stores will also be opened in Chimski, Rostov-over-the-Don, Iekaterinbourg, Ufa and Kazan. In Chimski, Mega Mall will include 175,000 sq.m of shops and mainly an Obi DIY-store; 45,000 sq.m will be opened in the second phase.

Over the next five years, Ikea should operate 15 stores in Russia.



## WESTERN EUROPE

### FRANCE

#### ✓E-commerce : 19,904,000 buyers in 2002.

According to a study on the fifteen large specialized actors (eBayfrance, Fnac, Laredoute, Surcouf...), more than 10 million transactions were registered in 2002, growing by 47% from 2001, including almost one third during the Christmas season (3.3 million transactions that were up 63%).

Henceforth, online commerce in France accounts for € 2 billion sales, i.e. between 10% and 15% of the total distance selling sales according to Henri de Maublanc, president of the Association for online commerce and services.

More trustful users in electronic payment means, high-speed access offers and internet-loyalty programs would have boosted this expansion.

Concerning 2003, according to estimates, growth should be more moderate, approximately 40% on average, because it should be « the profitability transition year. »

#### ✓BAY 2 : a shopping center located in Collegien, south of Paris, opened on February 19<sup>th</sup>, 2002.

- 53,022 sq.m total area,
- a Carrefour hypermarket (14,858 sq.m) with a gas-station,
- 110 boutiques in the shopping gallery (17,800 sq.m),
- 7 middle-sized stores of 5,000 sq.m average selling area including Darty, Virgin, Sephora, H&M,
- Toys R Us (3,875 sq.m) to be opened in October 2003 located on the center parking,
- a Leroy Merlin home-improvement/DIY store (12,000 sq. m selling area) connected to the gallery by an external footbridge,
- 4,000 parking spaces,
- developer/architect/investor : BEG,
- € 121 million sales are expected for the gallery, € 213 million for Carrefour and 68 million for Leroy Merlin.

This Carrefour hypermarket moved from Torcy where its selling area was 12,300 sq.m. Approximately 20 boutiques followed it because the gallery will be demolished and replaced by Bay 1, a new leisure center.

#### ✓DOMUS : a home improvement and decoration shopping centre will be built in Rosny-sous-Bois, north of Paris, in the third quarter 2005.

- 60,000 sq.m total area on 3 levels, naturally lit,
- 88 stores including 6 big box stores and 26 middle-sized stores including Boulanger (consumer electronics, 3,860 sq.m), Alinea (furniture, home decor, 12,193 sq.m, 2 levels), a Truffaut garden-center (8,000 sq.m inside plus 1,400 sq.m outside) have already rent their space,
- 2,500 parking spaces on 3 levels including one on the roof of the centre,
- rent : between € 100 and 600 per sq.m per store of 60 to 12,000 sq.m,
- leasing : Urbi & Orbi,
- investment : € 150 million,
- catchment area : 7.5 million inhabitants.
- developer : Mab France that built 5 centers since it entered France in 1978. It is a subsidiary of a Dutch group funded in 1971 and present in United Kingdom (1993), Germany (1995) and Belgium (1999).

Two other Domus should be built in France (Rennes and Avignon).

#### ✓CASINO : consolidated group sales excluding tax grew by 3.9% to € 22.84 billion including 17.503 billion in France and € 5.339 billion in other countries in 2002. At a constant exchange rate growth was 8.9%.

In France, sales grew by 6.0% in the full year and by 5.1% in the 4th quarter 2002. All store signs grew quicker than the FCD professional index and the main store formats increased their market shares for the 4th following year. Organic growth was 6.7%. Géant hypermarket same-store sales including VAT grew by 2.4 percentage points in the year and 2.9 in the 4th quarter.

Outside France, sales grew by 17.5% in the full year and by 16.1% in the 4th quarter at a constant exchange rate. After impact of rates, euro changes declined 2.4% in the year and 9.1% in the 4th quarter. In spite of the crisis in Latin America, sales grew by 26.6% in the year and 32.2% in the 4th quarter. In Argentina, Libertad hypermarket sales were up 16.8% in the full year and 24.5% in the 4th quarter and their market share increased from 5% to 6.5% by end of 2002.

In Venezuela, same-store sales grew by 10.7% in the year. In Brazil, CBD is still the leader. In Netherlands, Laurus same-store sales increased by 3.9% since it was consolidated. They fell by 6.1% in Poland and by 8.3% in Taiwan.

✓ **HYPARLO in 2002 : the activity in France grew by 2.0%.**

**Total sales including tax**

(€ mio) Dec.31st	2002	2001	%
France	984,0	964.4	+2.0
International	163,0	134.6	+21.1
<b>Group</b>	<b>1 147,0</b>	<b>1.099,0</b>	<b>+4.4</b>

Source : Hyparlo

In 2002, Hyparlo sales grew by 2.0% in France compared to the 1.3% FCD index. Outside France, in Italy and Romania, as sales increased above 20%, the French retailer has decided to enlarge the hypermarket located in Chiajna, west of Bucharest, from 8,700 sq.m to 10,000 sq.m in the first half 2003.

Carrefour has just bought two hypermarkets operated by Hyparlo in Italy and a third one being built.

Henceforth, the first Carrefour franchised partner operates 12 hypermarkets in France and 1 in Romania. It has planned to open one new unit Romania in 2003.

✓ **Galeries Lafayette : consolidated sales up 4.7% in 2002.**

Excluding VAT, sales grew up again to € 5.469 billion in 2002 while it declined in 2001 following the changing consolidation calculation of Monoprix. This figure includes only one part of the Marks & Spencer store, devoted to home, that will be opened in Paris downtown, on Haussmann boulevard, early 2004.

Sales break down as follows :

- department stores	2,524 million euros
- variety stores	1,738
- various	22.9 million
- services (LaSer)	983.7

In the 4th quarter, sales increased by 1.5% only at a slower pace compared to the full year exercise. But, same-store sales grew by 5.8% in January 2003 as the sales season was particularly aggressive mainly in the BHV department store, which grew by 6.9% from a 3.3% decline in the same period one year earlier.

Galeries Lafayette and Casino finalized the terms of an agreement to amend and extend the partnership agreement signed in May 2000 regarding Monoprix. GL will not use their "put" (selling option) on the 49.35% shares held at parity with Casino in Monoprix (€ 3.7 billion sales) at least until January 2006. Consequently, both partners will file a proposed public buyout offer for Monoprix shares to be followed by a buyout requirement. The price is set at € 219 a share.

✓ **Pinault-Printemps-Redoute group: actual change group sales fell 1.5% to € 27.375 billion in the 4th quarter 2002.**

The improvement in economic trends in the third quarter was confirmed in the fourth quarter and organic sales growth was 1.7%. Growth in the retail division strengthened from quarter to quarter with an acceleration in the fourth quarter to 3.5%. Luxury goods division recorded a 3.8% growth for the quarter ended October 31st, 2002.

In Europe excluding France, group sales grew by 1.7% : 6.2% in the retail division and 7.6% in luxury goods. In North America, group activity improved at a constant exchange rate.

The actual evolution of annual sales includes the impact of negative exchange rates of € 384.6 million.

Internet sales grew by 81% to € 832.1 million. Serge Weinberg, chairman of the board, is planning an improvement of the operating profit in 2003.

The French retail conglomerate has pledged to buy all shares of the luxury goods powerhouse Gucci it doesn't own for US\$ 101.5 each in April 2004. It added 0.9% to its stake between October 17 and December 23 for € 98.5 million boosting it afterwards to 58.2% of outstanding shares on January 23rd. It announced that it has entered into an agreement with a bank to acquire on behalf of PPR up to 3 million shares of Gucci Group on the New York and Amsterdam stock exchanges between January 28, 2003 and April 4, 2003.

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**2002 annual sales stood at € 27,375 million :**

€ mios	2002	2001	actual change (%)
Printemps	933.8	889.0	+5.0
Conforama	2,900.4	2,897.2	+0.1
Redcats	4,635.9	4,784.4	-3.1
Fnac	3,547.1	3,347.4	+6.0
Orcanta	45.8	34.8	+31.6
<b>Retail division</b>	<b>12,063.0</b>	<b>11,953.1</b>	<b>+0.9</b>
<b>Luxury goods</b>	<b>2,541.7</b>	<b>2,541.6</b>	<b>0.0</b>
Rexel	7,374.4	7,958.3	-7.3
Pinault Bois-Matériaux	1,295.1	1,287.2	+0.6
Guilbert	1,711.2	1,797.2	-4.8
CFAO	1,619.5	1,477.2	+9.6
<b>Business to Business</b>	<b>12,000.2</b>	<b>12,519.9</b>	<b>-4.2</b>
Credit/financial services	807.9	799.8	+1.0
<b>Total group</b>	<b>27,375.4</b>	<b>27,798.5</b>	<b>-1.5</b>

Source : PPR Group

✓ **MCDONALD's is flourishing in France while its parent company is struggling.**

If McDonald's fast foods are closing worldwide, a new unit opens every six days in France and the average customer spending is US\$ 9 compared to US\$ 4 in the U.S. even if a Big Mac costs the same in Paris as it does in New York.

A part of the French branch success relies on its efficient concern pushing to invest in the restaurant renovation (950 units are have been remodeled today) while adapting to the local architecture with chic interior and music videos to keep customers longer. While updating his restaurant, a Toulouse franchisee spent 20% more than if he had used the McDonald's classic decor but his sales grew by 20% !

If McDonald's in the U.S. tried to speed up service while streamlining menus, France followed a totally opposite direction, adding new items such as a hot ham-and-cheese sandwich.

Now, the American market begins saturating. In the 4th quarter, a net loss of US\$ 343.8 million was registered compared to a US\$ 271.9 million profit one year earlier due to the restructuring plan, launched in 2002, which forecasted to close 200 restaurants. In 2003, 600 further units compared to 175 previously planned will be also closed mainly in the U.S. and Japan. In the full year 2002, net profit fell 45% to US\$ 893.5 million on

US\$ 15.4 billion sales growing by 3.6% with 30,000 McDonald's restaurants in operation. Worldwide same-unit sales have been falling for two years : 2.1% in 2002 and 1.3% in 2001 and margins fell also from 15.1% to 14.4% in 2002.

✓ **Procos** : the federation's 157 brands that account for half of the French specialty retail trade, operating 23,246 stores, have reported same-store sales growing by 1.2% in 2002 to € 42.1 billion sales according to the Procos-KPMG indicator.

During the year, middle-sized stores have reported declining sales; supermarkets performed better than hypermarkets and convenience shopping increased. In short, restaurants and HBA companies increased their sales, reflecting an aging population, sales of home-center firms declined except for Leroy Merlin and leisure activities slowed down. Sales still increase but at a slower pace in downtown and shopping centers. Today three-quarters of the retail sales are still generated in the suburbs.

Concerning 2003, there are 65 downtown projects totaling 44,000 sq.m and 187 in the suburbs including 99 shopping centers (136,000 sq.m) and 88 retail parks (160,000 sq.m).

## GERMANY

✓ **Metro group** : Group sales grew by 4.0% to € 51.1 billion in 2002 including € 23.8 billion outside Germany in 2002.

Outside Germany sales grew higher (8.2%) than inside. While excluding the change rate impact in Turkey, Romania, Poland and China, figures would have been still much higher.

During this exercise, 61 stores have been closed bringing the total count to 2,310 units on December 31st.

Over the next months, store opening hours might be extended on Saturdays from 4 p.m to 8 p.m as the Minister of Economy, Wolfgang Clement, announced at the end of 2002.

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store number on Dec.31st.2002

	Germany	inter-national	total 2002	total 2001
Cash & carry	109	328	437	384
Hyper.	247	31	278	277
Large super. (> 1,500 sq.m)	491	0	491	500
Electricals/ Electronics	249	137	386	357
Do It Yourself stores	294	52	346	347
Dept. stores	135	15	150	148
Various	219	3	222	236
Group	1,744	566	2,310	2,249

Sources : Metro/LP International

## SPAIN

### ✓Hard discount development.

**Dia**, a branch of Carrefour that operates 2,394 hard discounts generating € 2.8 billion sales in Spain, might have bought approximately 50 of the 193 El Arbol money-losing supermarkets, located in South of Spain, and sold by CVC Capital Partners that bought them from Laurus in 2002. Since then the Dutch Laurus has become a subsidiary of the French Casino group.

Totally, El Arbol operates 700 supermarkets whose sales are expected to amount to € 670 million in 2003.

**Mercadona**, the largest Spanish supermarket group and third retailer after Carrefour and Eroski, a cooperative belonging to the Montdragon group, should enter Portugal to open 50 to 75 supermarkets before 2004. In Spain, it operates 700 stores, which earned € 70 million net on € 4.2 billion sales with an 8.3% market share.

For six years, the supermarket market share in Spain has increased from 35% to 41% while the hypermarket share fell from 33% to 28% according to experts.

## UNITED KINGDOM

### ✓Grocery distribution : average costs have declined to their lowest level in three years.

Average distribution costs for a food retailer account currently for 3.4% of sales vs.3.7% in 2000 according to the recent study, Retail Logistics Survey, by the Institute of Grocery Distribution based on 15 leading firms. It may be attributed to the introduction of more

efficient means such as a tighter collaboration with suppliers, the implementation of radio frequency, the improvement of information systems...

### average costs in percentage of sales:

	1998	1999	2000	2001	2002
Average distribution cost	3.46%	3.29%	3.71%	3.86%	3.44%
Lowest distribution cost in survey	2.10	2.20	2.30	2.17	2.05
Highest distribution cost in survey	5.10	5.90	5.00	6.00	6.40

Sources IGD Research 2002/Retail Week

The Gap between the lowest and the highest costs continues widening hence investment still pouring in the supply chain. Retailers try hard to reduce their costs in three key sectors :

- the collaboration with suppliers helps to make use of the product knowledge and to share information on sales in order to be more efficient and improve the stockholding,
- the cost of stock holding is another concern. Various techniques are used to reduce costs from automation of depots to the direct delivery of merchandise from Europe into the retailers depots to eliminate the supplier handling,
- the warehouses and transport means : as it can be seen in the above chart, they account for the majority of costs.

### Distribution costs breakdown according to IGD :

- warehouse costs 56.1%
- transport costs 34.8%
- other costs 7.3%
- system costs 1.8%

The pressure to be more efficient will continue in the next years according to IGD. In fact, when supermarkets increase their fresh food offer, the average product life is decreasing while the evolution towards a wider range continues and global sourcing from an ever increasing supplier number is gaining strength and still complicates the cost structure.

Other concerns such as traffic jams, increasing fuel costs, the Working Time Directive and the shortage of skilled employees are elements that will influence the « supply chain ».

✓ **Safeway is in the heart of a battle for market share and real estate in a highly competitive market where planning permissions for new stores are difficult.**

**Safeway** is the 4th largest food retailer in U.K, highly present in the North of England and Scotland. It operates 480 stores with approximately 10% share of the British market and annual sales of US\$ 14.16 billion. **Morrison** officially bade for **Safeway** after an offer valued at US\$ 3.8 billion.

**Wal-Mart**, owner of **Asda**, U.K.'s third largest food retailer, is eyeing expansion in the country and revealed its intention to bid following an offer valued at about US\$ 5 billion.

**J.Sainsbury**, U.K.'s second largest food retailer, made an offer valued at € 4.86 billion. In case it would merge with **Safeway**, the new group would operate 870 stores (Tesco has 730 units) with a 25%-share of the market behind Tesco (26%) but ahead of **Asda** (16%).

**Tesco**, U.K.'s largest food retailer, said it was also interested and made an offer in cash and shares and would buy part of the stores in case **Safeway** would be dismantled.

**Philip Green** of **Arcadia**, and **KKR** (Kohlberg, Kravis, Roberts) are also eyeing **Safeway**. **KKR** is the American investment fund that bought the U.S. **Safeway** in 1986 and resold the British subsidiary to **Argyll** in 1987.

The government and the Office of Fair Trading are studying the situation.

✓ **KINGFISHER sells German electricals business to its former owners Michael and Matthias Wegert for € 1.**

The transaction should be finalized by the end of February. The sale includes 92 **ProMarkt** electrical stores in Germany and Austria together with a chain of 93 **Foto-Radio Wegert** photographic stores, a photographic processing laboratory and the **ProMarkt** online business.

In addition, **Kingfisher** is supporting the immediate working capital requirements of the business with a cash contribution of € 55 million and it is also making available a repayable working capital loan facility for up to € 32.5 million to cover peak seasonal requirements, namely the periods August

2003 to January 2004 and August 2004 to January 2005.

**ProMarkt** reported a retail loss of € 42.5 million on € 948 million sales in 2001/2002; its losses in the current financial year are expected to increase to around €

53 million. There will be a non-operating exceptional loss on disposal of around € 286.75 million. **Kingfisher** purchased **ProMarkt** in several staged transactions between 1998 and 2000 for a total cost of € 167.52 million.

**Kingfisher** announced that **Chartwell Land**, its retail property arm, has sold 15 retail parks plus a further 5 retail parks under development to a consortium composed of **Pillar Property** for € 1.045 billion.

To focus on DIY, the European leading home improvement retailer is still trying to sell **Kesa**, its electricals activity : **But** and **Darty** in France, **Comet** in U.K, **Vandenborre** in Belgium, **BCC** in Holland and **Datart** in the Czech Republic and Slovakia. It closed six **Castorama** stores in Germany in the beginning of this year and consequently retains only a 20%-stake in the German **Hornbach** DIY firm.

✓ **Inditex will open 2 new Zara apparel stores in Switzerland.** The Spanish retailer entered the country in 2002 with **Zara**, **Massimo Dutti** and **Bershka** stores and will open further units in **Basel** and **Zurich** in 2003. In 2002, approximately 200 **Inditex** units were built worldwide. In the fourth quarter, sales would grow by 35% compared to estimates...

✓ **Centres Leclerc and sporting goods stores** : the independent group reported sales growing by 5% to € 26 billion in 2002 with a 16.8% market share. It plans to launch a new concept and open 3 sporting goods stores in 2003 and 50 over 2005.

Outside France where the group could generate € 750 million sales, **Leclerc** plans to open approximately ten-2,500 sq. to 5,000 sq.m stores in **Poland**, **Spain**, **Portugal**, **Italy** and **Slovenia** where it is already present.



## NORTH AMERICA UNITED STATES

✓ **Online sales : the fastest growing categories.**

categories	11/1/02 to 12/13/02 sales	growth. 2002/2001
Home & Garden	US\$ 458	79%
Jewelry	173	73
Furniture/appliances	146	71
Toys	348	69
Sport	199	66
Video/movies	178	49
Apparel/accessories	1,293	39
Video games	111	28
Flowers & gifts	166	28
Consumer electronics	824	19

Sources : Comstore Networks/Discount Store  
News

While basing on sales trends through December 13, online commerce excluding travels, increased by 30% to US\$ 14 billion in the 4th quarter from 10.8 billion in the same period one year earlier according to s Networks. This growth is comparable to the 28% to 30% gained in the first, second and third quarters 2002. Hence annual sales growing by 29% to US\$ 43.5 billion from US\$ 33.7 billion one year earlier were expected.

Part of the success is due to the fact the retailer's sites improved and retailers themselves have been more realistic regarding guarantees they made on Christmas merchandise deliveries...

✓ **Amazon posted a 28% sales increase in the 4th quarter ended December 31st.**

The world's largest online retailer generated sales amounting to US\$ 1.43 billion from US\$ 1.11 billion in the same period one year earlier. Net profit was approximately US\$ 3 million. Pro forma, it could have reached US\$ 75 million compared to US\$ 35 million in 2001 if it had not included the stock-options charge.

These good figures have been obtained mainly through the profitability improvement : a decrease of the logistic, payment processing and customer service costs from 9.8% to 8.9% and the 22%-improved stock turns to 19 times from 16.

In 2002, sales grew by 26% (US\$ 800 million) to US\$ 3.93 billion and net loss was divided by 4 to US\$ 149 million compared to US\$ 567 million in 2001. Pro

forma, profit was US\$ 66 million compared to a US\$ 157 million loss in 2001.

Concerning 2003, Jeff Bezos expects sales above one billion dollars in the first quarter and a pro forma net profit between US\$ 5 and 20 million; in the full year he expects sales growing by 15% and a profit of US\$ 115 million. Moreover, he confirms his offer of the free delivery for all orders above US\$ 25 on its American and foreign sites (cf.LLDI January 2003) during the next Christmas season.

✓ **The luxury market.**

Garden supplies, linen and bedding, apparel and accessories will be the sectors that should boom in 2003 according to the recent study : « Who buys luxury, what they buy & why they buy. »

Except for the garden, most luxury customers aim to spend less this year; 57% of the surveyed people aim to invest more or the same on luxury garden in 2003 than they did in 2002, 47% the same or more on linen and bedding and 43% more or the same on apparel and accessories.

According to consultants, some luxury purchasers will grow a priority in their personal appearance and products such as apparel, accessories, perfumes, watches and jewelry will benefit over the next years. Moreover, a growing number of households without children will move one part of their spending formerly invested in home and family products to fashion and beauty items.

In 2002, consumer electronics was the first category of luxury purchases for 51% of the polled persons followed by garden goods (45%), fragrance (44%), apparel and accessories (41%), furniture and floor coverings (35%), linen and bedding (34%), jewelry and watches (32%), fabrics and wall coverings (29%), kitchen/bathroom appliances and building materials (29%), kitchenware (29%), autos (24%), art and antiques (19%), tabletop (8%)...

Average annual spending on luxury goods is US\$ 9,000 per luxury consumer. Households with revenues above US\$ 100,000 invest US\$ 12,300 per year and those with revenues under US\$ 100,000 spend US\$ 3,000. It is not surprising that autos are the biggest

category in dollar volume followed by art and antiques.

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

✓ **Grocery trade : the top 11 U.S chains according to sales :**

rank 2002	rank 2001	firms	sales (US\$ bil.)	market share
1	1	Wal-Mart	95.0	13.0%
2	2	Kroger	52.1	7.2
3	5	Costco	38.0	5.2
4	3	Albertson's	35.7	4.9
5	4	Safeway	35.0	4.8
6	6	Sam's	31.7	4.4
7	7	Ahold Retail USA*	25.1	3.4
8	8	Supervalu	19.5	2.7
9	11	Publix	15.8	2.2
10	9	Fleming	15.5	2.1
11	10	Delhaize America**	15.1	2.1

sources : US Census Bureau, Department of Commerce

\*Ahold USA Retail accounts for approximately 59% of Ahold USA sales ; Ahold USA accounts for approximately 57% of the parent company's 2002 sales.

\*\* Delhaize America accounts for 70% of the group sales.

Total sales generated by food stores (supermarkets, supercenters, warehouse clubs and convenience stores) grew by 6.9% to US\$ 729 billion in 2002, a small increase compared to the 13.1% rise between 2000 and 2001. This chart shows the top U.S. chains and their respective food market share based on the total company sales.

✓ **Profits increase in supermarkets.**

To control expenses, mainly inventory levels, is profitable for the American food retailers. In fact, inventories accounted for 21.78% of total assets, a very low level according to the annual financial review of the Food Marketing Institute. This is to be compared to more than 26% ten years ago and 35% in the beginning of the Eighties. Net profit accounted for 1.36% of sales vs.1.25% one year earlier and operating profit 3.22% from 3.03%. Same-store sales grew by 2.2%. In 2001, EBITDA accounted for 5.33% of sales, the highest level since the following of this operating performance measure. Return on assets remained stable at 3.77%. Return on net worth declined to 12.94% from 13.42% one year earlier.

These indicators are impressive regarding a highly competitive context and low inflation.

✓ **Wal-Mart : its apparel departments move to fashion.**

Apparel has always been a major part of the giant's product range. Once, its customers bought textile because it was cheap and functional but not for fashion or quality. Since the end of the Nineties, it has made constant efforts to improve the department. While it does not unveil figures, analysts estimate that its global apparel sales at US\$ 35-40 billion, which means that its clothing market share is well below the 30%, it aims in every sector.

Wal-Mart began changing when Claire Watts was recruited in 1997 from The Limited specialty clothing retailer as head of product development. She improved the quality, rewrote the technical specifications and the standards for suppliers and left aside a lot of outside brands to refocus on others.

Then in 1999 Wal-Mart bought the British food retailer, Asda and its George brand, a cheap but fashionable apparel range created by George Davies who launched the Next chain. Then both teams began collaborating on design, Asda bringing its know-how in adapting fashion to the mass market and Wal-Mart its experience in low priced-products (jeans, t-shirts...). Both companies began joint sourcing. Today, their teams travel together to Europe's shops and fashion shows to spot trends.

Wal-Mart does not try to import the Asda model altogether. But after successful trials, a version of the George brand has been introduced in its stores of the U.S., Canada, Germany; it will soon be in Mexico and Korea to become a global brand.

Moreover, another factor of Wal-Mart evolution is the introduction of Levi Strauss and its Signature brand, specially designed for the mass market, that will be rolled out as soon next July 2003 in all Wal-Mart stores (cf.LLDDI January 2003).

Source : *Financial Times*

✓ **KMART out of Chapter XI by spring 2003.**

Last January 14th, the chain announced that 326 more stores, including 60 supercenters out a total of 117, and 266 discounts will be closed and 37,000 jobs cut. On 19th, Jim Adamson, chief executive officer since March 2002,

left the company while a five-year restructuring plan was just approved by the board and supported by 2 investors, Third Avenue Trust and ESL Investments, with a contribution of US\$ 300 million.

Julian Day, a former Sears executive who has been serving for the past year as Kmart's president and chief operating officer, has been appointed chief executive officer since January 22nd. He announced that Kmart will emerge from bankruptcy by April 30th, retaining 1,500 well located stores on low-income markets with sales of US\$ 25 billion. By that date, Kmart will have cancelled 59,000 jobs and closed 609 stores since its bankruptcy filing in January 2002. Now, for the past five weeks, ended January 1st, the second largest discount chain posted its first profit of US\$ 349 million on US\$ 4.71 billion sales.

Charles Conoway, Adamson's predecessor, is under investigation as well as 5 other former Kmart's executives. Kmart demanded back US\$ 28 million in loans made to them. They also spent US\$ 12 million in personal trips aboard company planes as the company was already meeting financial difficulties. They would also have cut off payment due to suppliers.

✓ **FAO Inc, under the protection of chapter XI since the beginning of January 2003, expects to emerge this coming July.**

The new toy empire that operates 3 strong brands, FAO Schwarz, Zany Brainy and The Right Start, could not solve the difficulties of Zany Brainy and FAO Schwarz.

FAO Inc, the parent company of FAO Schwarz, operates a famous toy store on New York's Fifth Avenue as well as two chains, The Right Start (64 educational toy stores) and Zany Brainy (170 toy and game stores). At the end of 2001, it bought Zany Brainy that went bankrupt then FAO Schwarz from the Dutch Vendex.

Then, sales had constantly grown from US\$ 53.6 million in January 2001 to 247.4 million in 2002 but the debt was very high at US\$ 238.4 million. Moreover, the loss followed progressively the same way : US\$ 17.2 million in the first quarter, US\$ 18.2 million in the second quarter and US\$ 23.7 million in the third on US\$

89.3 million sales. Now, sales between Thanksgiving and Christmas declined. Under these conditions, 75 to 80 stores will be closed.

The toy specialty empire was vulnerable to a universe dominated by Wal-Mart and Toys R Us and the economic context did not help improving the situation. In the beginning of 2000, Wal-Mart stores began selling educational toys once sold at specialty stores only. Then Toys R Us acquired Imaginarium in 2002.

✓ **Employee theft, a record for the second following year.**

According to a recent retail survey, it appears that shrinkage due to employee theft, shoplifting, supplier fraud and administrative errors grew to US\$ 31.3 billion in 2002. Employee theft accounted for 48.5% of losses or US\$ 15 billion; shoplifting 31.7%, administrative 15.3% and supplier fraud 5.4%.

This study, financed by ADT Security Services and conducted by the University of Florida, is based on 118 chain stores in the U.S.

## **SOUTH AMERICA CHILE**

✓ **Ahold in discussion on sale of the Chilean operations of Santa Isabel.**

The international retailer, based in Netherlands, confirmed it is engaged in exploratory talks regarding the possible sale of its stake in its Chilean supermarket activities operating under the Santa Isabel banner (77 units). The Peruvian and Paraguayan operations will not be part of this transaction. Ahold and Cencosud intend to negotiate on the basis that they have a total value of US\$ 150 million.

**Cencosud** has interests in real estate, DIY stores and hypermarkets. Its wholly owned subsidiary, Hipermercados Jumbo, is the third largest food retailer in the country (7 hypermarkets, 15 DIY stores in Chile plus 11 hypermarkets and 21 DIY stores in Argentina).

The divestment of its stake in Chile fits within Ahold's strategy announced at the end of 2002. This strategy focuses on boosting growth in its profitable core businesses, reducing debt and rationalizing the portfolio. Underperforming core assets are being

scrutinized for potential divestment and its Chilean activities fall within that category.

## ASIA

### CHINA

✓ **CARREFOUR, the market leader in China.**

According to Jean-Christophe Voynet, manager of Carrefour Global Sourcing in China, the French retailer signed an agreement with the local government of Hangzhou, capital of the Zhejiang Province in East China, to open its 28th hypermarket. In the same time, he set up a global supplying base in Ningbo, a coastal city in the same province.

Carrefour, present in China since 1995, opened 28 hypermarkets in 16 main cities. Its network covers nearly all the economically-developed areas of the continent. Wal-Mart from USA, its main competitor, arrived in China one year later, in 1996, and opened 21 stores in 6 provinces, mainly in southern China.

According to experts, Carrefour's success can be attributed to the fact that it knew how to build a stable customer basis mainly composed of urban medium and low-income residents who go shopping on foot (28%), on bicycle (15%) and by bus (20%). Carrefour is also successful thanks to the flexibility of its marketing strategy and its clear understanding of China's economic policies.

This flexibility was reflected in its decision to move its global supplying base from southeast Asia and India to China. In 2001, Carrefour spent US\$ 3.5 billion on purchasing goods in Asia including 61% from China. Most of them were high-quality and low-priced products.

According to local regulations, foreign owners are not allowed to hold more than 65% of a retail joint venture; consequently, the French retailer has to sell 35% of the shares it still retains in two hypermarkets, located in the northeast of the country.

Moreover, competition between foreign chains is so strong that it forced local retail retailers to use a more and more common method : in 2002, Lianhua, based in Shanghai, the largest Chinese

retail chain, merged with Jiayou, the leader in the affluent province of Zhejiang, in order to compete with the international giants...

*Source : Asian Retail Trade*

### SOUTH KOREA

✓ **Retail trade at the end of 2002.**

Boosted by strong household spending, growing by 6.1% in the third quarter 2002, department store, hypermarket and convenience store sales are expected to keep growing in 2003.

- **department stores** : the sector is dominated by the Big Three, Lotte, Shinsegae and Hyundai, which account for 75% of the market and force local competition to close or to merge. Under these circumstances, 11 department stores have been bought or are managed by them. They are the favorite location for consumers and their sales should amount to € 15.3 billion in 2003.

- **hypermarkets** grew from 110 in 1999 to 250 in 2002. However, in spite of good estimates for 2003 as their sales should grow by 15.7% to € 16.6 billion, the saturation point should be reached at 300 units. This is the reason why a certain number of companies, anticipating this situation, export their know-how outside the country such as E-Mart in China.

- **convenience stores are expanding all ways** : 5,600 units were operating in 2002 and almost 2,000 new ones and € 3 billion sales are expected for 2003. Family Mart, the leader with 1,430 units and € 565.8 million sales, has planned 500 openings this year. Behind Family Mart, 7-Eleven, LG 25, Mini Stop and Buy the Way.

### JAPAN

✓ **Seibu Department Stores and their restructuring plan.**

The retailer presented a plan that is expected to include the integration of the Seibu (23 department stores) and Sogo chains (11 units). Under these conditions, Seibu is trying to merge with Sogo, its former competitor that went bankrupt in 2000 but whose restructuring plan has been conducted by the former president of Seibu, and seems recovering today. Together they would constitute a group with annual sales in excess of US\$ 8.3 billion as much as Takashimaya.

According to the plan, Seibu is expecting to close 4 department stores and a reduction in personnel to about 2,400 at the end of 2006 from the current 5,400. Seibu asked its creditors, who accepted to meet at the end of February, to cancel its debt (more than US\$ 2 billion) in order to avoid going bankrupt.

In its retail operations, Seibu posted US\$ 4.67 billion sales in 2001/2002 down 1% from a year before but its pretax profit was up 63% to US\$ 55 million. Thus it was positive for the second following year.

#### ERRATUM

*In the January issue of La Lettre de la Distribution Internationale, page 12, in the chart*

*"Number & sales area of the food stores" in the column Number 2002, two figures are wrong. You should have read :*

- supermarkets : 8,810  
- stores <400 sq.m 42,200

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## ◆ ◆ ◆ ◆ GLOBAL RETAILING

### and the necessity to streamline the supply chain.

The world's top 16 retailers by sales :

2002 rank	2001 rank	groups	country	main activity	2001 sales (US\$ mio)
1	1	Wal-Mart	USA	discount	217,799
2	2	Carrefour	France	big box stores	61,565
3	6	Ahold	Netherlands	super/hyper	57,976
4	4	The Home Depot	USA	DIY	53,553
5	3	Kroger	USA	super.	50,098
6	5	Metro	Germany	diversified	43,357
7	10	Target	USA	discount	39,455
8	8	Albertson's	USA	super	37,931
9	14	Tesco	U.K	super/hyper	37,378
10	9	Sears Roebuck	USA	dept.stores	35,843
11	12	Safeway	USA	super	34,301
12	15	Costco	USA	wholesale club	34,137
13	11	Rewe	Germany	diversified	33,640
14	16	ITM (incl.Spar)	France	diversified	32,922
15	13	J.C.Penney	USA	dept.stores	32,004
16	17	Aldi	Germany	food/discount	30,000

Sources : Goldman Sachs, company data, Bloomberg, M+M Eurodata, GS Research

Notes : all amounts are in millions of US\$, using average 2001 exchange rates ; all data is corporate level for retail-diversified companies, excluding VAT and non-retailing revenues when available.

This chart which shows the world's 16 largest groups out of 100 analyzed by Goldman Sachs is still dominated by two leaders, Wal-Mart and Carrefour; Metro fell to the sixth rank from the fifth and Ahold jumped to the N°3. position up from the sixth. Leclerc and Auchan from France, not shown here,

went up respectively to the 21st and 22nd from the 23rd and 21st in 2001 and Intermarché jumped to the N°16. position from the 14. Casino is at the N°27.

Thanks to the adoption and implementation of global standards, retailers and consumer-products manufacturers have the opportunity to

make the supply chain totally efficient. Huge savings, between 1% to 3%, could be obtained at all levels according to the following report « The Case for Global Standards » published by the Global Commerce Initiative (GCI) and Cap Gemini Ernst & Young.

Today, information communication is slow, expensive, inaccurate and misinterpreted. Different system languages create an obstacle while creating costs: time and money invested in translations, delays caused by necessary corrections and misunderstandings... If the Net technology helps people work more efficiently, quicker and at less expensive cost, the necessity of a common language is still essential.

#### **The necessity of a global approach.**

The growing development of firms toward international leads to the necessity of having a common global approach and language. This trend is particularly clear in the above chart. Many retailers generate a good part of their sales outside their homeland such as Carrefour, Ahold and Metro and it is increasing. Ahold is a good example as in one year it grew from the sixth to the 3rd position mainly through acquisitions outside Netherlands.

#### **The reasons of a global approach.**

- it will result in less diversity in communication between existing partners hence a decline in overhead expenses,
- it will facilitate international retail trade. Exchanges between retailers and manufacturers will be more efficient not only at the operating level but also at the more centralized level,
- it will provide synergies among firms operating across regions. Information report and sharing will then be more consistent,
- currently, local standards exist but in many cases they must be harmonized.

Moreover, this global orientation will result in the assortment growth at retail. If many of these products are locally supplied, the trend toward a global sourcing is increasing. It is clear that Eastern Europe, Southeast Asia and China are becoming more important suppliers of food products and several retailers and manufacturers have opened buying offices in these regions.

#### **Multiregional coverage of manufacturers and retailers.**

They create international groups of operating firms for scale saving reasons or enlarge their selling base. As the trend towards globalization will continue, many of them are forecasting for the next steps to expand from Western into Eastern Europe, from Europe into Asia/Pacific or from USA into Europe or vice versa.

#### **Increased collaboration.**

Retailers and manufacturers collaborate to cut the costs in the supply chain through initiatives such as category management. Hence the necessity of a common language that enables firms to stop investing energy and resources in activities that can and should be cooperative and begin investing energy and resources in activities competitive in nature.

#### **Online trade development.**

Online retail trade adds a new dimension. It is a means through which all partners can communicate at every moment with less and less costs. But the lack of a common system language is still a large barrier.

#### **The necessity of global standards.**

The advantages will include the improvement of the product and assortment availability. Moreover, the product traceability will be more improved through a more accurate identification and information. Hence a better customer service.

Under these conditions, the « Global Trade Item Number, Global Location Number and Global Data Synchronization » implementation will generate quantified advantages in sectors such as promotion and category management, order management, order fulfillment... To implement these standards will contribute also improving sales by reducing out-of-stocks. To adopt them is expected to generate large advantages for retailers and manufacturers as well through :

- the elimination of costs generated by corrections caused by an inaccurate information,
- the reduction of dependence on human involvement through automated processes,

- the improvement of the answer to consumer demands through the supply improvement,
- the support initiatives in food security through a better visibility, identification and traceability,
- the relationships improvement between partners through a better communication,
- the increased speed to shelf through the product introduction in a reduced time...

Productivity improvement between 1% to 3% of supply chain costs can be obtained and impact profits by 10% to 15% for both retailers and

consumer-product manufacturers of all sizes.

Changes that firms have undertaken to adopt, use voluntary global standards and create improvement processes generating large advantages will need implementation from the top to show the way, communicate the vision to teams, push to mutual adoption, build consensus...■

Sources : Chain Store Age Executive/Russell H.Jones, Vice President and Michael D.Green, Vice President and retail specialist, North America for Cap Gemini/Ernst & Young



## SLOVENIA has a development potential.

Economy in Slovenia has been evolving towards the European standards for the past few years. In 2001, total trade sales amounted to € 14.36 billion including € 7.21 billion in retail (up 4.3%). There were 6,993 firms operating 12,457 stores. The 4,292 wholesale firms generated sales growing by 1.2% to € 7.15 billion after a 2.5% decline in 2000.

Food retail trade, dominated by groups from Yugoslavian origin such as Mercator and Merkur, has grown strongly and concentrating since 1997.

### Main retailers in Slovenia in 2002.

groups	sales in € mio	employees
Mercator	1,262.7	13,692
Merkur	463.5	2,401
Spar	310	1,300
Engrotus	182.6	1,002
Zivila	126.6	1,041
Kransjka		
E.Leclerc	51.2	254

Sources : annual reports, Veille Internationale

In 2001, **Mercator**, which has interests in the farm-produce industry, restaurants, services and agriculture, generated 91.5% of its sales in the retail trade. It operates 989 stores including 15 hypermarkets and 54 supermarkets. 85 units are located outside Slovenia (80 in Croatia and 5 in Herzegovina-Bosnia). Its target is to generate 25% of its sales outside the country from 2003.

**Merkur** (95.1% of sales outside Slovenia) is building shopping centers and has currently 4 projects. It is also present in Croatia and Herzegovina-Bosnia.

**Spar-Austria** (Austria Spar International) is expanding rapidly in the country and owns 20% of the capital of Spar-Slovenia. This branch (sales € 245.05 million) has already opened 5 hypermarkets and 23 supermarkets (40,000 sq.m) and ten projects are planned for 2003. In the end, Spar hopes to increase its market share to 20% from 15% currently.

**GIZ Suma** is a GIE (Groupement d'Intérêt Economique) that groups Zivila, Koloniale, Era and Vele.

**Engrotus**, funded in 1990, is the fastest-growing group in the country and holds a 11%-share of the Slovenian market with sales growing by 26% to € 220 million in 2002.

**E.Leclerc** opened its first hypermarket in an 8,500 sq.m space on June 7th 2000 in Rudnidis, next to Ljubljana, as the anchor store of a shopping center. Its € 38 million investment had been guaranteed by the 62 members of two central buying groups, Lecasud and Socara, as well as by Sofilec, the group's bank. Leclerc has a second hypermarket project (7,000 sq.m) in Maribor, the country's second largest city. In the end, 8 to 10 big-box stores are projected in Slovenia.

### Shopping centers and local trade.

Approximately ten shopping centers were operating in 2001 whose anchor stores used to be food stores (Supernova, Merkur, E.Leclerc, Mercator, Spar...). Local trade that had been fully

expanding until 1998, declined in 1999, because Slovenians progressively got accustomed to go shopping in the suburban shopping centers. Moreover, new centers are now opening either downtown or near by.

#### **Franchise.**

The system has no specific regulations and is depending on trade, competition, intellectual and industrial ownership laws...

Foreign chains are strongly present accounting for 60% of the franchisers. Mercator is the largest in the country with approximately one hundred stores.

#### **Online sales.**

Even if there are 600,000 regulate users (at least once per month), accounting for about 30% of the population, its development is still small. In fact, it did not account for more than 0.1% of the retail sales in 2001 with € 10 million. But it grew by 400% between 1999 and 2000. Mercator, Merkur, Spar or E.Leclerc web sites are generally very successful as they offer foreign products.

#### **About consumers.**

In 2002, there were 688,733 households and 2.8 persons per household, one person only having an official job. They regularly go shopping but the average basket is low. They appreciate big box stores and look after middle-range products but price is more important than quality.

There is an affluent middle-class that would account for 5% of the total population looking after high-end items such as cars, apparel, mobiles...

#### **A few 2001 indicators.**

- inhabitants	2.0 million
- GDP	US\$ 22.9 billion
- GDP growth	4.5%
- GDP per inhabitant	US\$ 12,000
- Consumer spending	US\$ 11.1 billion

#### **International retailers.**

Spar Austria, Tengelmann (Germany), Leclerc (France) and Marks & Spencer (U.K) through its franchise with Marinopoulos. ■ sources : *Veille Internationale, LP International*



## **THE HOME DEPOT**

### **looking for new ways to maintain its expansion growth.**

#### **A difficult context impacting its stock course.**

The US's second largest retailer is in the middle of a total restructuring program that is hammering its stock. The share, once beloved by investors, was the worst-performing stock in the Dow Jones during 2002 because of a slowdown in its sales and profits. Currently, at US\$ 22 from 53 in May 2002, the share is trading at a multiple of about 14 times earnings far below the 50 in its growth expansion. In fact, the share course fell 50% since Bob Nardelli from General Electric was appointed ceo.

The challenge that the giant is facing is not different from the situation met by Wal-Mart in the middle of the Nineties when expansion (and stock price) slowed down. The problem was solved as WM launched into the grocery retail trade. But Home Depot has still to find the formula for a new large-scale expansion in the current context.

In fact, same-store sales in the 4th quarter fell by 10% from a year before compared to 3% to 5% projected. It is the second following quarter during which they fell so much and the 7th consecutive in which The Home Depot is behind its archrival competitor Lowe's whose revenues improved by 4.1% in the third quarter and by 2% to 4% in the fourth. According to Bob Nardelli, «Lower customer transactions and lower-than-expected performance in traditional gift categories like hardware and power tools, severely impacted results. »

#### **A rebound after 2003 is questionable.**

It can be difficult for Home Depot to rely on a steady favorable situation of the housing market after having largely benefited from it. Then, market saturation is another concern because if The Home Depot and Lowe's continue opening stores at the current rhythm, the home-improvement market will be saturated by the end of 2004.

If the new Home Depot stores helped to increase total sales, the growth is coming increasingly at the expense of the existing units, which is one of the main reasons of the slowing down global sales growth. In 2002, they should grow by 10% to US\$ 58 billion far below the 15% to 18% projection. Concerning 2003, US\$ 63 to 65 billion revenues are already forecasted.

#### **Projects and Lowe's competition.**

Bob Nardelli blames the economic environment and refused to repeat the costly promotional sales of the past years. He is criticized because he wants to use the industry processes onto the retail firm. At General Electric, he was able to cut inventory pushing store managers to sell products faster. At Home Depot, his efforts have simply succeeded in slowing reorders, leaving stores out of stock in key sectors such as electronics.

Meanwhile, he reorganized also the staff increasing the part-time sales employees from 26% to 50% in 2002, when his competitor, Lowe's, has 80% full-timers. Moreover, its dynamic policy of cost cutting resulted in attracting customers to competitors because of reduced lines of products. Above all, Home Depot lost 24 of its senior managers in the first 19 months of Nardelli's presence at the head of the company, some were fired out, others left and he hired personnel without any retailing experience.

With the ambition to grow sales from US\$ 53 billion in 2001 to US\$ 100 billion in 2005, he also embarked on a drastic cost-cutting program. By centralizing the chain's purchasing function, consolidating its 9 regional warehouses

into one and cutting down the supplier number, he stimulated the gross margin by one percentage point, a remarkable success.. The firm can also boast having one of the best balance sheets in the retail trade with US\$ 2.5 billion in cash and an exceptionally low debt-to-equity ratio of 6.5%.

Nardelli expects to boost revenues again while expanding its home-services offering including residential maintenance and repair services including plumbing, air conditioning, flooring, an activity that currently accounts for US\$ 2.5 to 3 billion sales which HD expects to boost to US\$ 7 to 8 billion during the next three years while catering strongly to the pro-contractor market and the aging baby boomers. All initiatives that failed to generate until now any meaningful sales growth.

Now, Lowe's, the second largest American home-improvement chain operating 800 small stores in small markets, mainly in the southeast, begins now invading Home Depot's core metro markets and stealing customers, mainly women who prefer its clear and light stores.

#### **About figures.**

In 2003, Home Depot will invest US\$ 4 billion in its supply chain and expansion. In 2002, it invested US\$ 3.6 billion from 3.5 in 2001 and 200 stores were opened totaling 2.06 million sq.m. Its sales grew by 17.1% to US\$ 53.553 billion in 2001 with 1,500 stores. It is the second American largest retailer and the first largest US home-improvement chain with 3.04 billion profits (up 17.9%).■

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