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INTERNATIONAL

✓Kingfisher sells Réno Dépôt to Rona Inc.

Réno Dépôt, Canada's fourth largest home-improvement retailer, is sold to Rona for ∊ 222 million. Completion is subject to Canadian competition authority clearance, which is expected, in late Summer 2003. The sale proceeds will be used to reduce Kingfisher's debt (31% in 2002).

Réno Dépôt, acquired by the French Castorama in April 1997 (Castorama was bought by Kingfisher last year), operates 20 home-improvement warehouses in Quebec and Ontario under the Réno Dépôt and Building Box banners. For fiscal year ended 1 February 2003, Réno Dépôt earned ∊ 31 million on ∊ 514.30 million sales.

Rona, Canada's third largest home-improvement retailer, runs 527 franchise and affiliated stores totaling more than 900,000 sq.m space. This very aggressive firm, whose net sales jumped 27% to US$ 1.53 billion in 2002, has the ambition to expand on USA.

Canada home-improvement market leaders.

companies	mother company	2001 sales (mio US$)	2001 store number	average selling area (sq.m)
Canadian Tire	-	3,375	450	2,625
Home Depot Canada	Home Depot	2,119	75	10,223
Rona	-	1,130	540	6,000
Réno Dépôt	Castorama	388	20	11,617
Alpa Lumber	-	220	22	11,000
ICI Canada	-	171	224	7,200

Source : World Powers, 2002

✓TESCO could enter Turkey via a stake in the capital of the local hypermarket chain Kipa. The transaction would value the Turkish firm at ∊ 108 million.

U.K's largest food retailer with a 26% market share generates 18.2% only of its activity outside UK but it operates 45% of its total selling area in international markets : Hungary, Poland, the Czech and Slovak Republics in Eastern Europe and Thailand, Taiwan, Malaysia, South Korea in Asia. During the past exercise, ended February 2, sales of its international activities jumped 31% to ∊ 7.5 billion (vs. 7.9% in Great-Britain) and profits to ∊ 305 million. Totally, the group's profit before tax grew by 14.7% to ∊ 2 billion on sales jumping 11.5% to ∊ 41.6 billion.

During the present exercise, Tesco expects to open 18 hypermarkets in Europe and 16 in Asia, or 400,000 sq.m new selling area increasing by 12%, and still studies China and Japan. Furthermore, it expects to hire 20,000 new employees worldwide as much as in 2002. Moreover, Tesco continues integrating 870 T&S convenience stores, which account for an investment of ∊ 138.24 million.

Tesco began expanding outside U.K in 1997 while expanding in non food sectors such as textile, cosmetics and furniture as well as in financial services.

IN SHORT…

✓Wal-Mart in Germany : the world's largest retailer which operates 93 stores in Germany has set a target to have 160 units there according to Lebensmittel Zeitung and would be looking for further sites… **FAO,** the famous American toy company, that filed for chapter XI protection in January, and controls FAO Schwarz, Zany Brainy and The Right Start, has had its restructuring plan approved by the judge of the bankruptcy court. Banks will bring US$ 77 million to finance it… **Mango in Russia** : the second Spanish women's ready-to-wear chain (∊ 950 million sales), that has 3 franchised shops in Moscow, 1 in St Petersburg and 6 in the outskirts of these two cities, is seeking to expand on the Federation. Its target is to open four more by fall of this year. Mango operates 35 shops in Central and Eastern Europe including Poland, Latvia, Ukraine and the Czech Republic…

EASTERN EUROPE

RUSSIA

✓Obi, a branch of the German Tengelmann, has identified 20 cities in the outskirts of Moscow and St Petersburg to open future stores.

The first unit will be opened in Moscow this coming October. The company expects to have seven or eight outlets in the capital area over the next two or three years and the first lease could be signed in St Petersburg at the end of 2003. In all, Obi has identified approximately twenty cities with a population over one million inhabitants.

Obi runs 468 stores through franchise, including 342 in Germany that generated ∈ 5.6 billion sales in 2002. Obi is also expecting to open approximately fifty outlets over the next five years in China where it will face the competition from B&Q there.

✓Pyaterochka, the Federation's largest grocer by sales and unit number (140 convenience stores) will increase its area by 30% before the end of the year.

It operates 585 sq m average area units (the latest is 1,200 sq m) and its product range is 3,700 offered at Every Day Low Prices to local people who do not own cars. By 2004, it expects to open a 10,000 sq m hypermarket in St Petersburg.

WESTERN EUROPE

FRANCE

✓Casino : Q1 sales were down 0.9%. On constant exchange rates they were up 5.6%.

Consolidated sales excluding VAT amounted to ∈ 5.298 billion. France grew by 5.2% to ∈ 4.186 billion and international activity by 6.9% to ∈ 1.112 billion on constant exchange rates. After exchange rate impact, France organic growth is keeping growing from 75% in the first quarter 2002 to 79% in the first quarter 2003 but there was a 18.5% drop in international activities. During this period, the group opened more than 30,000 sq. m new area.

In short, according to the group's management, figures were in line.

✓Carrefour : Q1 sales fell 0.4% to ∈ 18.28 billion. But they grew by 6% on constant exchange rates with 2.5 percentage points from comparable stores and 3.5 points from new stores.

This quarter was impacted by a negative calendar effect of approximately –0.9% as Easter was in March in 2002 and in April in 2003. In France, sales grew by 2.6% to ∈ 9.4 billion. In Latin America the activity increased by 14.1% to ∈ 1.232 billion thanks to the existing stores whose sales increased by 8.9%. Taiwan and South Korea same-store sales declined respectively by 6.2% and 15.3%.

In this period, Carrefour opened 159 stores including 3 hypermarkets.

✓Système U : sales up for several years.

The independent network generated 8.39% sales growth to ∈ 12.742 billion and its market sharegrew by 0.3 point to 7.6% in 2002. It operates 846 stores including 42 Hyper U, 628 Super U and 176 Marché U.

As for 2003, it anticipates sales growing by 10% to ∈ 14 billion.

✓Pinault Printemps Redoute Group received a firm ∈ 815 million offer from the American Office Depot for the acquisition of Guilbert, Europe's leading distributor of office supplies and furniture to business-to-business customers (∈ 1.4 billion sales). It also received a ∈ 565 million offer from **Wolseley** to acquire Pinault Bois & Matériaux, the French lumber and building material specialist**.**

Wolseley is the world's leader in the plumbing and heating materials and also one of the largest building material retailers to business-to-business customers in the English and American markets. Via both transactions, the French group will be able to reduce its net financial debt that already fell back from ∈ 6.4 billion to 4.9 billion on ∈ 9.1 billion net worth at the end of 2002.

In the first quarter of 2003, Group sales grew by 2.8% on a comparable structural, exchange rate and day-year basis. Organic growth was up 6.2% for main activities, retail and luxury. Fnac is the only subsidiary that registered the strongest sales rise (7.5%) to ∊ 833.7 million. However, Group actual sales were down 6.0% to ∊ 6.304 billion because of the sales of Finaref and Guilbert's mail-order business.

The retail division grew sales by 6.1% and luxury by 6.0%. CFAO same-store sales increased strongly by 7.9% to ∊ 411.3 million in spite of the context in the Ivory Coast. Within the business-to-business division, Rexel fell by 3%.

✓Conforama : the world's second largest home-equipment firm is strengthening its development in Europe.

This subsidiary of the Pinault Printemps Redoute group operates 228 units worldwide and will have further 35 over 2005. In France, Conforama is the leading furniture firm with 16% share of the market, 137 owned-stores, 36 franchisees and ∊ 2.9 billion sales. Operating result accounted for 8.4% of sales in 2002.

Before the end of this year, the logo « Conforama, the country where life is less expensive » will be changed, a new catalog will be launched and a store concept tested including «a destination alley ». The concept is evolving from discount towards more comfort without changing products but offering more aggressive prices.

To improve profitability and service quality through a better buying policy and merchandise flow are among the strategic priorities.

Furniture accounts for more than half of sales in its stores in France (54%), Switzerland (53%), Spain (64%) and in Portugal (57%) except in Italy (35%) where Conforama is the second largest home-equipment firm under the Emmezeta banner, and in Poland (46%).

International activities :

countries	store count	openings	sales (∊ million)
Switzerland (1975)	9	2 in 2005	230
Spain (1992)	9	3 in 2003/4	70
Portugal (1991)	4	3 in 2003/5	39
Italy+ Croatia* (2000)	17+ 1	7 in 2003/5	570
Poland (2001)	3	-	17.6

Source : Conforama   ** under Emmezeta banner*

GERMANY

✓KarstadtQuelle : profits down in 2003.

The German leader of department stores and Distance Selling (Quelle and Neckermann) predicts a drop in its profits before tax and amortization to 250 million in 2003 from ∊ 382 million in 2001 and 294 million in 2002, according to its own estimations, because of several restructuring plans and a sluggish domestic context where it generates 90% of its sales. Sales, which fell 1.6% in 2002 to ∊ 15.8 billion, but are not yet calculated, could fall again.

In order to strengthen its position in services and compensate for its underperforming tourism subsidiary Thomas Cook, the group is launching new projects : Neckermann offers travels in the TV channel, Tele5, and has a 38.81%-stake in the capital of DSF, the TV sports channel of the Media Kirch group which went bankrupt. This transaction will enable KarstadtQuelle to market its 190 department and 294 specialty stores as they have the exclusive right to sell the official products of the world's football cup in 2006.

Today, Germany faces a sluggish context due to new taxes, a possible rise of the VAT and the strong competition led by Aldi, Lidl and Penny small grocery stores.

NETHERLANDS

✓Anders Moberg is Royal Ahold's new ceo.

Anders Moberg, who served as Chief Executive Officer and President of Ikea Group, has been appointed as President and Chief Executive Officer of the world's third largest food retail company and succeeds Cees van der Hoeven who was compelled to retire following the financial scandal last February.

Moberg joined the Swedish furniture firm Ikea in 1970 working closely with Ingvar Kamprad, the founder and owner of Ikea. He successfully led its international development in Europe as far as Russia. Then in 1999 he joined the US Home Depot as President of the international division, a position he held until 2002. He was in charge to increase foreign sales share from 3% to 11% within the next five years. At Ahold, international expansion was led rapidly : 40 acquisitions in ten years, sales multiplied by six to above ∈ 72 billion and profits by nine. Meanwhile the debt jumped to ∈ 12.5 billion.

In the beginning of April, Ahold decided to exit South America then it reached an agreement for the sale of its Indonesian operation (22 Tops supermarkets, plus one under construction and 2 distribution centers, ∈ 37 million sales) to PT Hero Supermarket (200 outlets) for ∈ 12 million. It also reached an agreement for the sale of the operation in Malaysia (34 Tops and one distribution center, ∈ 85 million sales) which will be sold to Dairy Farm Giant Retail, a subsidiary of Dairy Farm International Holdings Limited.

✓**VENDEX KBB seeks to expand on Europe.**

The largest non-food Dutch retailer that operates department stores, fashion, DIY and consumer electronic specialty units, wants to enter several European countries.

It plans to invest ∈ 240 million in 2003 to open several stores in Germany, Belgium, Spain, France and Denmark. In France, it anticipates doubling its presence over the next years with approximately twenty new M&S (114 are already located in the North of the country) and Hunkemöller shops. In Belgium, where it runs 101 Brico stores (∈ 675 million sales), Vendex just bought 6 DIY units from the French Leroy Merlin after having sold OBI in France (38 units), Aki in Spain and Portugal (30) to the same firm in 2002.

In 2002 Vendex KBB earned ∈ 202 million compared to ∈ 13 million one year earlier and sales grew by 10.8% to ∈ 4.35 billion mainly through the acquisition of the Belgian Brico firm but organic growth was up 2.3% only. In fact, its local V&D and De Bijenkorf department store chains, whose repositioning will take between two and three years, have generated a 33% slid of the operating income to ∈ 138 million. The group aims to record a 6% operating margin over 2005-2006.

SPAIN

✓**The Mondragon Cooperative Corp : the group's distribution arm Eroski, which is the Spain's largest grocery chain and also the second largest Spanish retailer behind El Corte Ingles, reports good performance in 2002.**

In 2002, sales grew by 11.8% to ∈ 5.12 billion and net profit by 11% to ∈ 256.4 million. Meanwhile, EBITDA increased from 5.19% to 5.37% of sales.

In 2002, Eroski invested ∈ 271.8 million to open 7 Eroski hypermarkets, 48 Consum supermarkets and 138 other outlets including 84 Chartier self-service stores, 9 gas-stations, 19 travel agencies, 20 perfume shops…, overall, 145,000 sq.m of new retail space. In 2002 also, Eroski signed an agreement with Intermarché from France in order to create a common buying group, AID (Alliance Internationale de Distribution).

As for 2003, the group expects to invest ∈ 300 million in 8 new hypermarkets and approximately one hundred supermarkets. In addition, it will launch new activities : optical, car and residential real estate sales…

In all, at the end of 2002, the group operated 2,000 stores including 62 hypermarkets, 829 supermarkets, 709 self-service stores, 165 travel agencies, 104 perfume shops, 42 gas-stations, 24 cash & carry and 16 sports centers.

UNITED KINGDOM

✓**Burberrys : in the second half, revenues were up 22.4%. As a result, the retailer reached its target for the year ended March 31.**

During the second half, the firm said that its revenues jumped ahead to US$ 502.4 million from US$ 411 million in the same period one year earlier. In the full year, sales grew by 18.9% to US$ 932.1 million; retail sales were US$ 358.9 million, wholesale sales were US$ 481.8 million and licensing revenues US$ 91.4 million for a total of US$ 932.1 million. Profits will be published in May.

In the current fiscal year, Burberry's will open 8 stores and 2 concessions. However, its market performance was affected in March by the war in Iraq and by the outbreak of the SARS virus in Hong Kong.

NORTH AMERICA

UNITED STATES

✓Shopping center developers/owners and managers.

Top 12 according to GLA.

rank	owners/developers	total GLA owned (mio sq.m)
1	Simon Property Group	16.50
2	General Growth Properties	9.87
3	Kimco Realty Corp	6.71
4	Westfield America	5.71
5	The Macerich Company	5.21
6	New Plan Excel Realty Trust	4.68
7	The Rouse Co	4.07
8	Benderson Development Co	3.60
9	Developers Diversified Realty	3.57
10	Cafaro Co	3.05
11	CBL & Associates Properties	2.82
12	Lend Lease Real Estate Investments	2.69

rank	managers	total GLA managed (mio sq.m)
1	Simon Property Group	16.33
2	General Growth Properties	13.0
3	Kimco Realty Corp	7.75
4	CB Richard Ellis	5.85
5	Westfield America	5.65
6	CBL & Associates Properties	5.25
7	The Macerich Co	4.98
8	New Plan Excel Realty Trust	4.95
9	The Rouse Co	4.07
10	Trammell Crow	3.72
11	Benderson Development Co	3.60
12	Urban Retail Properties	3.60

Source : Shopping Center World

✓Internet spending continued to grow in the first quarter.

Online sales grew at a fair rate in spite of a sluggish context according to BizRate, an online research firm. Clearance sales in the beginning of January boosted sales. They were negatively affected on March 17 and 18 and for the first week of the war they were 19% higher compared to the same period one year earlier. In fact, it is the number of online orders that grew and not the average purchase price. The average price was down 2% to US$ 124 from 127 in 2002. Online orders grew by 30% to 103.6 million vs. 79.4 million.

The best categories by sales were hardware (US$ 3.43 billion), consumer electronics (US$ 2.16 billion) and entertainment (US$ 1.88 billion). The strongest growth came from beauty/health (61%), entertainment (58%) and computer hardware (41%).

	Q1 202	Q1 2003	change
Total online sales	US$ 10.08 bil.	US$ 12.84 bil.	+27%
Number of online orders	79.4 million	103,6 million	+30%
Average purchase price	US$ 127	US$ 124	-2%

Source : Value Retail News

✓Amazon.com : previsions grew for the present exercise **as sales increased by 28% in the first quarter to US$ 1.08 billion.**

Meanwhile the net loss of the world's largest online retailer has been divided by two, sliding from US$ 23.5 million to 10.12 million. Operating income jumped from US$ 1.77 million to 39.23 million.

International sales grew mainly in Japan and in Europe respectively by 68% and 35% of the total from 26% one year earlier. In the same time, product sales increased 50%.

As for 2003, Amazon anticipates sales growing by 19% to US$ 4.7 billion and operating income by 50% to US$ 275 million. Chasing costs, it reduced its delivery fees to 9.6% of sales from 10.6% one year earlier in the same period and stock turns 20 times. Moreover, Amazon announced to pay its US$ 264 million debt due to May 2008 by anticipation with 10% interest.

✓Peapod, an online supermarket whose activity is growing.

While Ahold, its parent company is in financial trouble, Peapod uses new efficient ways to increase its customers base and average basket.

« We are now profitable in four of our five markets in the U.S. Our growth rates are 25%, which is very healthy, especially with a flat grocery market in the U.S. » declared Marc van Gelder, Chief Executive. After serious financial difficulties in the beginning of its activity, Peapod was bought by Ahold in 2000, which integrated it with a certain number of its American supermarkets, combining the merchandising and marketing skills of a traditional retailer with the systems of an online brand name.

If most of the orders are received over the Net from high income active households, to have its food shopping delivered at home is no longer a luxury service. « We do very well with the middle classes rather than the highest income people, as they are older, don't have children and eat out a lot. » van Gelder adds.

Peapod differentiates from the other online grocers by its merchandising. If the majority of them put more products online than in stores, Peapod limits the number of lines between 8,000 and 10,000, mainly concentrated in baby and convenience products, an efficient strategy that achieves an average out-of-stock of only 1%.

Highly focused on convenience, Peapod had to allure its customers to buy fresh produce online. To overcome their natural reluctance, the online retailer offers them a bag of fruits when they order for the first time. Then, they are "hooked" because it is often a higher quality product than they would find in-stores.

Moreover, Peapod runs many online promotions to convince shoppers to enlarge their product choice and increase the average basket. Then it modified its delivery fees which was another significant driver : customers pay US$ 4.95 for deliveries over US$ 100 and US$ 9.95 for less important orders.

Delivery time is a concern for the organization except early and late in the day. In order to cancel a part of the difficulties, Peapod reduced its delivery charges by US$ 1 between 11 am and 1 pm, meeting a great success this way.

Its relationships with the customers changed also. Peapod personalized its advertising and targeted promotions, clever tools more and more used thanks to Internet ability to track online shopping habits. Customers have the possibility to download their shopping lists to a Personal Digital Assistant so that they can modify them at any moment. Peapod has been able to set this system up because it discovered that an average order needs 2.7 online sessions before shoppers send their real orders.

Source : Retail Week.

✓eBay, the online auction marketplace, is a real success in a sluggish context : in the first quarter 2003, profits and sales have doubled.

In the first quarter, net income doubled to US$ 104.2 million and sales have been multiplied by two to US$ 476.5 million compared to the same period one year earlier. They were driven by USA (50% of the transactions), international (30%) and PayPal (20%), its electronic payment platform. Worldwide users grew by 49% in one year. As for 2003, eBay anticipates to grow its sales by US$ 150 million to US$ 2.05 billion.

In 2002, its profits grew by 176% to US$ 250 million and sales by 62% to US$ 1.2 billion. It represents its commissions and fees on nearly US$ 15 billion in gross merchandise sales. It is successful while other dot.coms failed, expanding through acquisitions and diversifications.

It sells currently more than 300,000 cars which makes it the largest American used-car dealer online or off. Moreover, in January 2003, eBay opened a site aiming at the US$ 1 trillion market for industrial goods.

It also has made some of its software public, allowing other sites to manage their eBay auctions on their sites. It gets a percentage on sales and fees for the software. In 2002, it paid US$ 1.5 billion for electronic payment processor PayPal through which customers can pay online instead of mailing checks.

eBay expects its overseas operations to reach break-even point from Germany to Korea. Effectively, the international activity is the fastest-growing branch with sales up 172% to US$ 109.1 million in the 4th quarter accounting for 26% of the total.

Its competitors are looking at its formula with great attention. Amazon.com's auction site sales, similar to eBay's, accounts for 21% of its total deliveries up from almost zero two years ago.

Source : Business Week

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✔**Kmart's bankruptcy exit approved by the Court after some creditors had rejected reorganization plan.**

The retailer is now able to exit Chapter XI protection. Wal-Mart, The Home Depot and Kohl's agreed to acquire at least 21 stores and are interested in many others. J.C.Penney and Target also. While most of its creditors had approved the plan, some of them voted to reject it. ESL Investments and Third Avenue Trust, two major creditors, have accepted to invest US$ 300 million to bail the retailer out of bankruptcy in exchange for more than half of the equity in the new reorganized Kmart. In the end, ESL would become Kmart's largest shareholder with 49% and Third Avenue would own 5%. Both, they would have 4 of the 9 seats in the Board of Directors.

Since January 2002, Kmart rid itself of more than 950 real estate leases and has renegotiated more than 80 leases for a cost saving of more than US$ 12 million in annual leases. Kmart will manage a totally reorganized firm, a US$ 25 billion retailer with 1,513 stores whose average rent will cost US$ 42.93 per sq m from 47.56 before its Chapter XI filing in January 2002. Inventory turns are expected to grow from 3.7 to 4.2 according to the documents given to the court. Moreover, Kmart will improve its inventory management in order to keep shelves stocked with popular items because out-of stocks were among the major complaints in the past. Then Kmart is coming back to a « promotional » strategy with an offer locally adapted and exclusive brands among which Martha Stewart Everyday… After it leaves bankruptcy court, Kmart will have to pay 8,000 employees US$ 100 million emergence bonuses. In the end, Kmart will have strengthened its real estate portfolio, streamlined its organization and reduced its costs and debt significantly.

For the full year, its loss jumped to US$ 3.22 billion from US$ 2.45 billion one year earlier under the weight of reduced sales and charges due to store closures (283 units or 13% of its sale force). Same-store sales slid 10.1% and sales declined by 15% to US$ 30.76 billion from US$ 36.15 billion. Kmart anticipates US$ 25.4 billion sales for 2003 and 30.2 billion over 2007. Return to profitability is expected as soon as 2004.

✔**Shrinkage** : employee theft, shoplifting, administrative errors and vendor fraud are the main causes. According to experts and the latest studies published by the University of Florida, the total of shrinkage in 2001, the last year figures were available, amounted to US$ 31.3 billion or 1.7% of the US$ 1.45 trillion in retail sales, a record that year because it was the equivalent of the entire GDP of Vietnam.

If the level remained fairly unchanged during the last decade, it was lower in 2001 (1.7%) than in 1991, the first year of the study. Shoplifting is traditionally the main cause but theft by employees is becoming alarming. In 2001, it accounted for nearly half of all shrinkage compared with 32% for shoplifting, 15% for administrative errors and 5% for vendor fraud.

In such a context, retailers are looking for more and more sophisticated prevention equipments. One day they will use the biometric technology to verify the identity of their administrative employees as it enables identifying a person through the voice, fingerprints, eye scans and voice.

Shrinkage in % of sales according to activity segment :

Jewelry stores	2.24	Sporting goods st.	1.68
Other apparel stores	2.14	Dept. stores	1.67
Children's apparel st.	2.01	Shoe stores	1.67
Women's apparel stores	2.01	Super/ grocery st.	1.500
Drugstores	1.91	Men's apparel st.	1.19
Discount stores	1.90	Conve-nience st.	1.09
Gifts/cards/novelty stores	1.85	Office sup-ply/station-nery stores	1.07
Home-centers/hard-ware/garden stores	1.77	Book/maga -zine st.ores	0.90
Mean shrinkage rate (all stores)	1.70	Electronics/ appliance st	0.74

Source : Women's Wear Daily

According to the activity, the situation in stores is as follows :

- **jewelry stores** : the average theft amounts to US$ 1,500 compared to US$ 85 for the average retail shoplifting theft according to Integrated Assurance Services which covers jewelers,

- **other apparel stores** : the rate of employee theft is higher than average for « other apparel stores » excluding men's, women's or children's wear,
- **children's wear** : shoplifting accounts for 25% of shrinkage of this category, a rate far below the average rate of 32%; more alarming is the employee theft which accounts for 55% of the lost merchandise,
- **women's wear** : in order to stop theft by employees, retailers ask their vendors to attach ever more sophisticated hangtags that incorporate antitheft sensors,
- **drug stores** : this category has the highest shoplifting rate (32%) because items of small size like cosmetics are easy to hide. This sector has also the highest rate of vendor fraud (9.6%),
- **discounts**: 52.1% of inventory loss is due to employees,
- **in stores that sell cards and gifts,** administrative errors account for 17.9% of loss in the retail segment and theft by customers 34.3%,
- **in home centers/hardware and garden centers,** the cost of theft by employees amounts to US$ 1,146 per person,
- **in all stores**, the average shrinkage rate was 1.7% in 2001 compared to 1.8% in 2000. In the last decade, the rate varied between 1.69% and 1.95%,
- **in sporting goods stores,** 32.1% of shrinkage is due to shoplifting,
- **department stores** are the favorite target for shoplifting which accounts for 36.4% of shrinkage. High employee turnover, part-time and seasonal workers are the main causes,
- **shoe stores** : in spite of sophisticated prevention technology, employee theft accounts for 51.2% of loss,
- **supermarkets and other grocery stores** : shoplifting accounts for 59% of loss (cigarettes, meat, cosmetics…),
- **men's apparel stores** : 57.5% of missing merchandise is stolen by employees,
- **convenience stores** are the favorite stores of employees who are responsible for 82.5% of the sector's inventory losses,
- **office supply/stationery stores** : employee theft accounts for 57.4% of all stolen pens, calculators and other small items,
- **book/magazine stores** : administrative errors are the main source of unexplained shrinkage that accounts for 30% of missing merchandise,
- **consumer electronics/appliance stores** : this category has the lowest shrinkage rate (20.1%) of shoplifting because it is not easy to steal refrigerators or big-screen televisions.

Sources : 2002 Retail Security Survey/University of Florida Security Research Project, Department of Sociology and the Center for Studies in Criminology and Law/WWD

✓Apparel : the 15 most profitable retailers in 2002 according to their net income based on the last reported results (US$ million).

1	Wal-Mart Stores	Discounts	8,040
2	Target Corp	Discounts	1,650
3	Sears, Roebuck	Dept. stores	1,037
4	Federated Dept.Stores	Dept.stores	818
5	Kohl's	Junior dept stores/discount	643.4
6	TJX Cos	Off price stores	578.4
7	May Dept.Stores	Dept.stores	542.0
8	Limited Brands	Specialty stores	501.7
9	Gap	Specialty stores	477.5
10	J.C.Penney	Dept.stores	405.0
11	Ross Stores	Office price stores	201.2
12	Abercrombie & Fitch	Specialty stores	194.0
13	Talbots	Off price stores	120.8

SOUTH AMERICA

BRAZIL

✓The monetary crisis and its impact on the fashion retail trade.

Very high interest rates at 23% per year have dried up economic growth to more than 1%, boasted unemployment to 8%, slowed down investments and generated bankruptcies. However, inflation is under 1% a month vs. double digits in the early Nineties. Hence a stagnation of the consumer demand since those past years. The public debt with US$ 300 billion jumped to 62% of the GDP from 30% in 1992.

The government failed in his attempts to artificially prop up the local currency, the real, before being constrained to devalue in 1999. The uncertainty tied to the election of the new president, Lula da Silva, still fueled this uncertainty, stimulated by speculation that pushed the real down to its lowest level. Since it has stabilized against the dollar.

However, this plunge in the money value stimulated prices of dollar-based merchandise. Accordingly, owners of fashion shops, most of them are franchises of foreign, mostly European, fashion labels in the Jardins shopping center in Sao Paulo, a very affluent district similar to Beverly Hills in Los Angeles, negotiate prices with their parent companies. They obtain 10% to 20% rebates on the new Max Mara or Versace collections (whose dress prices vary from US$ 1,000 to 6,000) while their sales are down. The situation is similar at Kenzo.

One exception in Brazil and in South America is the first Diesel textile shop, which opened in 2001 and is expecting to generate US$ 2 million in sales in 2003 basing its forecast on sales growing by 15% in the first half of 2002 in spite of growing prices caused by the falling real. A second Diesel was opened in Sao Paulo in November 2002. Its success is based on its jeans that account for between 45% and 50% of its sales at prices from US$ 150 to 200.

However, at Dalsu, the largest multibrand foreign fashion store in Brazil with more than 70 labels (Ferragamo, Chanel, Gucci, Prada et Dolce & Gabbana), imports account for 30% of its sales and its own private label collections for 70% and they are growing. It is the same at « nkstore » which caters to a young upscale population : 80% of sales are generated by own private brands whose prices are cheaper and 20% by foreign fashion labels.

The real devaluation had a limited impact on the national fashion designers as well as on the ready-to-wear labels with outlets all over the country. It is due to the fact that they import a limited part of their fabric from abroad and they were not constrained to raise prices like foreign fashion boutiques have had to do.

However, C&A in Brazil (77 fashion stores in the country) did not register any drop in sales or increased prices in its men's and women's collections in spite of the last devaluation because it had ordered in June.

In the food retail trade, Carrefour is to treble its investments in Brazil this year injecting US$ 175 million to open 13 stores including 8 hypermarkets and 5 supermarkets.

Currently, it is operating 79 Carrefour hypermarkets, 108 Champion supermarkets and 69 Dia hard discounts (small grocery outlets). In 2000, the retailer lost its number one position to local CBD (in the capital of which the French Casino holds 22%).
Source : Women's Wear Daily

CHILE

✓Carrefour expects to open 12 hyper-markets over 2005.

- a 6th hypermarket is under construction in Maipu,
- a 7th unit in a 13,044 sq.m space will be built in Santiago's suburbs, a US$ 9.5 million investment.

The French grocer entered Chile in 1998 and has already injected US$ 120 million.

ASIA
JAPAN

✓Uniqlo revamps its image.

Fast Retailing, famous for its low price textile brand Uniqlo, is changing its image in order to find a new growth in casual sportswear. Facing a growing deflation in Japan as more and more consumers are looking for simple, low cost and good quality apparel, Fast Retailing sales slid 18% to US$ 2.87 billion in 2002 after having peaked to US$ 3.5 billion in 2001.

Consequently, as early as 2002 a design studio has been set up in Tokyo with a team of 50 persons working as an independent unit showing its new emphasis on incorporation of fashion into its products. Its aims to grow its net sales to US$ 3.75 billion over 2005 and increase the women's apparel share to 40% from 28% today.

Another key element is strengthening the firms' information technology and broadening its computer network in order to link all sales and manufacturing spots in Japan, China and other markets where Uniqlo is present.

These measures through quick response and supply chain management will enable Uniqlo to shorten lead times between product planning and sale, refine demand forecasts, lower out of stock risks and create closer relationships between operating units in Japan and overseas.

Uniqlo's success is lying on the apparel mass production of « fashionable basics ». Products are limited to 500 types and materials to 20 per year (one type or kind of material may involve 10 million to 20 million pieces). The other Uniqlo's key component is that it controls all phases of operation, planning production, material creation, design, raw materials procurement, design, distribution and sales.

In U.K, Uniqlo opened 5 stores in London in 2001 then 20 in November 2002 but 16 were closed in April 2003, leaving only five shops as same-store sales were operating under previsions and even a loss of US$ 25 million is anticipated.

China is a market where Uniqlo has the hope to expand : two units have been opened in Shanghai in September 2002. Moreover, 90% of its production is made in this country and the firm maintains a team there. To enter U.S.A is among the project in the next 10 years.

Source : Tsukasa Furukawa/ Women's Wear Daily

✔**Food retail trade.**

- Ito Yokado : sales of the Japan's largest food chain operating supermarkets and convenience stores (combinis) under the 7-Eleven banner were up 1% at ∈ 27.8 billion in 2002. Net profit grew by 7% to ∈ 321 million. While it launched financial services, IY Bank, and IY Credit Service into the group's stores, Ito Yokado was operating at loss.

- **Aeon-Jusco** runs Ministop convenience stores (∈ 29.5 billion sales, up 5.5%, net profit ∈ 350 million). It is present in Asia and in America and seeks to expand outside Japan.

- Daiei, former largest Japanese supermarket chain that slid behind Ito Yokado and Aeon-Jusco, is still facing financial difficulties. At the end of the Eighties, the firm launched all kinds of diversifications that plunged it into debt.

In fiscal 2002, Daiei was positive with ∈ 1 billion compared to a ∈ 2 billion loss one year earlier on ∈ 20.2 billion sales falling 12%. It closed approximately 50 shops, sold some activities such as hotels and cut financial costs. Its ∈ 13 billion debt in 2001 should be reduced to ∈ 7 billion over February 2005.

A rapid restructuring plan is required as its competitors, Ito Yokado and Jusco-Aeon, are upgrading their stores and as foreign retailer' presence is growing : **Carrefour** (5 hypermarkets), **Metro** (one first cash & carry in the outskirts of Tokyo), **Costco**, the largest American membership warehouse chain, entered Japan in 1997 and operates 4 units, **Tesco** from U.K is studying the country.

- Mycal, 4th largest chain, went bankrupt in September 2001 and closed about fourty stores in 2001. That very year it set a restructuring plan up in order to reduce its debt.

- **Yaohan** like Mycal filed for chapter XI protection,

- Wal-Mart owns 37.7% of the capital of **Seiyu,** Japan's fifth largest supermarket chain (400 stores), whose net loss amounted to ∈ 691 million in the fiscal year ended in 2003 vs. a profit of ∈ 39.5 million in the same period one year earlier. Sales grew 2.8% to ∈ 8.67 billion. A ∈ 691 million exceptional loss was registered including 307 million for its stake in the Seibu department store group, itself facing financial difficulties and about to close 4 units in 24.

Seiyu will implement Wal-Mart's Retail Link, a computer supply-chain management system, that connects stores to worldwide suppliers in real time as soon as August or September. Moreover, Seiyu is studying a new personnel policy based on « the right man at the right place », « development of ability » and « wages based on results » while structuring a new format of store organization.

SOUTH KOREA

✔**Franchise accounts for ∈ 34.6 billion sales in 2002 or 7.7% of the Korean GDP.**

There are 120,000 franchisees and 1,600 franchisers according to the Korean Franchise association. Most of the franchisers are 5 to 7-year old small retail firms, with 3.7 employees on average and ∈ 145,000 sales. 40% of the 20-30 year old Koreans want to create their own company.

The share of foreign franchisers is still weak. They are mainly active in the restaurant field : Hippopotamus (1 unit and 1 in project) and Lina's (2 units) represent France.

CHINA : THE RETAIL REVOLUTION IS ON BUT STILL SLOWLY

All the large global retailers are interested in China : Carrefour operates approximately thirty hypermarkets and Dia hard discounts will soon appear, Auchan 5 hypermarkets and 34 other stores in partnership with the RT Mart Group. As for the Americans, Wal-Mart has about twenty stores in two main cities and fifteen in a short term, Price-Mart 8 membership-warehouse clubs... more than a dozen other large retailers, from 7-Elven to Mary Kay.

Foreign retailers are entering the market but slowly although it is irresistible with a population of 1.3 billion Chinese and a growing economy. Moreover, as it will enter into the World Trade Organization in the next two years, the movement will speed up. As for the national retailers, the trend is alarming and they have already begun studying the means to protect their share of the market against the foreign « invaders ».

According to a survey by Leo J.Shapiro & Associates of Chicago and Feng & Associates of Beijing in September 2002, the following key-elements where found on four main cities including Beijing, Shanghai, Guangzhou and Chengdu with a population above 40 million inhabitants. They help foreigners understand the Chinese shoppers :

- most households have done their food shopping in the last 24 hours,
- in each of the four surveyed markets, 12% to 25% of the shopping trips were in the largest food chain, 35% in the street markets and almost nearly two-thirds (64%) in the foreign stores,

Among those who knew foreign-owned stores, 70% declared they preferred to shop at a Chinese-owned store,

- most of the Chinese (58%) bargain from time to time when they shop; one fourth (26%) declared they prefer negotiate to fixed prices.

In fact, the retail landscape is deeply changing.

Within one year, in Guiyang, the capital of a very poor province in the central-south of China with a population of 3.3 million inhabitants, one department store and two big-box superstores have opened including the latest by Da Chang Long in a 65,000 sq m space and 5 levels : food in one level, general merchandise in two, then entertainment/consumer electronics and the last is reserved for car sales and repair. In order to be successful, it must sell for US$ 150 to each household of the city.

Guiyang has almost no car : fewer than 5% of urban households own one. For now, shopping in big-box superstores largely depended on public transportation, bicycles and pedestrian traffic from highly populated zones.

Free markets and street markets. They are organized by suppliers who are specialized in a wide choice of fresh food, dry grocery and general merchandise sold at low prices from spaces they rent. The government controls hygiene and products less there than elsewhere.

Small shops are generally specialized in one kind of merchandise such as apparel, mobile phones, videos, toys, fruits or bakery.

Specialty stores are generally located in downtown and shopping streets and sell more contemporary and fashionable products, often brands at higher-end prices.

Convenience stores, located next to bus, metro and railway stations, sell beverages, snacks and a limited choice of food products. They often operate at extended hours.

Supermarkets are self-service stores that sell packaged food and dry grocery and often offer a limited choice of perishables.

Department stores : they are large units with several levels and leased departments. On one hand, they are inefficient state-owned units and, on the other, modern stores such as the Parkson units.

Big-box superstores of the French Carrefour and Auchan, the Japanese Ito

Yokado and PriceSmart, Wal-Mart and Sam's Club from the United States. Large local chains such as Wumei and Hualian sell home and national-brand items below prices in other stores but not necessarily below prices in the free markets.

Shopping districts gathering specialty retailers in one kind of merchandise. Among the most famous, Zhonguancun (consumer electronics) in the northwest of Beijing, also called «China’s Silicon Valley » or XiQiao Textile in Guangdong including 3,000 retail and wholesale shops and manufacturers specialized in the material and apparel market.

Peddlers are illegal but they often sell high-quality products and perishables.

Shopping habits.

If shopping is highly fragmented in the urban areas, many Chinese consider big-box stores as the best place for electronics, toys, houseware, electricals, apparel and shoes. Guomei, Yong Le, Bai Naohui, Hoyodo, Hualian, Shang Chang and Carrefour are the favorites. However, they prefer traditional markets for fresh produce, meat, fruits and eggs. But they have to bargain and quality and prices are not a given.

Bargaining is a second nature to Chinese people in free markets and sometimes in department stores, specialty stores and also in small shops. If fixed-price shops are generally preferred, 58% of the population bargain occasionally and 26% prefer bargaining to buying from fixed prices shops. While they declare to be attracted by the style and products from Europe and the United States, 70% of the shoppers familiar with foreign stores prefer buying from Chinese stores because of a very strong national pride. Those who prefer foreign big-box stores declare they like convenience, self-service, good reputation and product quality.

Evolution towards a western type retail trade is slow. Chinese appreciate foreign retailers but are not yet ready to leave their local traditional shops or the markets. Moreover, their limited purchasing power is a brake on growth which is translated in an annual average basket of US$ 7 or less than US$ 2,000 for an urban household.

Shopping :

characteristics		**awareness of foreign-owned stores**	
Shopped in past 24 hours	75%	Can name 1 or more foreign-owned stores	68%
Time spent shopping	67 minutes	Carrefour	23%
Average amount spent	US$ 7	Hoyodo	18%
Visited a free market	35%	RT Mart/Auchan	9%
% shopping among : - men - wo men	 66% 79%	Ito Yokado	4%
		PriceSmart	2%%
		Have shopped in foreign-owned store	63%

Everything being equal, would prefer shopping at store that is :

Chinese owned	70%
Foreign owned	30%
Prefer Chinese because : **National pride**	34%
Chinese merchandise	26%
Comfort, service	23
Low price	15
Convenient	14
Prefer foreign because : Convenience of shopping	42
Good reputation	39
Quality merchandise	15
Service	10
Price	5

Source : Leo J.Shapiro & Associates, LLC

Interviews were conducted in September 2002 by telephone in 450 households including 66% of women and 33% of men in the Chengdu, Beijing, Shanghai and Guangzhou metropolitan areas. ■

source : Chain Store Age Executive.

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MC DONALD'S, glory and shade.

In January 2003, the world's giant of the hamburger announced its first quarterly loss (US$ 34.8 million) since it was a listed company in 1965. Sales growth and return on capital that once registered solid ratios are falling. Same-store sales in the U.S, stagnant for a decade, have been sliding for 12 straight months. In 2002, the market capitalization lost more than US$ 20 billion and recently, at US$ 14 per share, the stock is near a ten-year low.

An old-fashioned image.

McDonald's position has eroded with the time at least in the U.S. An increased fast-food competition, a lack of innovation and poor marketing are the main reasons. Jim Cantalupo, at the head of the company during 26 years and who retired in 2001 after 26 years of service, was rehired to put the company again on the rails. He has already shaken up the management at the headquarters. He focuses strongly on service and food quality improvement in the 13,000 American fast foods and seeks to introduce new products into the menu and a new fresh salad line.

In the same time, Jim Cantalupo has decided to dramatically reduce the new unit openings worldwide, which used to include 1,700 new restaurants yearly over the past decade. He perfectly understood that the 10% to 15% yearly expansion growth was henceforth « an unrealistic challenge » as well as a threat to its core values. The philosophy is changing from « building more stores to get more customers toward getting more customer in our existing stores.» Currently, 700 underperforming units are closing.

McDonald's : two different companies.

McDonald's was once composed of two different companies making profits in two different ways. Like every fast food company, it is a franchiser that collects royalties from its franchisees who are independent operators. These royalties account for approximately 4% of sales. Then, McDonald's, in opposition to every other fast food firm, functions as a real estate firms because it owns not only the land but also the buildings of many of its franchisees worldwide. It is the reason why it collects rents (in the U.S) or the equivalent of 10% of its sales added to the 4% royalty.

This real estate activity is the reason why during a very long time, McDonald's chose to make profits by building and opening more restaurants than anyone else of its competitors. If Wendy's has 6,000 fast foods in the U.S, McDonald's has more than 13,000 (31,000 worldwide) that earned US$ 894 million in 2002 on US$ 15 billion revenues and US$ 41 billion in systemwide sales. Franchisees operate 85% of the total store count and the mother company 15%.

Today, the conflict is between the promise (a friendly and rapid service, good food) and profits driven by an explosive and unbridled expansion. At least until recently Cantalupo has understood he has to forgive the second way and relaunch the first one.

The paradox was apparent from the very beginning in the personality of its founder, Ray Kroc.

Ray Kroc did not invent McDonald's or the hamburger or franchising but he made the company famous with all three. From the day he discovered his first fast food in 1954, he was delighted by the system efficiency and rapidly developed it. He was an operation man but also a fanatic. Every pound of beef meat had to be transformed in exactly 10 burgers and every pound of cheese in exactly 32 slices and it was the same for French fries, potatoes, the cooking time, etc… But the problem was he did not earn money. Beyond his passion for performance, he rarely had the time to interest in his own company P&L and his inability to separate his interest in restaurants from finance have forged his personal paradox and the company's. It is the reason why in 1958 McDonald's operated 38 fast foods but net worth were only of US$ 24,000. Two years earlier he had lost US$ 7,000 and the company had then to borrow money from its suppliers.

Real estate saved McDonald's.

It is what saved the company at that time and what still continues to separate it from the other fast food chains today. According to a chief financial officer and Kroc's right-hand man, if McDonald's created a separate real estate firm, Franchise Realty Corp, it would be able to lease property and stores from local landlords and sublease to the franchisees. This man was not very much interested in hamburgers because he was a financial but his solution was brilliant. While collecting rents, McDonald's could generate predictable profits and stronger margins and gave operators comfortable twenty-year leases they could not have obtained by themselves and boosted growth by new restaurants. As long as the new restaurants were in activity, McDonald's made solid profits thanks to the traditional royalties and to rents as a percentage of sales plus a security deposit of US$ 7,500 on each new unit.

In order to put the system on its feet, the company had to borrow money and have a higher net worth. Accounting means have been found to show that future rent payments by franchisees could be shown as an asset. At the time it was a dynamic move that transformed the hamburger company into a real estate one. Between 1968 and 1975, openings exploded and grew from 100 to 500 per year. In 1974, 3,000 restaurants were operating, two thousand more than Burger King, the second largest firm in the business. In 1975, systemwide sales jumped 28% to US$ 2.5 billion and McDonald's announced a 32% growth in income during a recession period for almost everyone.

Cantalupo's choice.

Today employee turnover is very high which contributes greatly to a poor service. Thus, 35 more seconds than Wendy's are needed per order and those seconds are important. In fact, 163 seconds in average are necessary at McDonald's compared to 151 at Chick-fil-A and 127 at Wendy's. Now, according to McDonald's, saving six seconds at a drive-through brings a 1% increase in sales. For an average McDonald's franchise restaurant with US$ 1.6 billion sales, 35 seconds are translated by more than US$ 93,000 a year.

Since he came back at the head of the company, Cantalupo seeks to simplify operations. In some test markets, he cancelled articles from the menu and reduced extra-value meals from 13 to 8. New menus will show more pictures and less text in order to save time. The number of possible options to register has been reduced from 400 to 300. Newly automatic beverage and French-fry machines should spare time in the kitchen.

Still more important, Cantalupo launched the restaurant grading system again he had stopped in 1993 on a national standard in order to appease frustrated franchisees. Today thanks to « mystery shoppers » and new regional inspectors, the company can better identify even eliminate its underperforming fast foods. Overall the service level would have improved by 2.5% in 2002 and since January 2003, 45% of the American restaurants reached the projected performance. But the task is still long. Of its 13,000 American fast foods, 10% only have consistently improved the service quality since the beginning of this year.

In fact, McDonald's has let service decline as it had the means and because it was more profitable to open new restaurants. The conflict appeared at the end of the Eighties on the American continent with the fast food saturation and the new less expensive competitors like Taco Bell and Pizza Hut.

Instead of focusing on the American continent, Cantalupo decided to expand overseas as he saw greater opportunities in Europe and Japan. While problems at home did not disappear but they were largely hidden by profits generated by international expansion. Under these conditions McDonald's grew from 2,000 fast foods outside USA in 1987 to more than 4,700 in 1994 that accounted for 45% of systemwide operating income. Then the black side of the strategy became evident. McDonald's owns 52% of its domestic franchise property compared to 8% of the 21,000 units of its nearest competitor, Tricon, which operates Taco Bell, Pizza Hut and KFC. Worldwide, McDonald's is present in 118 countries and has invested net worth in 90 or 75% of those markets. Tricon is in 100 countries but has invested in 15, Wendy's in 26 and 2.

The situation became dramatic.

From 17% in 1999 the return on capital slid to 13% in 2002 because new fast foods were less profitable. As their number at home increased rapidly between 1994 and 2002, same-stores sales were stagnant or fell. The debt grew from US$ 6.2 billion to 10 billion last year. Outside USA, the situation became serious with the economic crisis in Japan and in Russia, and the mad cow.

At home, McDonald's was still facing problems. A boom in the restaurant activity, mainly in the hamburger chains, reached frenzied proportions in the middle of the Nineties. Several of its competitors began seeking a way out of the activity : General Mills sold Darden Restaurants in 1995, PepsiCo Tricon in 1997 then Diageo Burger King in 2002. In spite of that, McDonald's continued investing in new restaurants many of which cannibalized sales from existing ones. Even in 2002, capital expenditures still reached the same level of US$ 1.9 billion to open 1,300 new units worldwide and 300 in the U.S. In 2003, Cantalupo plans to add 250 new outlets or 40% fewer than in 2002 at home. In Europe, sales grew by 1% only and 200 new units only will be added to the 6,070 in operation. Meanwhile, 176 fast foods in 2,800 in Japan will be closed. McDonald's US property is at approximately US$ 4.2 billion and its market value US$ 6.9 billion….

Franchising.

Until recently, franchise partners adhered the system with enthusiasm. But in 2002, 126 left it because of poor performance including 68 who operated 169 fast foods. Margins fell from 15% to 4%. In fact, they own 85% of all U.S fast foods but have stagnant sales. McDonalds buys back franchises if they cannot be sold and took a pretax charge of US$ 292 million in the last quarter to close 719 restaurants including 200 in 2002 and the remaining units in 2003.

McDonalds tested all kinds of ideas and asked its franchises to buy back the ownership of their restaurants but there are too few and they own 4 restaurants on average compared to 7 at Wendy's and 16 at Tricon.

Innovation is necessary.

The recent evolution attempts were real failures and however the pressure to innovate is well there in front of a peaking competition. In fact, there are more « Subway » restaurants than McDonald's in the U.S and upscale sandwich shops like « Cosi » and « Panera Bread » account for the hottest part of the activity. According to Technomic, the « other sandwich category », a global market of US$ 14 billion, is growing by 12.8% compared with 2.8% for the hamburger market.

But what can McDonald's do ? Like Wendy's who draws today 40% of its profits from the Canadian Tim Hortons coffee-and-doughnuts chain it bought in 1995, McDonald's has developed what it called « partner » brands like Chipotle (Mexican fast casual), Boston Market (chicken rotisserie); he took a 30% stake in Prêt à Manger (upscale prepared sandwiches), in Fazoli's and Donatos Pizzeria. These brands decrease the pressure on the parent company. In fact, it is because McDonald's is too big a firm and its partners too small to have an impact. Collectively, these brands account for a little more than 1,000 units or less the size of McDonald's in Canada. In short, Cantalupo's task is huge… ■

Sources : Fortune, Business Week