# LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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# INTERNATIONAL

**✓In short…**

**Sari International is expecting to open a complex in Bucharest** (Romania) including a shopping center, parking lots, cinemas and offices. It is an investment of ∊ 34.18 million…

**City Mall, the largest shopping centre in Jordan**, is being built next to Amman and will be opened by May 2005. It is a US$ 56.4 million-scheme financed by Al Khair Real Estate Investment. It will include foreign and local retailers, a 10-screen multiplex, a 7,000 sq.m children's playground…

**Conforama has opened its 10th store in Spain (Cordovilla, Navarre),** next to Pamplona, in a 4,000 sq.m selling space offering above 5,000 SKUs. The company expects to open 35 new stores in 6 countries over 2005…

**Hermès, the Parisian luxury firm, has opened two stores in the U.S.A** : a second unit in San Francisco and one in Honolulu (Hawaii) bringing the total count to 15 in the American continent (200 worldwide). Expected sales in the first operating year are between US$ 3.5 million and 4.4 million…

**Athlete's Foot in U.K** : the American sporting goods firm with more than 750 franchised stores in 45 countries, will open its first unit in UK this fall. It will be the first of at least 20 units. Athlete's Foot is a subsidiary of the French Rallye group…

**Wal-Mart has postponed launch of Sam's Club in Beijing** whose first store was scheduled to open at the end of June…

# CENTRAL & EASTERN EUROPE

## RUSSIA

**✓Metro is heading into the regions.**

After 18 months, Germany's retail leader, Metro AG is already firmly established in Moscow as its 4th cash & carry is about to be completed in an 8,500 sq. space, accounting for a US$ 28 million investment, and in St Petersburg (two outlets). It has decided to expand aggressively into the regions. In these conditions by year-end it will open its first cash & carry in one of the following cities of the Volga/Don area : Rostov, Nizhny Novgorod, Samara, Kazan, Krasnodar and Volgograd (former Stalingrad).

Metro's chairman aims to invest ∊ 1 billion over the next five years. ∊ 400 million will be spent by 2005 to expand 20 stores including several Real hypermarkets. Metro AG in Russia posted revenues of ∊ 287 million in 2002 which are expected to double in 2003 according to Hans-Joachim Koerber who precises : « We are investing in the country and profit is not our primary focus. Our focus is gaining market share and developing our business. »

The first Real hypermarket, built in partnership with the Russian businessman, Shalva Chiriginsky, will be completed in 2004. Four to five will be built in Moscow by 2005 at a cost of ∊ 40 to 50 million each. They will be supplied more than 80% by local producers.

In addition, Metro would be ready to open its first two cash & carry in India (Bangalore) and to enter Ukraine. In Slovakia, it opened the fifth outlet (7,000 sq.m) in Zilina which will be followed by a 6th one in Poprad.

**✓Internet used by 10% of Russians.**

According to a recent survey, based on the methodology of Nielsen/NetRatings, there are 11.5 million users over the age of 18 in Russia, or 10% of the adult population, who surfed on the Web at least once in the past six months.

Russia is placed fifth in terms of user number behind Germany, France, Great Britain and Italy. It is the 10th country in terms of penetration behind Spain and ahead of Brazil. But U.S.A, Canada, Japan and China are not included in this survey.

Of the total Russian web users, 3.2 million go online every day, 3.2 million once a week, 2.5 million once a month, 1.6 million every three months and 1 million every six months. Among the users, 2.1 million, or 19% of the total, are concentrated in Moscow 1.9 million in the Volga district and 1.6 million in Central Russia, excluding Moscow…

58% of the users are men. 28% of the total are aged 18 to 24, 18% 25 to 34, 10% 35 to 44, 5% 45 to 54 and 1% is older than 55.

**✓Food retailing : sales per country.**

| | Population (inhab.mio) | sales (US$ bil.) |
|---|---|---|
| Albany | 3.4 | 0.8 |
| Bosnia-Herzegovina | 3.9 | 0.8 |
| Bulgaria | 8.2 | 2.9 |
| Croatia | 4.5 | 2.8 |
| Macedonia | 2.0 | 0.5 |
| Romania | 22.5 | 6.5 |
| Slovenia | 2.0 | 1.4 |
| Yugoslavia | 11.2 | 2.7 |

*Source : Emr-Namenews/Largo Consumo*

# WESTERN EUROPE

## FRANCE

**✓Carrefour has sold its optical centers in France and in Spain to Alain Afflelou and Apax Partners for approximately ∈ 95 million (including ∈ 71 million for Afflelou).**

This agreement includes the 68 French stores plus an equal number in Spain that generate ∈ 76 million sales including tax. This operation will have a positive impact on Carrefour net attributable income (after goodwill amortization) group share in 2003.

The Alain Afflelou group buys the French stores and Apax, a shareholder with 24% of the capital, the Spanish units. This avoids being scrutinized by the Office of Fair Trading, an automatic operation each time a new group is born from a take-over operation with sales above ∈ 150 million. All stores would adopt the Alain Afflelou fascia and a certain number of them could be proposed to franchisees.

Through this operation, Afflelou nearly doubles his park of stores which generated ∈ 91.4 million sales and ∈ 14.6 million net profit in 2002.

**✓Toys R Us France : departure of the president and ceo.**

Jacques Le Foll, at the head of the French subsidiary of Toys R Us France since 1988, left the company for « diverging views on certain points » with the parent company, while it registered a 10%-growth sales in the first half.

The chain became profitable again in 2000 after he had closed 13 units out of 44 in 1999. In 2000, sales of the 31 units were above sales generated by 44. Meanwhile, Toys R Us France had grown from a discount chain to a specialty chain after having invested ∈ 4.16 million within 3 years. In 2002, Jacques Le Foll had stimulated expansion again and he expected to operate 44 units again by 2006.

Toys R Us, which runs more than 1,600 toy stores in 27 countries, is no longer the world's largest toy retailer as it was overtaken by Wal-Mart. Sales slid 1.5% during the first quarter of the current fiscal year and operating profit fell from US$ 25 million to 15 million.

## GERMANY

**✓C&A, Germany's third largest apparel retailer, is back on the road.**

The chain, which operates 464 stores including 185 in Germany, focused and modernized its merchandise mix and the shopping environment in its stores. It was in losses in 2001 and in the last fiscal year 2002/2003, it tripled its net profit to US$ 125 million on sales growing by 2% to US$ 3.3 billion in Germany.

The chain will modernize the last 40 units, expand its Kids chain, and a Woman concept is being tested in Bremen and Lindau with three new German units to follow.

**✓Rewe : the German retailer has bought Bon Appétit, Switzerland's third largest grocer.**

Rewe, Europe's fourth food retailer (∈ 3.95 billion in sales in 2002) behind Carrefour, Metro and Tesco, has bought 53% of Bon Appétit from the Curti family and has bidden for the remaining shares on June 21 during a period of twenty days. Through this operation, the Rewe group, which belongs to around 3,000 independent retailers, is present in 12 countries excluding Germany and strengthens its presence outside this country where it anticipates € 10 billion sales this very year.

Sales of Bon Appétit amounted to € 2 billion in 2002 but it registered € 30 million losses following assets depreciation and the closure of Leshop.ch, its online supermarket. It operates approximately one thousand super-markets, hypermarkets, cash & carry and convenience stores.

# ITALY

**✓Benetton dynamic again under Silvano Cassano, a former Fiat Manager who became the new Group's chief executive since April 1.**

The Benetton family, who controls 70% of the casual wear company, has given Cassano a total freedom to manage it. He has chosen to focus on apparel again; he installed a new management in the headquarters near Venice and gave it the mission to put forward again the former small sweater maker. He also invested more than US$ 640 million to renovate the 166 units owned by Benetton.

But, Benetton is an industrial maker and not a retailer hence its difficulty. Moreover, 93% of its sales come from the franchise units while its competitors, Zara and H&M, own their stores which makes easier to install unified systems and track sales worldwide. It is why Cassano wants to wire the 5,000 stores from Naples to Beijing with information management systems.

In 2002, Benetton registered its first loss (US$ 1.5 million) on US$ 2.3 billion in sales due to its losing Sportsystem subsidiary. In the first quarter of the current exercise, net profit jumped 29% to US$ 29 million mainly thanks to the sale of this subsidiary. Casual wear sales increased by 3.8% in the same period before adjusting for the impact of exchange-rate fluctuations. As concern shock advertising, it should change…

# NETHERLANDS

**AHOLD : new accounting irregularities bring the total to € 966 million from € 500 million previously announced.**

All accounting investigations at Ahold, its subsidiaries and its joint ventures being completed, the retailer recently announced an additional € 73 million of intentional accounting irregularities related to improper purchase accounting.

In total, € 966 million of accounting irregularities have been found broken as follows :

- € 856 million (compared to US$ 880 million previously announced by Ahold) related to U.S.Foodservice,
- € 29 million principally related to Tops Markets in the U.S.,
- € 8 million related to Disco in Argentina.

Consequently, these irregularities may require adjustments in the year 2002 and restatements in one or more prior years.

Ahold is required to deliver its audited consolidated 2002 financial statements by August 15, 2003 to the syndicate of the banks involved. Moreover, Ahold would be ready to sell its 49%-stake in the capital of Jeronimo Martins which operates more than 200 Pingo Doce and Feira Nova supermarkets in Portugal.

# PORTUGAL

**✓ Eiffage Group : Parque Nascente in Greater Oporto is a shopping centre to be completed by September 2003. It is its fifth scheme in Portugal.**

- 56,600 sq.m GLA on 3 levels,
- 2 main anchors : two brands of the French Auchan group : a Jumbo hypermarket (9,000 sq.m) and a Leroy-Merlin DIY big-box store (8,600 sq.m), the first store under this fascia in Portugal,
- 150 stores including Zara, Pull & Bear, C&A, Benetton…, a dozen anchors including Norauto (1,200 sq.m), 3 middle-sized stores…
- a 3,900 sq.m food court : Pizza Hut, KFC, McDonald's,
- a 14-screen multiplex (6,500 sq.m) and a bowling,

…/…

- visitor forecast number : 12 to 14 million per year,
- investment : ∈ 120 million,
- 3,600 parking spaces,
- developers : Auchan and Eiffage Immobilier,
- Greater Oporto population : 1.3 million inhabitants.

Auchan operates 11 Jumbo hypermarkets and 2 Pao de Açucar supermarkets in Portugal with combined sales of ∈ 905 million.

# SPAIN

**✓Evolution of shopping centres.**

By 2002's end, there were 404 shopping centres in operation in Spain for a total of 7.7 million sq. m of GLA. Rents range from ∈ 39 per sq.m a year to more than ∈ 51 in regional centres above 60,000 sq.m; from ∈ 30 to 45 per sq. m in sub-regional centres of between 20,000 to 40,000 sq.m and from ∈ 27 to 42 in small centres up to 10,000 sq.m.

Growth was driven by the French Carrefour and Auchan, which built centres including hypermarkets as anchors. Then local retailers such as Eroski and El Corte Ingles sped the trend up. Restrictions imposed by planning regulations in the mid-Nineties had only a limited impact on their development. In fact, for the next few years, 260 schemes for a total of 5 million new sq.m would be in the pipeline : shopping centres with hypermarkets as anchors, centres located in railway stations, centres including leisure activities and centres with offices, hotels, cultural and sports activities and special buildings for old people.

27 centres (863,870 sq.m) were opened in 2002, which was the most important year in 10 years according to the Spanish Association of Shopping Centres. Henceforth there are 192 to 194 sq.m for 1,000 inhabitants from 175 sq. m in 2001.

Madrid and its area enjoyed the highest investments (∈ 289.817 million) as legislation concerning planning authorization is much more easier in this Autonomous Community : 160,742 sq.m or 18.60% of the total were opened in 2002 compared to 5.67% for Catalonia, a region with similar population and revenues.

According to estimates, the purchase amount by 1.10 million consumers in shopping centres was up 13% in 2002 from 2001 at ∈ 30 billion and accounted for 22% of the retail trade. Investment amounted to ∈ 1.557 billion.

# SWITZERLAND

**✓Maus group acquires 63.1% of the capital of Aigle, an outdoor apparel and shoe maker founded in 1853, from its management and Apax Partners.**

Aigle is Europe's fourth largest brand of outdoor wear and runs 124 outlets worldwide which posted ∈ 128.5 million in sales and ∈ 12.9 million operating profit in 2002. Its debt reached ∈ 12 million at the end of last year.

Maus from Switzerland, which groups the Maus and Nordmann family interests, is already owner of Devanlay, its textile licensee, and is a shareholder of Lacoste.

Through this operation, the Maus group is gaining strength in the French market. It left it while selling its 42% stake in the capital of Le Printemps to François Pinault's group in 1992.

Maus Frères controls several fascias such as the Parashop pharmacies, the Swiss Manor department stores, Athleticum as well as Jumbo hypermarkets which adopted the Carrefour sign following the agreement signed in 2000.

Apax Partners is a worldwide group of retail specialty investors.

# UNITED KINGDOM

**✓Retail crime.**

According to the last European Retail Theft Barometer, published by the Centre for Retail Research, theft, fraud and administrative errors cost on average 1.77% of the British retail sales in 2002. It is a higher rate than any other European country in the study. According to the British Retail Consortium, crime would amount to above £ 1.8 billion (∈ 2.6 billion) a year for UK retailers.

Part of the problem is due to the British justice system which is overliberal. Only 7% of the 820,000 shoplifters apprehended each year have to appear in court. Consequently, retailers decided to react and claim financial compensations from thieves.

In fact, according to the present situation, a retailer has the right to send three letters to the thief to ask him to pay a compensation. If he refuses, the retailer will eventually take him to the court.

Today 75 companies are members of a National Civil Recovery Programme which includes approximately 30 U.K retailers. They received £ 1.2 million (∊ 1.7 million) since the operation was launched three years ago. On average, they got £ 98 (∊ 141) per thief, which often includes the cost of detecting and investigating the retail crime but not the merchandise value.
*Source : Retail Week*

**✓Harrods could be up for sale.**

The department store flagship's image has been tarnishing among British consumers who would prefer Selfridge's. In fact, in the 2001/2002 fiscal year, the last year figures are available, sales fell 1.4% to US$ 811 million while retail sales in U.K grew by 5%. On its side, Selfridge's, which could be sold to the Canadian billionaire Galen Weston (cf. LLDI June 2003 issue), totally transformed itself into a « store of brands » pushing Gucci, Prada… and knows how to attract young customers into its food, cosmetic and electricals departments. Harrods is not well organized and unlike Selfridge's is closed on Sundays and more depending on tourists.

Mohamed Al Fayed from Egypt, Harrods owner, lost the Crown's customers after his son's death with Princess Diana. In 1995, he was offered US$ 3 billion for the store, today, rumors say Harrods is worth less US$ 1 billion.

In spite of denials, several candidates could be interested : Philip Green from Arcadia and Dickson Poon, the businessman from Hong Kong, who bought the Harvey Nichols chain sitting next to Harrods in London in 2002.

**✓Aldi cuts prices.**

The German discount grocer cut the price of 50 own-brand food products in order to keep up with its competitors, mainly Asda. It represents a £ 7 million (∊ 10 million) reduction.

Aldi entered the U.K in 1990 and operates 268 stores there. It announced a new price reduction on 50 lines by fall. This strategy is supported by 14 million leaflets and a national campaign. Aldi points out that it has always aimed to sell food products up to one third cheaper than supermarkets for similar-quality items.

**✓Asda, the British subsidiary of Wal-Mart, will open two « George » stores in September in Leeds (1,200 sq.m) and Croydon (800 sq.m), in London suburbs.**

They will offer apparel and shoes for men, children and junior catering to trend-savvy customers who live in densely populated areas. The company expects to open between 30 and 40 units over the next three years.

George was launched 12 years ago. It is currently the second British largest apparel brand by volume behind Marks & Spencer with a 6.5%-share of the market and approximately US$ 1.5 billion in sales according to an Asda spokesman. It is expanding into small and plus sizes, teens and maternitywear. It is also the only apparel line sold in the 260 Asda stores in departments from 250 to 2,000 sq.m. Basics and fast-fashion items are developed and produced in less than eight weeks. New merchandise is sold every four weeks.

George is expanding globally at a rapid pace thanks to Wal-Mart : it is sold in Germany, South Korea, Canada and U.S.A and will soon be introduced into Seiyu, the Japanese retailer whose the world's retail giant holds 35%.

**✓Kingfisher proposing to demerge Kesa Electricals plc.**

July 7, Kingfisher has demerged Kesa Electricals plc, third Europe's largest electricals retailer, gathering Darty and But in France, Comet, strong N°2 in UK electricals, Vandenborre, N°1 in Belgian electricals, Datart, N°1 in Czech Republic and Slovakia and BCC in the Netherlands. Kesa will be traded on the London Stock Exchange and subject to the approval of the French stock market authorities. Kingfisher shareholders will receive one share of the new entity for every Kingfisher share as the demerger has been approved by the Extraordinary General Meeting of Kingfisher on July 4, 2003.

After the demerger is effective and conditional on Kingfisher shareholder approval, the share capital of Kingfisher will be consolidated on the basis of 7 Kingfisher shares for every eight Kingfisher shares. One consolidated Kesa share of nominal value 25 pence will be offered for every five Kesa shares of nominal value 5 pence each.

The new Kingfisher entity will focus on DIY (B&Q, Brico Dépôt and Castorama) and Kesa on furniture and electricals.

**Kingfisher figures in the first quarter 2003**

| | 2003 (£ million) | 2002 (£ million) | growth % |
|---|---|---|---|
| Retail sales | 2,632.6 | 2,410.8 | +9.2 |
| Like-for-like sales | +4.1 | +1.4 | - |
| Operating profit | 154.0 | 114.6 | +34.4 |
| Investment | 103.9 | 109.7 | (5.3) |
| Net debt | 1,228.8 | 951.9 | - |

*Source : Kingfisher*

In the third quarter, ended May 3, group sales increased by 9.2% to £ 2.63 billion (∊ 3.67 billion) and like-for-like sales by 4.1%. Retail profit grew by 34.4% to £ 154 million (∊ 215 million) following the cancellation of the losing German ProMarkt recently sold. On constant exchange rates, profit increased by 18%. Sales of the DIY activity, which accounts for 71% of the total retail activity, grew by 17% and profits by approximately 30% and, excluding change rates, they were up 26%. Like-for-like sales of B&Q in U.K increased by 6.3% and profits by 16.7%.

In the whole year, Kesa Electricals (790 electricals and furniture stores in 7 countries) reported £ 3.4 billion (∊ 4.75 billion) sales and £ 193 million (∊ 270 million) operating profits. In the first quarter, sales, excluding ProMarkt, grew by 9.1% but like-for-like sales fell 1.3% as well as profit 16%.

# NORTH AMERICA

## UNITED STATES

**✓ICSC : several concerns during the last session of the International Council of Shopping Centers which held its spring convention last May in Las Vegas.**

It gathered 30,848 developers, retailers and financing executives from everywhere. After an evaluation of the situation, several trends emerged including :

- the hastening of « lifestyle centers, 30,000 to 40,000 sq.m centres gathering high-end specialty stores, food areas and leisure activities. Some of them would consider integrating discounts,
- the growing representation of municipalities in the congress : 41 cities compared to 23 in 2001. As mayors are interesting in new projects they become very active members of the association,
- the expansion of the Hispanic population to 33.2 million in 10 years who accounted for US$ 580 billion in retail sales according to the University of Georgia. The Latino market, in full expansion, should still grow by 60% in the next five years,
- the permanent difficulty in finding suitable pieces of land, overstored suburbs, overseas opportunities…

According to the ICSC, there were 45,721 shopping centers in operation that generated US$ 1.2 trillion in sales in 2002 up 4.2% from 2001. Non-enclosed centres accounted for 95% of the total number in U.S.

**✓Consumer spending :% of consumers at different income levels cutting back spending in 9 categories :**

| | | |
|---|---|---|
| 1 | music/CDs/ DVDs | **41% : income > US$ 100,000**<br>56% : between 50,000/99,999<br>69% : income < 50,000 |
| 2 | take-out foods | **40% : income > US$ 100,000**<br>46% : between 50,000/99,999<br>61 % :income < 50,000 |
| 3 | clothing | **39% : income > US$ 100,000**<br>47% : between 50,000/99,999<br>47% : income < 50,000 |
| 4 | magazines | **37 % : income > US$ 100,000**<br>48% : between 50,000/99,999<br>67% : < 50,000 |
| 5 | specialty coffees | **36% : income > US$ 100,000**<br>51% : between 50,000/99,999<br>71% : < 50,000 |
| 6 | greeting cards | **31% : income > US$ 100,000**<br>38% : between 50,000/99,999<br>49% : < 50,000 |
| 7 | premium brand foods | **28 % : income > US$ 100,000**<br>38% : between 50,000/99,999<br>73 % : < 50,000 |
| 8 | books | **26% : income > US$ 100,000**<br>37% : between 50,000/99,999<br>55% : < 50,000 |
| 9 | Cosmetics/ beauty | **24% : income > US$ 100,000**<br>38% : between 50,000/99,999<br>51% : < 50,000 |

*Sources : WSL Strategic Retail, Women's Wear Daily*

Affluent American consumers seemed to have adopted a new saving attitude according to WSL Strategic Retail. Households with above US$ 100,000 annual incomes are controlling their spending especially in low cost categories such as CDs, take-out foods or specialty coffees. Because they think that saving on popular items will leave them more discretionary income for expensive purchases.

As concern fashion, women are looking their wardrobe and realize that they have plenty to wear even if they have no new items. As for big-ticket purchases, they are postponed by one third of them, the other third is buying less.

High and low-income households are buying at self-service discount stores, supercenters, warehouse clubs and mass merchandisers.

**✓Casino is selling Smart & Final in Florida.**

The French retailer and The Gordon FoodService Group signed a letter of intention for the sale of the cash & carry and the foodservice activity based in Florida.

Casino had bought Smart & Final in 1984 and split it into two divisions in 1997 (Florida and California). In 1999 it streamlined logistics and a new management was appointed who stopped the aggressive expansion of the wholesale activity.

Sales grew by 3.6% in 2002 on constant exchange rates (sliding 1.08% in euros) but operating profit fell 50%. Hence the decision by Casino to sell the Florida activity and keep, at least momentarily, the California entity to focus on cash & carry.

**✓Starbucks is meeting problems in its overseas expansion.**

Its café stores that currently expand into 30 countries are meeting difficulties outside USA and Canada : Japan, which is in the heart of its strategy, is no longer profitable after two years of profits. Other reasons include opening costs and competition gaining strength as well as some resistance to its international expansion are the main reasons.

In Europe, the Starbucks formula is considered as an overpriced imitation of the existing cafés. Its 1,532 foreign outlets that account for 23% of the total but for 9% of sales only are losing money. However its international strategy that includes over 10,000 units by 2005 should contribute to its expansion once the phenomenon will slow down in the domestic field. It did not happen yet : in the first half 2002/3, net earnings grew by 31% to US$ 130 million on sales up 23% to US$ 2 billion. It holds 7% of the coffee-drinking market in the U.S.A and less than 1% abroad.

Its main competitors are in Europe and in Asia. In Great Britain, where it operates 330 units, it is facing problems as its rivals charge lower prices. In Germany, imitators have saturated the Frankfurt and Berlin markets with similar coffee bars. In Japan, consumers do not appreciate its coffee any longer and sales fell 17% in 2002. An annual loss of US$ 3.9 million has been announced on US$ 467 million in sales.

In addition, in order to expand rapidly, Starbucks accepted many joint ventures whose costs are hard to control. Now, outside the U.S, real estate and labor costs are much more higher. In order to improve the situation, Starbucks bought its partners out in Switzerland and Austria whose sales were stagnant, it closed six money-losing cafés in Israel and slowed its expansion pace by 50 units to 400 in 2003. Prices remain a major concern but it has time and money to put things right : it is almost debt free and has more than US$ 300 million in free cash flow which it can use in part for its international expansion.

**✓The Home Depot and Lowe's : sales and profits grew in the first Q 2003.**

The Home Depot posted net earnings growing by 6% to US$ 907 million from US$ 856 million one year earlier and sales by 5.8% to US$ 15.1 billion from US$ 14.3 billion in 2002.

` Same-store-sales fell 1.6% which is explained by difficult climatic conditions in a few markets, a sluggish economy and some disruptions from ongoing store resets.

Kitchen, bath and appliances were the best categories posting a 22% sales gain. With such a performance, 771 stores have enlarged this department and 800 further units will expand it by year's end. The second best category was garden thanks to new product introduction.

In addition, the Do It Herself workshops which were launched in May meet a great success. The average basket increased 1.8% in the first Q to US$ 5.129, inventories by 10% per store and inventory turned 4.7 times.

## COLOMBIA

✓**Carrefour increases its holding in Colombia.**

The French group, Valores Bavaria and Sigla have signed an agreement for the transfer of ownership of 45% of Carrefour Colombia, currently owned by Valores Bavaria (35%) and Sigla (10%) to be implemented before the end of June 2003.

Thus, Carrefour, which already owns 55% of the capital, will increase its stake to 100% once the current transaction, whose price has not been disclosed, is completed. It will have a positive impact on Carrefour results in 2003.

Carrefour entered Colombia in 1998 where it operates 9 hypermarkets. Two to three new stores should be opened in 2003. Sales amounted to ∈ 267 million in 2002.

✓**As Ahold exits South America, there is a market void.**

**Foreign leaders in eight countries :**

| | **Ahold (Netherlands) 506 stores** | **Carrefour (France) 676 stores** | **Wal-Mart (USA) 33 stores** | **Casino (France) 662 stores** | **SHV (Netherlands) 68 stores** |
|---|---|---|---|---|---|
| **Argentina** | 236 Disco, Plaza Vea | 264 hyper/super/ hard disc.. | 11 Wal-Mart | 32 Géant, Leader Price | 12 Makro |
| **Brazil** | 151 Bompreço, G.Barbosa, Hipercard | 4 hyper Carrefour | 22 Wal-Mart, Sam's Club, Todo Dia | 443 Extra, Pao de Açucar, Barateiro, Eletro | 36 Makro |
| **Chile** | 77 Santa Isabel | - | - | - | - |
| **Peru** | 32 Santa Isabel | - | - | - | - |
| **Paraguay** | 10 Santa Isabel | - | - | - | - |
| **Columbia** | - | 5 hyper Carrefour | - | 91 Exito, Optimo, Ley | 6 Makro |
| **Venezuela** | - | - | - | 52 Exito, Cada… | 14 Makro |
| **Uruguay** | - | - | - | 44 Disco, Devoto | - |

*Source : Retailing Today*

# ASIA

✓**DFI will invest US$ 50 million in 2003 to open approximately one hundred new stores in South Asia** : 30 in Malaysia, between 20 to 30 in Singapore and 20 each in Indonesia and India.

In **Singapore**, DFI operates more than 360 Cold Storage supermarkets, Giant hypermarkets, Guardian health and beauty stores, 7 to 11 convenience stores and Photo Finish developing units.

In **Malaysia**, it operates more than one hundred Giant stores, Cold Storage and Guardian; in **Indonesia**, 91 Hero supermarkets and the first Giant hypermarket is being build in Jakarta.

In **India**, DFI owns a 49% stake in Foodworld, which operates 84 supermarkets, and a 50% stake in Health and Glow.

This expansion should enable DFI, a leading retailer in South Asia, and a branch of the Jardine Matheson group, to further sustain the double-digit growth it has registered in the last four years.

## HONG KONG

✓**SARS impact on daily shopping behavior.**

According to ACNielsen, the SARS situation was the first concern of Hong Kong residents (52% in May compared to 56% in April) followed by unemployment (15%). Now, « Two new areas of concern surfaced, education and overall personal health in the long term. This can be largely attributed to the increasing health consciousness triggered by the SARS outbreak and parents'concerns about children's education when classes were suspended as a result of SARS ».

Since March, as people had remained at home, shops, department stores and shopping centres registered the strongest fall of their sales. On average, consumers went shopping 4 times per month from 6 times before SARS, a 40% drop. In fact, 34% of them did not go out to dine in April and between 50% and 75% did not buy any apparel or accessories. Under these conditions, activities fell 35% in April and restaurants suffered the most. According to this survey, almost 60% of persons aged 45 and above who are impulse shoppers did not buy much.

However Hong Kong inhabitants are optimistic expecting a consumer recovery within three months for 80% of them and less than 6% only are pessimistic expecting it for early 2004.

In the end, the virus stopped the falling trend in the grocery spending during the last four consecutive quarters with a 7% growth in April, largely due to the increased sales of household products and toiletries for Hong Kong consumers are very conscious about personal hygiene following the developing virus.
*Source : A.R.T*

# JAPAN

**✓Tesco is entering the archipelago through a 66.7%-stake in the capital of C.Two Network acquired from its founders and managers for ∈ 240 million.**

**Tesco**, U.K's largest food retailer, is about to control C Two Network, a former wholesaler who ventured into food big-box stores in 1994. He operates 78 supermarkets in the Tokyo area which account for 80% of its activity and earns ∈ 14.5 million on ∈ 395 million sales.

**Carrefour** entered Japan in December 2001. It operates 4 hypermarkets; Further three units will be opened by year's end in the Osaka area.

**Wal-Mart** bought a stake in the capital of Seiyu end of 2002/early 2003 and **Metro** is working in partnership with the Marubeni trading house. **Ikea** will enter this retail landscape by 2005.

As concern Tesco in U.K, it is testing a « wireless » device in one supermarket which enables teams equipped with mobile terminals to know the department and inventory level in real time and to inform customers on product availability and price. In case of success, the test will be expanded into Tesco's 760 domestic stores.

**✓Wal-Mart is taking its time in this country.**

The American giant is fully aware of the market difficulty generated by place scarcity and complicated distribution networks. In addition, it has to learn the market and its tastes. It is now one year since it has invested in Seiyu and did not open one store yet.

Its impact on this market, dominated by department stores, will be huge as it is to open approximately one hundred stores; it could generate a US$ 8 to 10 billion volume and expand at the expense of department stores such as Mitsukoshi and Takashimaya or discounters as Jusco and Ito Yokado even independent local retailers. For the time being, the economic context is sluggish and consumers are still looking for the best value.

A report by Deloitte Research predicts the following events :
- Wal-Mart will acquire a Japanese supplier and a new retailer,
- Wal-Mart will stimulate consolidation as local retailers seek to gain strength in order to better compete. This is why Seibu and Sogo department stores created Millennium Retailing and became one of the largest department store groups in the country. Seibu, based in Tokyo, operates 21 outlets and Sogo, in Yokohama, 11,
- the implementation of Wal-Mart's Retail Link system, the key of its « low price, low cost » business will take up to a decade,
- to open the first store is a question of time. In addition to the above difficulties (real estate cost, place scarcity…), Japanese are very fond of fresh food while its own food quality is generally below that found in local stores.

Its « Retail Link » is a Just in Time inventory replenishment system. Real time information is shared between the retailer and the supplier, eliminates the wholesaler and uses EDI (Electronic Data Interchange) to speed orders and payments up. As it will be used in Japan, software should be translated and local suppliers and retailers to integrate it will have to adapt to the American techniques. In Japan, according to Deloitte Research, « The distribution is multitiered, literally three or four steps from the time goods leave manufacturers to when they get to the retailer.»

To understand cultural and shopping differences is also a necessity as Japanese retailers use punctual high-low pricing while Wal-Mart's method is the everyday low pricing. In addition, Japanese consumers are used to go shopping while coming back from work, in several floored stores and the average basket is low. In such a context, the new Wal-Mart convenience store could better adapt than the hypermarket.

« Wal-Mart can afford to be patient. Japan is a complex market and by testing and learning the rules of the road before jumping in, they will eventually maximize their opportunities or minimize their risks » they say at KSA. Other consultants add : «Japanese know that American retailing including discounts, supermarkets and category killers (specialty big box stores) will be coming… WM has an opportunity to really do a good job. The Japanese consumers are interested in price and big assortments. They will gravitate to the big boxes. What happened here in the U.S. will happen to Japan and department stores will be diminished. Seibu, Mitsukoshi, Takashimaya and Isetan dominance will face as Wal-Mart creeps in. »

« The Japanese retail industry has had five or six years of no growth or slow growth. », observed Marvin Traub, former Bloomingdale's chairman and adviser to Financo. «The department stores are very large and a number do over US$ 1 billion but with lower rates of return, lower profits and higher expenses. Their pricing tends to be on the high side. » Such a context seems to be an invitation for Wal-Mart but the first question is « Whether it can find appropriate locations. Tokyo districts are filled with stores. » Consequently Wal-Mart will have to examine major cities suburbs and areas adjacent to railway stations where stores are located as Japanese are accustomed to go on train rather than by car… They invest less in cars and apartments and more in apparel, restaurants and travel. »

Apparently, some Japanese retailers do not see the American threat… at least for the present time…

*Source : David Moin, WWD*

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# WAL-MART, What limit to its expansion?

Today Wal-Mart is admittedly recognized as the largest food retailer in the U.S. But will it be able to maintain such an expansion pace? For the time being, it is one of its largest challenges.

**Performance keep growing.**

In 1998, in a prosperous economic context, sales and profits have increased at a frenzied pace : sales were up by approximately 17% to US$ 137.6 billion and profit by 25.6% to US$ 4.4 billion. The following year, they were still up by 20% to US$ 165 billion and profits by 21% to US$ 5.3 billion. Since the end of the Nineties, the economic situation slowed down heavily so has Wal-Mart's expansion. However, profits of the world's retail giant have still increased by 20.5% to US$ 8 billion at a quicker pace than sales that have grown by 12.3% to US$ 244.5 billion. It is evident that these good figures were obtained thanks to same-store sales which were up 5.1% and to 4.5 million in new store space including 192 supercenters, 43 discounts, 25 Sam's Clubs, 115 stores overseas and 18 Neighborhod Markets.

**Five-year forecasts (*)**

| years | Sales (US$ bil.) | Profits (US$ bil.) |
|---|---|---|
| 2002 | 229.6 | 7.7 |
| 2003^e | 253.8 | 8.9 |
| 2004^e | 282.9 | 10.1 |
| 2005^e | 311.9 | 11.5 |
| 2006^e | 341.2 | 12.9 |
| 2007^e | 370.6 | 14.5 |

**excl.McLane division e : estimation*

The economic situation remains difficult in 2003. However, in the first quarter of the current year, sales still increased by 9.7% to US$ 56.7 billion while net profit was up 14% to US$ 1.8 billion and same-store sales by 2.2% only.

**Wal-Mart compared to other American retailers.**

| firms | activity | sales (US$ bil.) | profits (US$ bil.) |
|---|---|---|---|
| Wal-Mart | Food/discount | 246.525 | 8.039 |
| Home Depot | DIY/home improvement | 58.247 | 3.664 |
| Kroger | Supermarkets | 51.759 | 1.205 |
| Target | Food/discount | 43.917 | 1.654 |
| Sears | Mass merchandiser | 41.366 | 1,376 |
| Costco | Food-warehouse clubs | 38.762 | 700 |
| Albertson's | Supermarkets | 35.916 | 485 |
| Kmart | Food/discount | 32.765 | (3 691) |
| Safeway | Supermarkets | 32.399 | (828) |
| JCPenney | Mass merchandiser | 32.347 | 405 |

*( ) loss sources : estimates by analysts and DSN Retailing Today, Dept. Research*

**Its current challenges.**

In order to achieve its targets, WM needs that consumers spend more in its stores since the war in Iraq is now over. Moreover, its inventory level has grown quicker than sales in the first quarter and at such a fast pace that it became one of its concerns which would oblige the retailer to mark down seasonal merchandise if a warmer weather did not come in the following quarters. If its performance concerns are not so important and in spite of the increased first quarter inventories, Sam's Clubs and the ongoing losses in Germany… everybody agrees to admit that it will continue expanding thanks mainly to the aggressive rollout of its supercenters.

While basing on the proven ability of its supercenters to gain market share and on its expansion potential overseas, WM is able to increase its sales by US$ 24 additional billion in the present fiscal year. Excluding the wholesale McLane division, that has been sold recently, sales will still grow to US$ 253.8 billion in 2003 from US$ 229.6 billion one year earlier. For the next five years, it expects sales to US$ 370.6 billion and profits to US$ 14.5 billion by the end of 2007.

To find quality employees is another Wal-Mart's concern. In fact, its workforce is composed of one million people in the U.S plus 300,000 worldwide and it seeks to add 800,000 workers globally by 2008.

**Supercenters (hypermarkets) are its corner stone.**

The « Stores » Division of Wal-Mart, which includes discounts, supercenters and Neighborhood Markets, should have a growing impact on the American retail landscape. It already accounts for US$ 157 billion in sales with 2,875 stores and a potential of hundreds of new units to open every year. In the last five years, the supercenter number has nearly tripled to 1,258 units by the end of 2002 from 441 in 1997. In 2003, WM expects to open 200 to 210 new units to bring the total count to 1,468 by year's end and US$ 11 billion will be invested in a new 4.8 million sq.m space.

Their success has generated the increase of the Neighborhood Market number. They are 4,000 sq. m convenience stores offering food, convenience items and pharmaceuticals under the same roof. However, the concept, launched more than four years ago, is slowly increasing : 49 only were in operation at the end of last year. As for 2003, expansion plans have been recently cut from 20/25 units to 15/20 units because the format would not have the potential growth it was originally thought.

As concern discounts, their number continues to shrink because some are transformed into supercenters. 1,568 were in operation at the end of 2002 and 45 to 55 are planned for 2003.

Wal-Mart has always shown a growing flexibility in its ability to adapt its stores to unique real estate opportunities. In China, Korea and United Kingdom, some of its stores are multi-level units. In the U.S.A, it operates 10 multi-level stores only but it expects to open further 50 such units.

**Sam's Club membership warehouse stores.**

This division that generates US$ 31.7 billion in sales would have a more limited expansion potential. Its performance was slow in 2002 and resulted in a management change. In addition, the competition of Costco, often considered as the best retailer of this specialized segment, is fierce and both chains have a limited domestic expansion potential. WM seems determined to change the situation as it recently declared : « It is in the process of establishing price leadership at Sam's."

Sam's decided to come back to basis principles : to answer to small business needs offering longer opening hours, large carts and a product mix composed of staple items that small businesses buy more frequently and of impulse items members can't resist purchasing for their personal needs… This strategy remains to prove it is right. Ten years ago, membership warehouse clubs were a new format and to be a member had an air of exclusivity. It is no longer the case today. However the activity has the possibility to continue its expansion and to exceed its low estimates in profits and sales to reach US$ 50 billion over 2008.

**International expansion.**

Wal-Mart international division seems having no limit in its expansion operating 1,288 stores with US$ 41 billion in sales. United Kingdom is the strongest country by sales with US$ 41 billion accounting for 44.5% of the international division total. Germany, China, Korea, Japan, Brazil and Argentina are growing ; it is the largest retailer in Mexico, Canada and Puerto Rico.

Expansion should come from new stores but acquisitions will play an important role as it is the means for Wal-Mart to enter new countries and to gain strength on markets where it is present : thus, in Japan, it grew its share in the capital of Seiyu, that operates 400 stores, from 6.1% to 35% three months later in December 2002 and should still grow to 66.7%.

WM seeks to acquire a new firm in the U.K in addition to Asda as it can be seen in its bid for Safeway. But it is in competition with other British retailers. In other countries organic growth is its method of expansion which is the case in Canada : 17 stores were opened in 2002 bringing the total to 213. Mexico is another example and it opened 46 units in 2002 bringing the total to nearly 600 units.

Whatever its method, its international expansion development is expected to be greater than in the American continent.

**Wal-Mart's strength.**

Wal-Mart has dominant market shares in broad categories such as food, apparel, jewelry, sporting goods and toys or in narrower categories such as motor oil, underwear and pet food. In pharmacy, electronics, office supplies, hard goods, its pricing approach make it an influential force.

As we have read above, the Store Division which includes 1,568 discounts, 1,258 supercenters and 49 Neighborhood Markets increased by 13% hence a US$ 18 billion addition in sales bringing the total to US$ 157 billion by year's end. Most of this growth came from the category defined by WM as « Grocery, candy and tobacco. »

Sales breakdown at Sam's Club shows 5 large categories : food, hardware, softline, service businesses and sundries which posted 31% or nearly US$ 10 billion of the total sales of US$ 31.7 billion in 2002. Food, hardware and softline categories all that registered sales growth during the last four years Sam's has provided an outline of its sales breakdown. But service businesses are the fastest-growing sector with 13% of sales in 2002 from 7.8% in 1998.

**Other expansion ways.**

For now, Wal-Mart has tried in vain to acquire a bank and is interested in entering the automotive market by acquiring a company, CarMax possibly. Beyond financial services, foodservice is another segment to offer expansion possibilities.

However, its long-established presence in businesses that have already proved their ability helps it to gain market share such as food, apparel and other smaller categories.

**Wal-Mart Stores : 2002 sales (per cent share by category) based on US$ 151 billion in domestic sales from 2,875 stores.**

| | |
|---|---|
| Hardgoods | 21% |
| Softgoods/domestics | 18 |
| Pharmaceuticals | 9 |
| Electronics | 9 |
| Health/beauty | 7 |
| Sporting goods/toys | 6 |
| Stationery | 3 |
| One-hour photo | 2 |
| Jewelry | 1 |
| Shoes | 1 |
| Grocery, candy, tobacco | 24 |

**Sam's Club : 2002 sales (per cent share by category) based on US$ 31.7 billion in sales from 525 stores.**

| | |
|---|---|
| Food | 30% |
| Hardlines | 19 |
| Service businesses | 13 |
| Softlines | 7 |
| Sundries | 31 |

**Some department survey.**

**- women's apparel.**

Wal-Mart has new means to attract the female customers and is launching all ways into this category while importing the George label of its British subsidiary (read this article). This brand, which offers fashionable casual wear for young customers, is added to Levi's Signature brand introduced into all its stores this fall. The family mother is still the core customer but her tastes have changed; in fact, many among them perceive fashion and quality as equally important as price and Wal-Mart wants to offer both. Now, with a moderate touch of fashion in this department, the retailer is able to enlarge its customer base.

**- men's and kids'apparel.**

During the last two years, WM changed greatly in terms of brands, fashion and quality. Consequently, it continues to gain market share from department stores, which are facing a falling demand and diminishing traffic at shopping centres. Today, as its masculine customers are more interested in fashion than their parents, WM is therefore trying to attract them while offering a certain number of new brands such as Five Star made by Wrangler, Signature by Levi's, the George fashion line by Asda or others from department stores such as Bugle Boy.

As for children, the retail giant knew how to successfully extend the former department store fashion brand that it introduced into its boy's and men's departments in 2002. It also expanded the presentation of another fashion brand, Jordache. If those two brands are the key to its expansion strategy into kids' apparel, basics always remain crucial for its global development but price remains an essential selling element for it.

**- dry grocery.**

Wal-Mart's domination of the food landscape is greatly due to its ability to offer the best price in dry goods such as canned goods, cereals, pet foods. Today, it succeeded in controlling the largest share of the domestic food retailing, -according to analysts, it should be approximately 12% overtaking Kroger (11%), the leading supermarket chains- it is mainly through its supercenters growth. In Wal-Mart's Stores Division, grocery, candy and tobacco sales increased by 9% to US$ 24 billion in 2002 coming mainly from non perishable items. Food sales at Sam's Clubs accounted for US$ 9.5 billion of the total sales of US$ 31.7 billion.

A survey published early 2003 by McKinsey & Co shows that in a sluggish economy, consumers are looking for value. It indicates also that mass merchandisers already control food categories such as pet food, baby products and healthcare while they gain market shares in non-perishable grocery segments. It shows also that the best sellers in dry goods are cereals, cookies, fresh bread, candy, cola…

**- sporting goods and toys.**

Despite its leading position in sporting goods, WM is well positioned to continue increasing its market share mainly by opening new departments. In addition, while it does not sell brand shoes, it greatly increased its merchandise quality in many categories such as fishing, team sports…

While offering a wide toy mix in its 2,800 domestic stores and thanks to its ability to rapidly jump on new trends, WM is particularly well positioned to continue gaining market shares. It overtook Toys R Us as the nation's largest toy retailer, a market estimated at US$ 20.3 billion by the Toy Industry Association, thanks to supercenters that are performing very well in this field while operating 600 sq.m departments. WM is very efficient thanks to its relationships with movie studios that create children's movies and the licensees that manufacture related products.

Its largest difficulty to gain market share in the toy business is due to the limited global growth of the market which is not estimated to grow rapidly in the future. Total toy sales fell to US$ 20.3 billion in 2002 from US$ 20.5 billion in 2001.

**- lawn and garden.**

This category is very successful among an aging population who is interested in home improvement and gardening. According to a survey by the National Gardening Association, 48% of shoppers purchased at a mass merchant in 2002 from 31% in 1997. On their side, home center activity grew by a mere percentage at 52%.

Thanks to its low price, WM has become a destination place for garden basic items. In fact, a quarter of all fertilizer and potting soil sold in the United States every year is bought in the mass merchandise stores of which WM is the leader. Weaker categories include power tools and garden decor, two sectors dominated by home centers. WM can be considered as a reduced version of a home center as it caters to the consumer and not to the broader channel of the landscape professionals such as The Home Depot. All its supercenters, excluding 50, have outside garden centers which account for a seasonal business from spring to early fall. The indoor part of the garden department is adjacent to the pet supply and toy departments.

**Logistics is in the heart of Wal-Mart's strategy to gain market shares.** Long recognized as a key competition advantage, WM operates a global network of 146 warehouses including 103 in the American continent which supply nearly 2,800 discount stores, supercenters and Neighborhood Markets and 525 Sam's Clubs plus 43 warehouses that supply Wal-Mart's 1,300 international outlets in 9 countries. Six new units are in the pipeline in 2003.

Even with a network generally considered as the most efficient in the industry and a supply chain management, which has long emphasized visibility through the information sharing with suppliers, WM is powerless when consumers demand is falling short of sales estimates. In the third quarter of 2002, inventories grew by 7% while sales grew by 11.5% followed by a new 10% inventory increase on 11% sales increase in the fourth quarter. In the first quarter 2003, there was a new inventory increase of 13% on a 9.7% sales gain. There are many reasons to this phenomenon (climatic conditions, the after 9/11 terrorist attack period and the war with Iraq, SARS…) which push retailers and manufacturers to adapt to the new reality of the supply chain, i-e, the unexpected. Its willingness to face change and its hope to enjoy a more efficient supply chain forced it to participate in an experience led with major industrials that involves RFID or Radio Frequency Identification that helps to track individual items throughout the supply chain.

**Conclusion.**

Size may be Wal-Mart's Achille's heel. Its founder, Sam Walton, worried seeing his company growing so large that he feared he could not operate it efficiently. In his autobiography, published in 1992, the very year he died, he wrote : «The folks who come after me are eventually going to have to face up to this question. Even by thinking small, can a US$ 100 billion retailer really function as efficiently and productively as it should ? Or would may be five US$ 20 billion companies work better ? » He is often quoted by his different executives who still refer to him and his book and his philosophy is still in the heart of the firm's culture : « The customer always comes first, treat your people well, think small and drive down costs.»■

*Source : DSN Retailing Today*

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**Publisher** : Patrice de Chabot,
e-mail : pdechabot@chabot-associates.com

**Chief editor** : Brigitte Guillot,
e-mail : bguillot@chabot-associates.com

7 rue Fould, 78600 Le Mesnil le Roi,
France
Tel/fax 33 (0) 1 39 12 17 93

www.chabot-associates.com

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