

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

SEPTEMBER 2003-volume V-N°45

INTERNATIONAL

✓ **Ikea opened a new store in Malaysia on August 15th, its largest in Asia (35,811 sq.m), in the suburbs of Kuala Lumpur.**

The Swedish home furnisher is taking more interest in Asia as consumer demand is larger than in Europe. Even if Asia, Middle-East and Australia did not account for more than 4% of its sales in 2002, it announced last May it will invest US\$ 600 million to open 10 new stores in China by 2010. This announcement is made as Ikea saw its sales rise 24% to US\$ 86 million for the fiscal year 2003.

In Malaysia, Ikea has already invested US\$ 106 million within the past three years and has planned 40 more million. It anticipates annual sales of US\$ 100 to 200 million within the next four or five years compared to US\$ 50 million today. A regional distribution center in the country is in the pipeline to supply the Asia-Pacific region and further stores in Johor Baru and Penang within 5 to 10 years.

In Eastern Europe, Ikea wants to invest US\$ 100 million in **Poland** over the next 2 to 3 years according to Jan Musiolik, the local president. « This country is now the world's largest supplier of products to Ikea network with respect to volume and second largest with respect to value. » he added. Ikea, which runs 7 stores there, plans new units in Lodz, Szczecin, Bydgoszcz and Gliwice by 2006.

In Russia, Ikea plans to invest US\$ 300 million in a second shopping center with 250 stores in Moscow to open in mid-2004 according to the general director of Ikea for Russia who also plans to move to St Petersburg and Kazan.

For years, Ikea thought expanding slowly **in the U.S.A** in order to better understand the market and to build factories. Ikea has now changed its mind and has planned 5 stores every year in North America for the next decade with the idea to enjoy economies of scale in marketing and manufacturing. This

strategy is refining while American retailers are becoming cautious.

Ikea entered USA in 1985 and runs 18 units there. In Canada, 2 are in the pipeline in Montreal and Toronto, which will bring the count to 11. Globally, in North America, 50 units are planned or 10 every year.

Ikea's global sales which amount approximately to € 11 billion in 2002 with 184 stores worldwide, were up 54% in the past five years driven in part by its aggressive expansion into Eastern Europe and Asia.

EUROPE

✓ **The EU as a whole should see a GDP increase by 1.5% in 2003 compared to 0.9% in 2002.** In the 18 countries of the chart below, more than two-fifths have seen their real GDP growth forecasts cut by more than 1% for 2003.

Economic growth forecasts and revisions

GDP forecasts 2003	autumn 2002	winter 2002/3
Germany	1.4	0.7
France	2.4	1.4
U.K	2.7	2.6
Italy	2.2	1.4
Spain	2.8	2.3
Portugal	2.6	1.4
Austria	2.5	1.7
Belgium	2.8	1.3
Netherlands	2.2	1.0
Luxemburg	6.8	2.5
Rep.of Ireland	4.3	3.5
Denmark	2.6	1.7
Finland	3.7	2.5
Sweden	2.7	2.5
Norway	2.2	1.1
Czech Rep.	4.5	3.5
Poland	3.0	2.9
Switzerland	2.1	1.2

Source : Oxford Economic Forecasting/OECD

Over 2003, The highest growth is forecasted in the Czech Republic and the Republic of Ireland with 3.5%. It will be weaker in Germany and in the Netherlands with respectively 0.7% and 1.0%. Forecasts of economic growth in United Kingdom, Luxemburg, Poland, Finland, Sweden and

Spain indicate that they will grow by more than 2% and especially in this last country where the housing market is still booming.

In spite of a slowdown in 2002, the European retail sector, boosted by a strong demand in many European countries, seems rather solid with a rental growth of 1.6% over 2003.

European rental forecast by sector :

Forecast 2003	2002	2003
Retail sector	6.0%	1.6%
Office sector	-2.7	-1.4
Industrial sector	0.2	0.8
All property	1.1	0.0

Source : King Sturge

✓The 10 largest outlet malls ranked by their Gross Leasable Area.

Names	Location	GLA in sq.m	Opening date	Store number	Main signs
McArthur Glen Serravalle	Serravalle, Italy *	35,500	2000	139	Bulgari, Prada, Versace, Polo R.Lauren
McArthur Glen Cheshire Oaks	Cheshire Oaks, U.K	34,400	1995	134	Burberry, Calvin Klein, Episode
Marques Avenue	Troyes, France	32,000	1993	100	Hugo Boss, Reebok, Charles Jourdan
The Lowry	Manchester, U.K	32,000	2001	85	Marks & Spencer, Nike, Reebok
The Galleria	Hatfield, U.K	30,000	1995	89	Marks & Spencer, TK Maxx
McArthur Glen Livingston	Livingston, U.K	29,000	2000	103	Calvin Klein Jeans, Burberry
Foxtown Factory Stores	Mendrisio, Switzerland	29,000	1995	130	Gucci, Prada, St Laurent, Versace
Franciacorta	Brescia, Italy	26,000	2002	120 once built	Stefanel, Versace, Nike
McArthur Glen York	York, U.K	24,000	1998	107	Hugo Boss, Burberry, Armani
McArthur Glen Bridgend	U.K	23,000	1998	91	Marks & Spencer, Nike, Reebok

source : WWD

Outlet malls are opening everywhere in Europe and those already existing are always enlarging their space in spite of the difficulties to obtain building permits.

CENTRAL & EASTERN EUROPE POLAND

✓Small stores and international retailers.

Despite the fact that the retail store number has doubled to 450,000 units within the past ten years, the country should continue enjoying a spectacular retail sales growth according to a report from PMR.

During the past decade, the retail trade was boosted by a certain number of factors and not only by the rapid growth of the local economy. Big international players settled in the country : of the top 20 European retailers, 12 are already present in Poland and more than 120 others would like to enter it by 2005.

GfK indicates that the share of the foreign retailers in Poland grew from 0% in 1990 to 50% in 2002 but big-box stores do not account for more than 2% of the total number of food outlets.

According to the Central Statistical Office, in 2001 there were over 449,000 stores. Small shops (50 sq.m) account for 92.4% of the total and, according to Nielsen, there are 4 hypermarkets only for one million inhabitants compared to 20 in Germany and 13 in the Czech Republic.

This report indicates also that there are 72,575 retail and wholesale stores including 163 hypermarkets, 1,016 supermarkets, 1,104 discounts and 228 cash & carry. But hypermarkets accounted for the largest share of the total retail sales (21%) ahead of cash & carry (20%) and supermarkets (10.5%).

Metro is the largest retailer with € 2.4 billion sales in 2002, followed by Jeronimo Martins from Portugal (€ 1.12 billion), Casino (€ 825 million), Carrefour (€ 802 million) and Auchan (€ 800 million) from France.

Such a development by big foreign retailers stimulated consolidation in 2002 : in July, the British Tesco bought 15 HIT hypermarkets from the German Dohle, Jeronimo Martins sold 5 Jumbo hypermarkets to the Dutch Ahold.

As most of the major urban areas are already well supplied with hypermarkets, small Polish outlets could also expand and open their own supermarkets in the rural areas like Groszek, Stokrotka and Zabka.

Total retail sales increased between 2000 and 2001 by 4.5% to € 86.31 billion.

ROMANIA

✓Shopping centers projects.

- **Plaza Romania** is under construction west of Bucharest. It represents an investment of € 35 million by the Turkish group Fiba who has already injected € 50 million in Bucharest Mall (47,500 sq.m). This new center of 80,000 sq.m total area will include 150 shops, 25 restaurants, a large Gima supermarket (6,000 sq.m) and a multiplex (2,300 seats).

Totally, the Turkish group's investments amount to above € 80 million in the Romanian market,

- **Power Center**, under construction, represents an investment of € 43 million by the Belgian group Liebrecht & Wood : it has 73,000 sq. m in total space including 61,000 sq. for the shopping gallery and 13,000 sq.m for offices and warehouses,

- **Unirea** and **Victoria** centers are completely renovated,

- **Chiajna center**, opened in 2001, includes a Carrefour hypermarket as an anchor store operated by the French Hyparlo. It was enlarged from 8,500 sq. to 10,000 sq.m in the first half of this year,

- **Orhideelor** will open in Bucharest September 24, 2003 in 30,000 sq.m and include a Carrefour hypermarket (17,000 sq.m) operated by Hyparlo also,

- a third **Carrefour center** is under construction (8,800 sq.m) in **Colentina**, northeastern Bucharest, to be completed early 2004; a fourth center will be opened in Brasov (fall 2004) in 6,500 sq.m.

RUSSIA

✓Pyaterochka : expansion projects.

The largest Russian food retailer by store number (140 convenience stores) and by sales plans to open franchised supermarkets in all the cities of at least a

million inhabitants. By the end of this year, it expects to have 7.

In total it wants to open 10 shopping centers and 46 supermarkets in Russia in 2003 and invest US\$ 70 million in the development of this network. For now, it operates 83 supermarkets in St Petersburg, 71 in Moscow, 10 in Voronezh, 10 in Chelyabinsk, 2 in Ufa and 1 in Perm. In 2002, its sales were US\$ 500 million and US\$ 630 are expected this year.

✓Mc against Mac, a hard fight is taking place.

The owners of the MacCoffee brand are challenging the American McDonald's in Russia with a very similar logo as they want to open a chain of coffee shops under the MacCoffee sign in Moscow. FES (Future Enterprises Singapore), which has sold instant coffee under the MacCoffee label since 1994, is already owner of the MacTea, MacCandy and MacFood trademarks.

As for coffee, McDonald's is ahead of the company from Singapore. In fact, the first McCafe in Russia opened at the end of 2002 in a McDonald's restaurant in Moscow on the Arbat and McDonald's launched the McCafe brand internationally in 1995, which is now present in 20 countries and is being considered in 100 countries. According to a spokesman from the American company, McDonald's had applied to register the McCafe trademark in Russia in 2001 but the process takes time. Today, it did not reveal whether it was ready to launch a coffee chain in Moscow.

McDonald's announced its profit grew by 6.3% to US\$ 798.3 million during the first half on sales up 7.4% to US\$ 21.62 billion. However, in the second quarter, while sales in the USA rose 8%, they grew 21% in Europe due to the dollar variation against the pound and euro but, on constant exchange rates, they increased by 1% only and like-for-like sales declined 1.8%. Source : *The Moscow Times*

SLOVAKIA

✓Tesco will open 6 hypermarkets before the end of this year.

The largest unit was opened in Zlate Piesky, next to Bratislava, on August 26th in a 11,400 sq.m space. It will be followed by a second hypermarket in the capital and by further ones in Sala, Levice, Dubnica, Nove Zamky and Michalovce totaling 162,000 sq.m.

Tesco operates 6 supermarkets and 12 hypermarkets in Eastern Europe (130,000 sq.m) with sales of US\$ 442 million in 2002.

WESTERN EUROPE

BELGIUM

✓ **Delhaize le Lion: second half 2003 results show net earnings decreasing by 41.3% to € 55.6 million on sales falling 13.2% to € 9.249 billion.**

The Group explains performance were impacted by the weakening of the US dollar by 18.7% against the euro and the closing of 41 Food Lion and one Kash n'Karry stores early 2003 in the U.S where it generates 80% of its turnover. Exceptional expense was € 116.4 million due to charges for the closing of the 42 US stores, the reduction of support and management positions at Food Lion and the second quarter accounting change at Food Lion and Kash'n Karry.

Operating profit decreased also by 5.7% to € 399.1 million. At identical exchange rates, it would have increased by 13%. Profit before income taxes and exceptional items was € 220.2 million, an increase of 24.2% compared to € 177.3 million one year earlier and net debt decreased from € 3.9 billion at the end of 2002 to € 3.4 billion at the end of the second quarter of 2003 due to a weaker US dollar.

The Group revise positively sales and earnings for 2003: at identical exchange rates, the annual sales will grow by 2.0% to 3.5%, earnings before goodwill and exceptionals between 15% and 20%. It expects net income at -13% to flat as compared to 2002 and be between € 128 and 147 million.

The group just bought 43 American Harvey's supermarkets for \$ 26.1 million cash.

FRANCE

✓ **Carrefour continues growing.**

For the first time after six quarters, sales grew 2.9% which can be translated by net sales of € 33.588 billion up 6.3% at constant exchange rates in the first half. Net profit group share after goodwill jumped 17.9% to € 472 million and EBIT (operating profit) rose 7.1% to € 1.1 billion. Consequently, the group raised its full-year sales growth target at constant exchange rates to above 6% compared to 5%

previously announced. These good figures are the fruit of the cost and debt management: operating costs declined from 19.6% in the first half 2002 to 19.3% to June, the average net debt from € 12.835 million to € 11.0 million and net debt from € 11.5 million to 10.7 million.

The group recently launched the « Number One » line whose price of 500 products are 40% less expensive than Carrefour products and 50% less expensive than national brands; it launched also the Ticket Cash which grants rebates on the next purchase.

Ed, its hard discount subsidiary (503 owned stores), signed a draft treaty with the German Edeka Sud-Ouest in order to buy 44 Treff Marché hard discounts, located in Alsace, Lorraine (East of France) and Franche-Comté. The decision is depending of the Office of Fair Trading.

In Belgium, Carrefour has bought 20 Battard and Central Cash supermarkets out of a total of 28 operated by Laurus in this country. They will be progressively transformed into the Super GB format until April 2004. The French Casino owns 36% of the Dutch retailer Laurus.

In Asia, Carrefour has invested US\$ 121 million into the Indonesian retail market with 11 new stores in Bandung (1) and Jakarta (10). They will be followed by further units in the main cities of Java. Bandung's hypermarket was built on 8,000 sq.m of land and opened on July 16th 2003 in the Mollis Mall shopping center.

In Taiwan, Carrefour which runs 28 stores, will open 3 new ones by the end of the year while its competitor, Makro Taiwan, decided to end this business in February.

✓ **Casino: in the first half**, consolidated sales excluding VAT hit € 11.012 billion including 8.75 billion in France and 2.25 billion outside. At actual currency, they fell 0.2%. At constant exchange rates, they grew by 5.5%. Operating income grew by 10,3% to € 442.9 million and operating margin was 4.0% from 3.6% in the first half 2002. Net income increased by 12.1% to € 199 million. All signs recorded good performance mainly Franprix and Leader Price. In France, sales were up 4.7%. In the international activity, which accounts for 21% of its activity but 4% of its consolidated operating income, sales grew by 8.0% at constant exchange rates. Figures are improving due to the sale of non

performing activities in the U.S.A, to measures under way in Poland and Taiwan and a turnaround at the Dutch Laurus.

In addition, Casino has just proposed its shareholders to vote on the change of the corporate governance structure to a public limited company with a board of directors. Jean-Charles Naouri, president of Euris and major shareholder of Casino, has been elected Group's president.

✓ **Galerias Lafayette Group (Galerias Lafayette, Nouvelles Galeries, BHV and Monoprix) : 2nd quarter revenue hit € 1.29 billion (minus 1.9%) compared to € 1.31 billion in the 1st quarter.**

During the first half, consolidated sales grew by 1.4% and like-for-like sales by 0.3% to € 2.62 billion. But retail sales of the department stores fell 3.4% : they were down 8.4% in the flagship in Paris, boulevard Haussmann due to a decreasing number of tourists in the city and difficulties tied to public sector strikes in May and June.

Moreover, the future Paris Lafayette Maison store, which will offer furniture, decoration, crockery..., in the former premises of Marks & Spencer, in front of the Galeries Lafayette flagship, will be opened during Spring 2004 in a 10,000 sq.m of space. The Group invested € 20 million to rebuild its 5 levels plus € 229 million to buy the 10 French stores of the British retailer.

✓ **Pinault Printemps Redoute : in the second quarter sales decreased 9.7% in actual terms to € 5.97 billion but increased by 0.5% on a comparable structural, exchange rate and day-year basis. In the first half, sales fell 7.8% in actual terms but like-for-like sales grew by 1.7% to € 12.274 billion.**

In the retail division, the home-improvement chain Conforama sales remained virtually unchanged (down 0.3%) in the second quarter and like-for-like sales grew by 2.9% only in the first half. It is pursuing its international expansion in Southern and Central Europe : it opened the fifth unit in Portugal and the second in Croatia. In the second half, it will open a third unit in Croatia and one in Spain and Portugal and a new logo is announced for September on the windows and inside the stores.

Redcats mail order sales grew lightly by 0.7% in the quarter and by 3.3% in the first half due to a bad June month in the US (down 7.7%).

The Fnac consumer electronics stores, located in Paris, have been impacted by public sector strikes generating falling sales (-3%) between April and June; on a comparable basis, their sales grew by 7.4% in the first half.

Au Printemps department stores registered also decreasing sales by 3.3%.

The New PPR Group, less Guilbert, Finaref and Pinault Bois & Matériaux which have been sold, reinforced its positioning on the luxury and retail arms, registered sales growing by 1.7% in the second quarter and by 4% in the 1st half on a comparable basis.

✓ **TATI, funded in 1948 by Jules Ouaki in Paris, is in suspension of payments.**

Since 1993, the French discount chain accumulated strategy errors which generated the first loss in 1996 (€ 12.1 million). Its international activity (USA) and its diversifications (29 jewel, candy, travel, optical, bride dress stores) forced Tati to close a first unit in Paris in 1998 then to sell a second one in 2002 and to close 5 further outlets in the French provinces the same year...

Sales declined to € 150 million in 2002 and operating income negative (minus € 4.3 million) in 2001 went down to minus € 10 million in 2002. Moreover, Tati suffered from the specialty chain competitors that sell hardware and low-priced ready-to-wear.

GERMANY

✓ **Metro : profits are growing thanks to its international growth and in spite of a sluggish context in Germany and a fierce competition.**

Total group sales amount now to € 54 billion including 50% generated outside Germany in 26 countries, mainly in emerging markets such as Poland or Romania where revenues are growing and competition rather weak.

In Germany, its Saturn and Media Markt consumer electronics stores increased their operating income by 9.5% in the first quarter to € 29.3 million on € 2.3 billion sales.

Globally, in the first quarter 2003, the German giant saw its loss decline from € 56.2 million to € 43.7 million and sales

increase by 2.7% to € 12.13 billion. But it faces several challenges due to the sluggish economic context in Germany and because its DIY Praktiker stores are still losing money even if their performance are improving. Its Real hypermarkets and Extra supermarkets are competing with hard discounts.

Metro Group just opened its first cash & carry in Ukraine (Kiev) in a 10,000 sq.m space and 2 units will be opened in India this fall. It just opened its first stores in Vietnam, including one in Hanoi, and aims to operate 8 wholesale stores in this country, to invest between US\$ 120 to 150 million within five years and to reach the break even point after 2 or 3 years.

✓**Rewe, boosted by good figures, is on the rails for expansion : 3% more like-for-like growth by food and specialty stores in the five months to the end of May and fair growth by Penny hard discounts « that is far above average ».** In 2002 the Rewe Deutscher Supermarket, the most important subsidiary, which includes HL, Minimal, Penny, Toom and Fegros-Selgros, generated a turnover of € 16.13 billion (-0.2%) on a consolidated turnover of € 37.4 billion.

EBIT fell 19.8% to € 146 million and net income from € 109 million to 25 million affected by extraordinary charges of € 100 million, due to the modernizing specialty stores those past years.

The conversion of Penny to the new hard discount concept was ended in 2002. It was the single activity having registered a 7.4% growth last year. The Fegros-Selgros cash & carry, operated in cooperation with the German mail order firm Otto, had also a good year its net turnover increasing by 1.89% to € 1.66 billion.

Henceforth Rewe is thinking about investing more than € 750 million during the present year. After the acquisition of Bon Appétit from Switzerland (cf LLDI July 2003), it is doing every third Euro abroad and now expands from Germany to Italy and from France to Austria. In fact, it tries to limit its presence in Germany where it runs 9,000 stores because of the sluggish context.

Rewe Austria is now the most important foreign subsidiary with sales growing by 5.5% to € 6 billion and 57 new stores. It aims to dominate the market in the small and medium-sized stores. It is already leader of the food discount sector

in the Czech Republic (+7%) and in Hungary (+9%).

The group consolidated its position in the 1,800 to 2,400 sq.m sector in the Central European countries (Romania, Bulgaria, Croatia and Ukraine) in 2002. Founded in 1927, the co-op is owned by 3,000 independent retailers who operate more than 11,000 stores throughout Europe.

✓**KarstadtQuelle : a « correct » first half in a sluggish economic context.**

The net pre-tax loss was reduced to € 129 million from € 347.5 million one year earlier and sales remained stable at € 7.31 billion. These improving figures were obtained mainly thanks to a workforce cut by 5% and to longer opening stores, until 8 p.m on Saturdays, since early June.

The retail activity, which accounts for 46% of the total, generated € 3.2 billion sales (minus 1.3%) but the loss declined 10.7% to € 183 million.

The Distance Selling arm (52% of sales) grew by 1.5% to € 3.92 billion and pre tax profit also fell to € 31.6 million.

International sales grew by 11.6%. The service and real estate subsidiaries increased respectively by 17.8% and 18.8% to € 661.8 million and 280.4 million. However, the Thomas Cook travel agency, held at parity with Lufthansa, increased the service loss by 13.2% to € 200 million.

✓**The DIY market is improving. The Big Three Group thrives to expand outside Germany.**

Obi, the largest German DIY chain with € 4.8 billion sales, is enjoying a situation where Germans, famous for traveling a lot, tend to spend more money in their homes trying to make it as comfortable as possible. Consequently, Obi has expanded all its lines, from textile to decoration and plants.

The retailer is investing abroad, mainly in Italy with 30 new stores in the pipeline and in China where one hundred units will be opened in the medium term; two stores were opened in Moscow last fall and two are in the pipeline in Bosnia.

Praktiker, the second largest German home-improvement chain with € 2.6 billion sales, 289 stores in Germany and 52 outside, has ambitious projects. It is present in Eastern Mediterranean (7 units in Greece and 6 in Turkey) and mainly operating in Eastern Europe : 16 units in Poland, 14 in Hungary and 1 in Romania

where 3 further units will be opened in 2004 as well as the first one in Bulgaria ; Russia and Ukraine are in the pipeline. There are 3 stores in Luxemburg and 5 in Austria. Praktiker registered a double-digit growth in 2002 from its new foreign units.

However, apart from a new store in Berlin, there will be no new Praktiker in Germany but some will be renovated.

The new chairman, who has been at the helm of Praktiker since last May, is convinced that he can turn the company profitable again within two years while Praktiker still registered a € 40 million loss in 2002. In the 1st quarter, sales increased by 23%. Since August, he launched a loyalty program and 65,000 cards have already been given to big buyers.

Hornbach (80 DIY big-box stores of 10,000 to 12,000 sq.m space, € 1.9 billion sales) whose the British Kingfisher owns a 20% stake, operates 11 stores in Austria, 7 in the Netherlands, 4 in the Czech republic, 2 in Switzerland, 1 in Luxemburg and 1 in Sweden. Its international activity accounts for 30% of its sales and 40% is the goal. In contrast to its two competitors, Hornbach still sees a possibility to expand in the German market. *Source : Lebensmittel Zeitung.*

NETHERLANDS

✓ **Ahold : the publication of the 2002 results has been extended once more.**

The world's third largest food retailer, who was required to deliver its audited consolidated 2002 financial statements by August 15, 2003 to the syndicate of the banks which granted it a credit line of US\$ 2.65 billion since March, obtained an extension of time to September 30. Once all accounting investigations at Ahold, its subsidiaries and joint ventures being completed, the total of the irregularities has risen to € 966 million from € 500 million previously announced. Consequently, sales were revised and declined from € 54.4 billion to 54.2 billion in 2001 and from € 62.9 billion to 62.7 billion in 2002 previously announced.

In the U.S.A., its Giant American subsidiary has sold 7 strip centers (65,000 sq.m) including a Giant supermarket, for an undisclosed amount. Ahold announced also it has reached an agreement with The Pantry (1,300 stores, US\$ 2.5 billion in sales) to sell Gold Gallon, its fuel and 138 convenience store operation in the southeastern United States (US\$ 375 million) for an undisclosed sum. The

transaction is subject to be completed in the 4th quarter of 2003 and to antitrust approval.

In Latin America, Ahold has completed the sale of Santa Isabel in Chile to Cencosud for € 150 million. After adjustment of the value for net working capital, the net proceeds of the transaction amount to US\$ 77 million. The transaction does not include the activities in Peru and Paraguay, previously subsidiaries of Santa Isabel and which will also be divested as already announced.

Cencosud has interests in real estate, DIY and hypermarkets in Chile and Argentina. Its subsidiaries, Hipermercados Jumbo, is Chile's third largest food retailer with 7 hypermarkets, 16 DIY stores and 3 shopping centers. Cencosud also operates 11 hypermarkets, 23 DIY stores and 11 shopping centers in Argentina.

Assets which remain to be sold in the region include 151 Bompreço, G.Barbosa, Hipercard in Brazil, 236 Disco and Plaza Vea in Argentina, 10 Santa Isabel in Paraguay and 32 Santa Isabel in Peru. It could be a good opportunity for Wal-Mart which wants to expand in this market where it operates 11 supercenters only in Argentina and 22 in Brazil competing with the French Carrefour and Casino, strongly present (cf. LLDI July 2003) and are also interested in Ahold's assets.

In the second quarter consolidated sales amounted to € 13.0 billion, a decline of 12.4% compared to the same period last year. Sales had fallen 11.3% in the first quarter also.

UNITED KINGDOM

✓ **Consolidation among British department store chains.**

Selfridge's : Galen Weston, the Canadian billionaire, has bought 86.5% of the largest store on London's Oxford Street, for £ 628 million (€ 895 million) through its Oxford Acquisitions Ltd company. The operation was announced in May (cf.LLDI June 2003).

Debenham's (102 units) could be sold to Permira investment fund in association with Goldman Sachs and the Backstone fund for € 2.17 billion.

But the British department store chain asked to extend the bid period, originally decided on June 24th, then delayed until July 29th, in order to keep speaking with CVC Capital Partners and Texas Pacific Group who joined their forces with the

idea of proposing a rival bid. Early August, shareholders had 60 days to think about the different propositions while Debenham's management recommended the Permira's.

Since it de-merged from the Arcadia group in 1998, Debenham's opened 19 units and same-stores sales have increased an average of 3.4% in the past five years.

✓ Marks & Spencer : like-for-like sales rose 3.8% in the first quarter to July 12.

Food sales were up 5.1% and general merchandise, including apparel, improved by 2.8%. It is the result of 10% less stock than last year during summer.

The British retailer wants to launch a new generation of home-center whose first unit will be opened in February 2004 in Newcastle under the Marks & Spencer Lifestore sign in a 7,000 sq.m of space and 2 levels. This concept will be under the form of a real house of 300 sq.m, totally equipped as if a real family lived there. A kitchen, sitting room and a dining room on the ground floor and upstairs two bed rooms and a bathroom with a shower.

Customers will walk through it with their carts and will be able to buy items picking them off the shelves, everything being for sale. In case of success, the first 25 stores could be planned.

Today, Marks & Spencer sells home furnishing in 40 stores of its 300 but their sales fell 1.4% in the first quarter compared to an increase of 5.9% in the same period last year. As annual sales amount to US\$ 586 million it is just 2% only of the British market.

Marks & Spencer gave up the idea to sell its American Kings Super Markets as it has been trying to find a buyer since 2001. D'Agostino Supermarkets was interested one year ago but had to withdraw its proposition as it was unable to come up with financing, then Gristede's attempted also... Kings, with US\$ 513 million sales and 29 conventional supermarkets of 2,000 sq.m of space in New Jersey, had been bought by Marks & Spencer in 1988 for US\$ 110 million.

NORTH AMERICA

UNITED STATES

✓ On-line retailing reports good scores in 2002. The activity was positive for 70% of online retailers.

In 2002, online sales were up 48% to US\$ 76 billion according to a study by Forrester Research based on information from 130 e-retailers. Sales should continue increasing 26% to US\$ 96 billion in 2003, a strong growth compared to 1998 (US\$ 13 billion). Henceforth, e-retailing is accounting for 3.6% of total retail sales and should still grow by 4.5% this year.

Multichannel retailers were the best performers accounting for the majority of online sales (72% compared to 67% in 2001 and 54% in 2000), and are expected to grow to 75% this year. Totally, their sales increased 59% in 2002 and according to forecasts are expected to increase 32% in 2003.

As for profitability, multichannel retailers, mainly those whose sales are based on catalogs, were the best performers : 92% of those for whom catalog is the main selling channel were profitable. This is to be compared with 80% of retailers operating brick-and-mortar units.

As a whole, 70% of Internet merchants declared having made money in 2002 from 56% in 2001 and 43% in 2000.

Catalog-based firms had average operating margins of 22% in 2002 from 6% in 2001. Brick-and-mortar retailers also improved their figure and grew by 7% in 2002 from minus 5% in 2001. This profitability growth is due to the reduction in costs of goods sold from 66% of sales in 2001 to 50% in 2002. In addition there was a reduction in online marketing, customer-service and fulfillment costs per order from US\$ 12 in 2002 to 8 in 2003 for an average retailer. However there is a concern : the percentage of shopping operations left aside before the purchase is completed which grew from 47% in 2001 to 49% in 2002.

Source : Chain Store Age Executive

✓ 8 to 12 year-old kids are the new segment of customers for the back-to-school season.

Kids are doing their shopping without their parents but with friends or older sisters and brothers. Girls account for the majority with 52% of the 20 million teens. Their parents, who do not want to

lose their time in stores, estimate they are responsible enough to go shopping alone.

They also are kids who do not appreciate very much the traditional style of their parents and who know how to go online and find exactly what they like. More than one in four parents declare their 6 to 12-year-olds will spend a part of their own money in back-to-school shopping according to the NRF. Average purchase amounts to US\$ 32.68.

Back-to-school is retail's second most important season, right behind the year-end holidays.

✓ **Wal-Mart : in the first half to July 31, sales grew by 10.5% to US\$ 119.3 billion compared to the same period one year earlier.** Operating income was up 12% to US\$ 6.9 billion and net profit up 17.9% to US\$ 4.3 billion. Sales of the Wal Mart Stores division grew by 9.7% to US\$ 74.0 billion and sales of Sam's Clubs up 7.5% to US\$ 16.3 billion. International division saw sales of US\$ 18.6 billion up 16.5% superior to sales in America.

Wal-Mart just announced that it would invest US\$ 35 million to raise its stake in the Japanese Seiyu to 37.8%, showing its determination to maintain its presence in the market where weak consumer spending continues to weigh on the its recovery : in July sales at stores opened at least one year were down 9%. In addition, Seiyu is planning a net loss of US\$ 83.4 million compared to a US\$ 25 million profit previously announced for 2003.

✓ **In order to better fight against discount, specialty stores and home-improvement centers, Sears is testing a new concept outside regional shopping centers under the sign "Sears Grand" in 20,000 sq.m in Utah.**

It looks more like a discount store or a hypermarket than a department store with the checkout lane at the entrance and the apparel department right behind. In addition to main categories, new departments include media (music, films, books and magazines), dry grocery, hygiene and beauty products, cleaning products, pet supplies, toys and games, a home -maintenance tool department, a seasonal garden center and an automotive center. Week opening hours will be extended from 8 am to 10 pm and from 10 a.m to 9 p.m on Sundays.

Five stores of this type will be opened over 2004 in different sizes with different merchandise. This venerable institution has to prove it can build its reputation on textile, maintain even increase its market share in hardware.

The Group announced its 22nd following month of negative growth of same-store sales (to June) and anticipates similar figures in the second half. Sales of the 872 department stores and 1,300 specialty stores were US\$ 31.5 billion in 2002. Even if these figures are about the same as the previous years, operating profit jumped 28% to US\$ 1.155 billion. But sales continue to be weak in 2003.

✓ **The Home Depot is investing US\$ 250 million in a renovation program.**

The largest American home-improvement chain is spending US\$ 250 million compared to US\$ 66 million in 2002 to renovate older stores nationwide. It is part of its budget of US\$ 4 billion planned this year to increase sales and fight against competition like Lowe's.

In the first quarter, it completed six major renovations which will be followed by 22 further ones by the end of the fiscal year, each cost on average between US\$ 3 and 5 million.

Sites are selected according to their age, competition proximity, potential return on investment and sales. They are 3 kinds of remodels :

- the type A remodel is considering the integrality of the store, aisle by aisle,
- the type B involves the repositioning of some departments and the Type C involves minor changes like painting, floor tiling...

Otherwise, in order to make shopping easier and improve customer service, it is installing automatic checkout machines in select stores.

« Do it Herself » workshops, launched in May, are very popular and show that women are more interested in carpentry, plumbing and electrical work than they did five years ago. More than half of them, 25 to 49-year old, are eager to learn about painting, wallpaper and window treatments and 69% indicated they would improve their knowledge in home-improvement.

In the second quarter, to August 3, net income grew by 9.9% to US\$ 1.3 billion and sales by 10.5% to US\$ 18 billion. Sales at stores opened at least one year grew by 2.2% following a three quarter decline. In

the first half, net profit was up 7.7% to US\$ 2.5 billion. For the whole year, the retailer, which operates 1,607 DIY big-box stores in 50 States, Porto Rico, Canada and Mexico, anticipates sales growth between 9 and 12%.

According to Deutsche Bank, The Home Depot's president and ceo, Bob Nardelli, and Gerry Murphy from Kingfisher have met recently for a potential acquisition of the London group by the American.

CENTRAL AMERICA MEXICO

✓ **Grupo Gigante (480 stores and restaurants plus 5 supermarkets in the USA), Controladora Comercial (200 stores) and Organizacion Soriana (81 supermarkets mainly in northern Mexico) are joining their forces** via a joint-venture for purchase merchandise and exchange technology in order to reduce costs and improve their position in front of Wal-Mart. It is not a merger.

In fact, Walmex (Wal Mart de Mexico) operates more than 600 outlets in Mexico and accounts for about 40% to 50% of the market. It sold for nearly US\$ 10 billion in merchandise in 2002. However, its net profit dipped 4.5% from US\$ 94 million to 90 million as it took an exceptional charge to cover export taxes. Total sales grew by 10.23% to US\$ 2.66 billion and operating profit by 11% to US\$ 136 million. Same-store sales in outlets opened more than a year increased 5.2%. It aims to open 61 new units over 18 months.

ASIA CHINA

✓ **Carrefour, Auchan and Wal-Mart continue expanding in the Chinese continent.**

The French **Auchan** will open its first hypermarket in Beijing this coming October in a 2,000 sq.m of space. It entered the continent at the end of the Nineties and operates 5 hypermarkets there.

As for **Carrefour**, following its joint venture agreement between its hard discount subsidiary and the Chinese retailer Shanghai Linhua (2,214 stores in 20 cities, € 631 million sales), the Minister of Trade gave his permission to open 300 Dia hard discounts in Shanghai over 2006. Consequently, the French firm has to open at least two stores per week to reach its goal of 50 units by the end of 2003. The first

four 300- to-400 sq.m units were opened on July 17th in residential districts offering approximately one thousand lines under the Dia brand.

Carrefour operates 36 hypermarkets in China and has between ten to fifteen in the pipeline.

Wal-Mart opened its first Sam's Club on July 11th in Beijing, in a western district of Shijingshan, at 10 kilometers from downtown, seven years after its first store in Shenzhen, on August 12th 1996. A large number of well-known American products, sold in this club and offered to members, are manufactured in China such as the Heinz baby food, the Budweiser beer and the Tang drink. Wal-Mart operates 22 stores in the Chinese continent.

✓ **Retail sales of consumer goods recovering in Beijing.**

Retail sales amounted to US\$ 10.78 billion in the first half of the current year growing by 13.7% from the same period one year earlier. This recovery has gained strength since May according to the Municipal Commission of Commerce and in June they totaled US\$ 1.74 billion (up 6.3% compared to one year earlier or up 15.9% from May).

Household and travel products are still increasing, private cars are booming. In the first five months of this year, 119,000 cars have been sold in Beijing (up 7.3%) and totaled US\$ 1.26 billion.

Building materials and other related items and telecommunication equipment, bags, magazines also increased strongly.

JAPAN

✓ **AEON will open stores combining a supermarket and a hardware department under the same roof.**

The Japanese chain, which operates Jusco supermarkets, announced it wants to open new stores, combining a supermarket and a hardware store under the same roof, in northeastern Japan, via an agreement with Sunday Co.

Sunday is one of the main local chains with 45 DIY stores, mainly in Hokkaido. Aeon will have 20% of its capital.

Both companies will join their forces in the development of products, the promotion of their networks in northeastern Japan and in the share of information on strategies and stores of the region.

Aeon, like other supermarket chains, Daiei and Ito Yokado, saw its monthly sales decrease from May and July was a particularly cold month in Japan. Globally, supermarket sales have declined in July for 11th month.

KOREA

✓B&Q : first home store in Korea by 2004.

The home improvement subsidiary of the British Kingfisher group will enter South Korea next year and open a local subsidiary there. The first store will be opened in Seoul next April, which will focus on home decoration and accessories. It will be the group's third unit in Asia, after Taiwan in 1996 and China (Shanghai) in 1999. B&Q expects to open thirty stores over 2010 mainly in new cities near Seoul and invest US\$ 1.28 billion within the next seven years.

A buying office will be settled in Korea for global supply, -the value reached US\$ 1 billion in 2002,- mainly coming from China and Taiwan. It will buy more from local Korean firms.

THAILAND

✓Major chains and small businesses.

According to a survey by M+M Planet Retail, large international retailers do not accelerate the death of small businesses in Thailand but, in the contrary,

stimulate the apparition of new retail stores.

This study, which is mainly focusing on the performance of the British Tesco in this market, shows that when the retailer opens hypermarkets, dozens of small outlets are appearing near by in order to capture customers passing by.

Moreover, « International retailers are helping to reshape the retail market. Whereas, traditionally it was supply chain driven with small retailers unable to command competitive prices, the market is becoming increasingly consumer driven with international operators helping to drive prices down both for consumers and indeed for small operators, who find it cheaper to buy from a hypermarket rather than a wholesaler. »

Independent retailers are encouraged to become members of central buying groups to join their forces and obtain more interesting prices.

Since it entered Thailand in 1998, Tesco has become the leader of the local food market with 12% ahead of Casino, Carrefour, SHV Makro and Ito Yokado (with its 7-Eleven convenience stores). It also succeeded in expanding through acquisitions and organic growth. It knew how to adapt itself to the local habits. It is testing a supermarket offering a food line similar to a hypermarket, with less general merchandise...



Eastern Europe topped the annual Global Retail Development ahead of China as the most promising region for international food retailers who try to enter emerging markets.

Russia replaced China according to the annual study by the consulting firm A.T.Kearny who compiled information on 30 emerging countries according to their importance and strategy. Economic and political risks, commercial square footage, competition and the potential fast growth of the economy are taken into account.

Eastern Europe is showing 3 countries in the top 4 ranks : Russia, Slovakia and Hungary. North Africa is well represented with Morocco, Egypt and Tunisia in the top ten.

Russia is number one as its presents several positive aspects : according to this study, it is the largest food European market with US\$ 58 billion, local consumers spending up to 80% of

their revenues on consumer goods. A population of 143 million inhabitants is another advantage with 13 cities above one million supplied by a few food outlets only. Thus, in Novossibirsk, there are only 40 shops of 500 sq.m average area to supply a population of 1.4 million. However, the country has still problems : a high percentage of sales done in the gray market, a poor logistic infrastructure and a limited product availability.

Commercial projects in the pipeline are the following : in the 4th quarter 2003, the Kaluzhsky retail and leisure center will be opened in Moscow in 17,000 sq.m and 4 levels including a supermarket as an anchor store and a multiplex. At the end of 2004, 5th Avenue will also be opened in Moscow in a 16,000 sq.m GLA, 3 levels

plus 2 levels of underground parking. Anchors will also be a supermarket and a multiplex.

In St Petersburg, Engels Center will be completed by the end of this year. It is a small center of 4,500 sq.m total space in 2 levels with Sportmaster as a main store. Grand Canyon will be completed in the second quarter 2004 in a 58,000 sq.m GLA and 3 levels. There will be a hypermarket, a DIY big-box store, a home-improvement center and a fitness center.

It is clear that Central and Eastern Europe countries will enjoy a commercial expansion once they become European Union members in 2004. In Poland, mainly in Warsaw, the trend is to build factory outlet and leisure centers. The capital also has the highest ratio of shopping center area per inhabitant in Europe.

In **Hungary**, retail trade is continuing to expand: there are 15 shopping centers of above 8,000 sq.m in Budapest and the trend among developers is to build mixed-use schemes with leisure areas. **Romania** tries to position itself as a target for investors.

In the **Baltic States**, there is a commercial boom in Estonia and in Lithuania with mainly 70,000 sq.m area opened in 2002 in Tallinn plus 100,000 sq.m forecasted for 2003. Rents in shopping centers range from € 12 per sq.m to 18. Vilnius (Lithuania) has more than 245,000 sq.m of modern commercial space or more

than triple the available space in 2000. Further 110,000 sq.m are forecasted to be opened by 2004 in the capital and rents are around € 15 per sq.m

In **Latvia**, retail did not get off the ground until this very year because good sites were difficult to find and the government took his time to sell the best ones. In Riga, there are 5 large traditional shopping centers and developers also begin to take interest in mixed-use schemes. The total retail space in the capital reached 195,000 sq.m in 2002 and should grow above 400,000 sq.m by the end of 2004. Average rents range from € 22.3 to 40 per sq.m and anchors pay from € 7.13 to 9.

Finnish are interested in Estonia, Norwegians have set Latvia as a target and Danish Lithuania, three small countries in which, according to Peter Morris from Ober-Haus, « GDP has grown at an average of 5% for the past five years ». Latvia is coming first with 7% and rents are rather low compared to those in other European Eastern countries.

In **Slovakia**, retail has been developing since the beginning of the Nineties. But rents are not very lower than those in the Big Three Countries (Poland, Hungary and the Czech Republic). In **Slovenia**, risks for investors are not very high.

Key statistics :

	population (mio inhab.)	PIB (US\$)	inflation (%)	unemployment (%)	com.dev (sq.m)	rents yields in shop.centers (sq.m)
Poland	1.6	8,250	2.5	17	260,000 under construction	- 10%
Lithuania	0.5	5,660	0.8	12.5	110 000 completed in 2004	€ 15 11%
Latvia	0.75	5,620	2.0	7.6	200 000 completed in 2004	€ 22.3 to 40 11%
Estonia	0.4	7,340	3.7	10.6	100 000 completed in 2003	€ 12 to 18 11%
Czech Rep.	1.2	12,220	2.2	8.5	140 000 completed in 2004	- 8.5 to 11,5%
Slovakia	0.4	9,430	3.3	17.2	105 000 completed in 2003	- 10.5%
Slovenia	1.9	15,620	7.4	11	N.A	€ 15 15%
Hungary	1.7	9,930	5.3	5.8	-	€ 20 to 70 9%

Source : Europroperty

China dropped down to the third spot as several retailers are already present there. It is the fastest-growing large economy in the world. Its entry into the WTO, its relative immunity to the global slowdown and its focus on creating private ownership and reducing consumer saving will help it largely to continue to grow. On the other side, state-owned banks control a large portfolio of state-supported mostly inefficient enterprises. The way the country will solve the situation will determine in part the future of its economy.

India is sitting in the fifth position and accounts for the fifth of the population growth worldwide : it increases by more in one week that the European Union in one year. Over 2050, it is expected to overtake China as the most populous country. Thanks to higher revenues and to new media, consumers are looking for modern

better-quality western products. Since the past decade, liberalization has been the main theme of the Indian economy. If infrastructure is still an inconvenience for the development of the modern organized retailing, the relaxation of foreign ownership law will stimulate more international actors as well as more branded consumer products to enter the country over 2010.

Americans, who are facing problems at home, are unlikely to enter new markets. Wal-Mart will be an exception as it bets on its international expansion to boots sales and profits in the next few years and it might enter Eastern Europe and start business in Russia as soon as 2004 according to the president of the American Chamber of Commerce in this country . ■

Top 10 countries ranked by their GRDI (Global Retail Development Index)

rank	countries	GRDI	rank	countries	GRDI
1	Russia	72	11	Bulgaria	58
2	Slovakia	71	12	Chile	58
3	China	67	13	Korea	58
4	Hungary	67	14	Malaysia	57
5	India	65	15	Philippines	57
6	Turkey	64	16	Romania	57
7	Egypt	63	17	Slovenia	57
8	Morocco	63	18	Latvia	56
9	Tunisia	59	19	Thailand	56
10	Vietnam	59	20	Ukraine	56

source : AT Kearney



subscription form to :	
LA LETTRE DE LA DISTRIBUTION INTERNATIONALE	
(11 issues per year)	
Last Name.....	.....
First Name.....	.....
Position .....	.....
Company .....	.....
Address .....	.....
Activity .....	.....
Tel .....	.....
Fax .....	.....
E mail address .....	.....
Mobile .....	.....
● I subscribe to LLDI by regular mail in French <input type="checkbox"/>	in English <input type="checkbox"/>
● I subscribe to LLDI by e-mail : in French <input type="checkbox"/>	in English <input type="checkbox"/>
at € 510	

⇒ Please return this formula by e-mail or by regular post mail to :

B.GUILLOT, chief editor,
Chabot & Associates/LLDI,
7 rue Fould - 78600 - Le Mesnil Le Roi -France, Tel/Fax +331.39.12.17.93
e-mail : bguillot@chabot-associates.com

To analyze profitability per sq.m. to eliminate slow selling merchandise.

A few comparative ratios of selected stores in the USA and Europe.

In all department chains sales declined in the past two years. If they tried hard to increase their sales by dynamic promotions, they suffered from a decrease in the customer traffic, a general consumer apathy and a large choice between store formats. Meanwhile, some specialty and discount stores have filled the gap and gained market shares.

In 2002, some department store chains continued opening new units and others closed (Federated, May, Dillard's). Among discount chains, Wal-Mart opened 192 discounts and closed 79, Target opened 94 and Kohl's 75.

However some chains did not succeed in growing sales from the new

units because of a laggard economic context which impacted the whole retailing. It may be the sign of maturation and saturation. Many retailers are pondering over the situation : stocking key items in its new Neighborhood Markets, Wal-Mart tries to help its customers who this way avoid the crowd in its supercenters. Some department stores are taking interest in smaller units : Penney is opening 9,000 sq.m stores, Federated is thinking about to open 11,000 sq.m units and May a 12,000 sq.m small department store. Even Sears is testing a 14,000 sq.m format (read article in this issue).

In the USA : sales per sq.m (in US\$) in three different retail formats :

	1999	2000	2001	2002
Dept Stores :				
Federated	2,160*	2,120*	2,065*	2,033*
JCPenney	1,398*	1,365*	1,430*	1,505*
Marshall Field	2,260*	2,205*	2,000*	1,935*
May	2,163*	2,140*	1,990*	1,870*
Nordstrom	3,766*	3,680*	3,450*	3,430*
Sears	2,055*	2,130*	2,033*	1,947*
Discount stores :				
Kmart	2,540	2,540**	N.A	N.A
Target	2,840*	2,880*	2,840*	2,883*
Wal-Mart	3,530**	3,680**	3,830**	3,930**
Specialty stores :				
Gap	5,895*	5,185*	4,240*	3,755*
Express	3,290**	3,940**	3,875**	3,744**
Kohl's	2,900**	3,020**	3,045**	3,055**
Limited	2,475**	2,790**	2,800**	3,055**
Victoria's Secret	5,950**	6,154**	5,950**	6,250**

*gross selling space

** net selling space

Food importance.

According to recent figures, all department store chains, except JC Penney whose sales have been falling for several years, report declining productivity. While, on the other side, discount and specialty stores improve their figures and are gaining market share from their competitors.

It is important to note that many European department store chains have

much higher ratios than their American counterparts. Several reasons to that : on one hand, it is due to a greater population density, a much wider merchandise choice, aggressive inner-city centers that draw consumers and stores that include food courts. Food should grow in importance in American department stores in the future. Wal-Mart, Target and Kmart have understood it and now sell food in their supercenters (hypermarkets). ■

In Europe : estimation of sales per sq.m (in US \$)

Harrods	U. Kingdom	7,597	De Bijenkorf	Netherlands	3,766
Manor	Switzerland	4,788	La Rinascente	Italy	3,560
Printemps	France	4,380	Karstadt	Germany	3,010
El Corte Ingles	Spain	4,090	Kaufhof	Germany	2,850
Galerias Lafayette	France	3,800			

1 euro : US\$ 1,10 source : Loeb/Stores

To thrive, regional shopping centers have to take some threats into account.

The advent of « lifestyle » and power centers is putting the traditional department store anchors in regional malls under pressure. In fact, there is today in each of the following sectors, from consumer electronics to bedding, -once dominated by these giants,- a « category killer » which offers a wider inventory, better price and a greater convenience.

In fact, the threat is coming from both sides : in the luxury goods, lifestyle centers attract affluent customers, once faithful customers of Lord & Taylor and Macy's department stores. At the other end, discount chains such as Target compete with Sears and JCPenney in the fashion sector. The Home Depot and Lowe's are also very powerful in DIY (Do-It-Yourself) while Wal-Mart is gaining market shares in both sectors.

In the same time, the consolidation phenomenon reduced the department store number. Thirteen out of the top twenty-five largest chains now belong to three mother companies only. Consequently, when an anchor is leaving a shopping center it is much more difficult to find someone to take the place.

Asset managers and owners have understood that, in order to survive, they have to attract big-box store chains, their most important threat. They have also to consider regional malls as global assets : Carousel Center in Syracuse (New-York) is a good example as its four levels are serving different customers : the first floor is positioned for the discount customer, the second one for the middle-market consumer (Lord & Taylor and Penney), the third level has the same atmosphere as a lifestyle center with dominating consumer electronics stores and the fourth one is a multiplex. Such a creativity level helps to redefine the regional mall and to maintain its value for asset managers. It also helps to serve a new generation of customers, those who value time and shop by category and price.

Consequently the question is now to know which form shopping centers will adopt and how quickly they will reposition

themselves to assure their long-term viability. For, to be prosperous, asset owners have to consider new possibilities and new tenants.

In American shopping centers, supercenters replace department and specialty stores as new anchors. Wal-Mart has opened super-centers recently, one in two levels in a shopping center in the vicinity of New-York city and the other one in three levels in Los Angeles in the former premises of a Macy's department store. Moreover, the retailer is building its own store and opening as the new extension of a mall near San Diego. Wal-Mart is not the only retailer in this situation : Target already opened discount stores in malls and operates now more than 30, most of them in former premises occupied by Montgomery Ward department stores in 2001. Discount store chains are interesting in shopping centers because they have access to densely-populated urban and suburban markets. They are well located, have parking spaces, lighting and other necessary infrastructure. These sites can help them to avoid community battles which usually take place when they open new stores and to make good sales. Discount stores also make some centers more dynamic : thus, in Portland (Oregon), Wal-Mart is welcomed as a savior by retailers and owners as well as in Los Angeles where its presence contributes to revive activities as department stores have been losing customers since those past years. Some department store chains declare they do not fear discount stores as they enjoy the extra traffic and the discounters offer products they do not have.

According to Goldman Sachs, real estate cost for discounters is about the same when they open a store in a shopping center or a free-standing unit. However, it remains a real challenge as customers are accustomed to one-story stores and consequently retailers have to reconfigure their layout and think to moving shopping carts on special escalators... ■

Sources : DSN, j-v Metro Danie/Business Week

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE,

a monthly newsletter, 11 issues a year,

**every month informs all decision makers
concerned by retail globalization
on new markets, new competitors, real estate...**

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 +331 39 12 17 93

www.chabot-associates.com



Subscription form to :
LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

.Last name First Name
.Function.....
.Company.....
.Address.....
.Tel Fax
.e-mail address Mobile

- I subscribe to LLDI (paper edition), in English by regular mail
- I subscribe to LLDI in English by e-mail
- I subscribe to LLDI (paper edition), in French by regular mail
- I subscribe to LLDI in French by e-mail

at € 510

payment by cheque payable to Chabot & Associates/LLDI or by bank transfer

⇒ Please return this formula by e-mail or regular mail to :

Brigitte GUILLOT,
Chabot & Associates/LLDI,
7 rue Fould-78600 Le Mesnil Le Roi-France,tel / Fax 33.(0)1.39.12.17.93,
e-mail : bguillot@chabot-associates.com