

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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INTERNATIONAL

Global retail trends.

The average growth of the top 100 global retailers has slowed down to less than 4% between 2001 and 2002 according to a report from Retail Forward : « Slow economic recovery in the United States, combined with weak economies in Japan, Latin America and Western Europe, is forcing many retailers to seek alternative outlets for growth outside their home countries or regions which increases their exposure to new uncertainties.»

In 2002, the average annual growth rate of these top 100 global retailers declined. While supermarkets still account for the largest part of sales, the format still

continues losing ground to mass retailers. Department stores and general merchandise stores with a food department registered the smallest average sales growth in 2002 while hard lines specialty stores had the strongest average growth. Regional players, those who operate stores outside their homeland but within their geographic zones – in neighboring countries- grew an average 4.5% compared to 3.7% for global firms.

U.S. companies still dominate this list but their number declined for the first time since 1986. The United Kingdom had registered the highest growth rate with 7.2% between 2001 and 2002.

CENTRAL & EASTERN EUROPE

Foreign investments in Russia grew by 62% in 2003.

In the first nine months of 2003, foreign investments amounted to US\$ 20.9 billion in Russia or 91.9% more than one year earlier during the same period according to the State Statistics Committee. These figures include US\$ 4.67 billion of direct investments which soared 77.3%.

This investment growth largely contributed to improve the economy context during the period. According to the same Committee, cumulative foreign investment since the end of the old Soviet period to the end of September grew by 34.7% to US\$ 53.6 billion.

The main investing countries were Germany, United States of America, Cyprus, Great Britain, France and Netherlands, which accounted for 70% of cumulative and 70.8% of foreign direct investments in Russia.

Prime Minister Mikhail Kasyanov announced that forecasts for GDP growth was in excess of 6% thanks to strong performance by the manufacturing sector.

Ikea expects to expand in Russia.

On December 12, the chain has opened its first unit in St Petersburg in 31,000 sq.m and three levels. It cost US\$ 40 million to build and US\$ 60 million sales is forecasted the first operating year. Ikea expects to build a shopping centre within one year in the field around the store.

It aims to operate 22 units by 2018 in Russia. This expansion will be financed by its German arm, the mother company of Ikea Russia. This way Russia will become its second largest market after Germany...

Spar to open Interspar hypermarkets in Ukraine.

Spar has announced it will open 2 Interspar hypermarkets early 2004. Two more are under construction in shopping centers in Kiev. Return on investment is forecasted over the next five years through yield growth. Current monthly sales amount to US\$ 400 and 600 per sq.m.

Spar operates owned and franchised supermarkets plus one cash & carry in Kiev since May 2002. In order to expand outside the capital, it plans to propose the

In short....

Lidl is ready to expand in Canada: Lidl (5,600 outlets), Germany's second largest hard discounter, will open its first unit in Canada, in Ontario, in 2004. Its decision follows the arrival of Sam's Club, the food warehouse-club arm owned by Wal-Mart...

McDonald's is enlarging its McKids brand. The fast food chain, which inserts its brand in children's wear now sold in American Wal-Mart stores, will extend it to toys, books and DVDs. The wear's line will be launched in Asia next year as well as in Mexico, Canada and Australia...

Great Universal Stores (GUS), which owns 67% of the capital of Burberry's, U.K's quality apparel chain, **will further sell 10% in order to reduce its debt.** In the first six months ending September 30, Burberry's net income jumped by 161.9% to US\$ 70.8 millions from US\$ 27 million in the year ago period. Men's wear registered the largest increase with 223% and accounted for 29% of the total sales...

The French Go Sport Group gaining strength in Poland. It entered the country in 1999 and recently bought 10 former Giacomelli stores which will adopt the Go Sport sign, this December. It will be the first sporting good owned chain in the Polish market. Thus the French retailer will generate 10% of its sales outside France...

Tesco has bought a majority stake in the capital of the Turkish Kipa for US\$ 124 million. Kipa is a small regional retailer with 5 hypermarkets in Izmir and its suburbs. The largest British retailer can have a foothold in this country attracted by its economic development, growing population and incomes per capita...

Debenhams in Asia. The British department store chain has opened its first unit in Kuala Lumpur (Malaysia) in the new shopping center Times Square...

franchise formula to regional firms.

WESTERN EUROPE

BELGIUM

Delhaize le Lion : third quarter strong sales and profit raise outlook for the year.

During the third quarter, net profit grew by 125% from € 23.8 million to € 53.5 million and sales declined by 7% to € 5.042 billion due to a 12.5% weaker US dollar. Organic sales growth was 2.6% and operating margins showed good improvement from 3.4% to 4.2% of sales.

Consequently the management of Delhaize Group revised upward the sales and earnings outlook for 2003 : at identical exchange rates, group sales are expected to grow by 4% to 4.5%, from 2% to 3.5% previously forecasted, to reach between € 18.8 to 18.9 billion. Net profit expectation is flat to up10%, from less 13% to 0%, also previously indicated, to reach € 150 to 166 million.

Moreover, **the Belgian group is selling its 49% stake in the Singapore food retailer Shop N Save** (cf. LLDI November 2003) to Singapore Cold Storage, a wholly owned subsidiary of Dairy Farm from Hong Kong, for € 21.9 million. In the fourth quarter 2003, this sale will generate a capital gain for Delhaize Group of € 10 million.

On its side, QAF, which owns 51% of the capital of Shop N Save, will also sell its stake in Shop N Save to Dairy Farm.

Shop N Save is the third largest food retailer in Singapore with 35 supermarkets (28,000 sq.m) and € 140.4 million sales.

Thanks to this operation, Dairy Farm, a member of the Jardine Matheson Group, will increase its supermarket number to 75 in Singapore. At 30th June 2003, it operated 2,400 stores (hypermarkets, supermarkets, convenience stores, restaurants, health and beauty stores). Total sales amounted to US\$ 4 billion in 2002.

FRANCE

Paul Louis Halley, president of the Strategic Committee of the Carrefour's Group, died in a plane accident.

Paul-Louis Halley died dramatically December 6, 2003 in England. This former president of Eurocommerce, who was 69-year old, represented retail trade to the Brussels authorities and had a position in the Carrefour's Group until 2002.

In 1960, Halley Frères, a French wholesaler, and Duval-Lemonnier, another food firm, both from Normandy, joined their forces to set up Promodès. They gathered retailers, served them as wholesalers and finally opened Continent hypermarkets. Paul-Louis Halley, with his father, Paul-Auguste Halley who died last year, contributed to transform the Promodès Group into one of the leading food groups in Europe.

In 1999, he managed the merger with Carrefour. With his family, he was the largest shareholder of Carrefour and owned 11,46% of the capital and 18,6% of the voting rights.

Auchan reorganization.

The French retailer is reorganizing its structure through the creation of separate units for each of its main activities : Auchan Hypermarkets, Auchan Supermarkets, Immochan (commercial real estate) and Banque Accord (financial services), controlled by the holding Groupe Auchan SA.

This structure will be operating early 2004 and submitted to the group's annual meeting in May 2004. This program, initiated at the end of 2001, is apparently in line with the desire of Gérard Mulliez, the founder of Auchan, to create more autonomy for the four divisions before he retires in 2006.

Do It Yourself : Leroy-Merlin is buying a 50%-stake in the capital of Domaxel, the fifth French largest DIY chain. →

Leroy-Merlin, whose 80% of its capital is owned by the Mulliez family of the Auchan group, has bought 50% of Domaxel, a DIY-consumer electronics and gardening-buying group. The operation is still subject to the pending regulatory approval.

Domaxel operates 444 independent stores including 373 Weldom which account for 7% share of the market with € 700 million sales.

Leroy Merlin's target is to become the largest French DIY chain and overtake Castorama. Thanks to this operation, it is getting a foothold in the small and middle-sized unit market.

Leroy Merlin accounts for 16% of the French DIY market with 84 big-box stores and € 2.6 billion sales in France. Totally, it operates 274 stores in 8 countries with € 4.1 billion sales in 2002. Last year, it bought approximately thirty Obi stores in France, 18 Aki in Spain and 13 Aki in Portugal and it expects its sales to grow by 22% to € 5 billion in 2003.

Vivarte (former Groupe André) : results improved in the exercise 2002-2003 to August 31.

Vivarte has announced that in this exercise its net income grew by 10.4% to € 75.5 million due to a 35.6% decline in financial expenses. EBIT improved by 6.6% but sales decreased by 2.2% to € 1.92 billion. Meanwhile operating margin increased by 7.1% to 7.7%.

At André, the anchor brand of the shoe activity, operating profit was in excess and EBIT was positive in the second half.

Average sales grew by 0.6% in the global shoe activity thanks to Besson and the Spanish chain Merkal and also to the improved La Halle aux Chaussures-Chaussland outlets. The apparel stores La Halle! continued growing.

In September, Vivarte has opened textile discount stores under the Parti Prix brand which sell basic

items, mainly supplied by Asia, at 20% less often. an average price of € 4.

During a press conference, the new president and ceo, Bernardo Sanchez, has announced that it is time to expand again. He also declared « Vivarte expects to open 120 outlets per year. » In the past exercise, approximately one million euros has been invested in 46 new units. This coming year, investment will be injected in the park growth and maintenance will have the priority.

In October, the main three shareholders, Jean-Louis Descours (23.43%) and the Anglo-Saxons Nathaniel Rothschild (30.1%) and Guy Wyser-Pratte (8.4%) decided to sell two-thirds of the capital of Vivarte.

GERMANY

Metro's Future Store : analysis of the customer behavior.

On April 28th the German retailer who transformed its former Extra supermarket, a 3,200 sq.m unit located in Rheinberg, about fifty kilometers from Düsseldorf, has analyzed the answers of its customers using the new technology.

While reactions were « very positive », Metro admits that it has to improve the formula. In fact, the store includes « intelligent » produce scales, a Personal Shopper Assistant attached to shopping carts, a touch-screen device in which customers insert their loyalty card, tracks movement through the store and shows items when customers are in the right aisle. It includes also self-checkout lanes, automatized electronic payment, anti-theft portals, Radio-Frequency Identification labels...

According to a survey of 700 customers by the Boston Consulting Group before and after the store re-opening, 77% among them has used at least one application one time. Very satisfied customers increased from 34% to 52% since the store re-opened and almost one third was composed of new customers; 42% shopped the store more frequently,

Metro will test NCR's self-checkout lanes in another store and is thinking about introducing produce intelligent scales of IBM and Mettler-Toledo in at least ten units early 2004. These scales identify the produce and print the label, a very popular technology : 62% of the customers declared they used it at least once, including 56% of those were 60 year-old and up, and nearly half several times. In order to increase technology usage, Metro steps its marketing efforts up, offering advantages, various rebates, in-store presentations...

Source : Supermarket News

Praktiker to expand eastward.

The DIY arm of the German Metro speeds its expansion up via new units in Romania and Turkey. In Romania, it just opened a third one in Cluj-Napoca (6,200 sq.m) and plans a fourth one in Ploiesti by December. It plans further units over 2004.

In Turkey, Praktiker recently opened its eighth store, or the third one in Istanbul, in 7,000 sq.m, in the former premises of a French DIY Mr Bricolage.

In Eastern Germany, Praktiker sales grew by 10.1% to € 416 million in 2002. It currently operates 344 stores including 288 in Germany and 56 in foreign countries. Its net global sales was € 2.6 billion in 2002 including 25% achieved outside Germany.

ITALY

Rinascente : the Italian retailer and Simon Property from America signed an agreement to establish a company.

According to this agreement, Gallerie Commerciali Italia (GCI) has been set up and 49% of its capital is sold to a subsidiary of the U.S. based Simon Property Group. GCI will have to manage and develop the shopping galleries of the Italian Group in Italy.

The portfolio of Rinascente is →

composed of 38 shopping centers for a total of 244,000 sq.m. It will grow to 412,000 sq.m over the next five years according to the projects in the pipeline. Rinascente, one of the leading Italian retail firms, owns or franchises 1,852 units including Rinascente department stores, Upim variety stores, Auchan hypermarkets, Sma, Cityper and Punto Sma supermarkets as well as DIY stores according to a joint-venture with Leroy Merlin. In 2002, Group sales were € 6.146 billion and investments amounted to € 304 million.

Rinascente is controlled by Eurofind, owned by Ifil, an investment firm of the Agnelli Group, and by the French Auchan Group.

Simon Property owns and manages 246 shopping centers totalizing 17 million sq.m gross area in 37 States of America. It also owns interests in 9 assets in France, Poland and Canada.

NETHERLANDS

« New Ahold » or the road to recovery : the Dutch retailer, which is trying to recover from a damaging accounting scandal, said it aimed to raise € 6.8 billion in proceeds from disposals by 2005.

Shareholders approved the € 3 billion capital increase and in a short term 625 million new shares will be issued. Ahold has also re negotiated its credit line : € 300 million will be injected in its Dutch Albert Heijn supermarkets and € 1.45 billion in the American Stop & Shop.

Moreover, asset disposal is continuing: Ahold has sold two **Polish** Hypernova hypermarkets to Carrefour with respectively 6,200 and 8,000 sq.m selling area in Bydgoszcz (Pomerania) and Sosnowiec (Silesia). It has also sold Santa Isabel in **Chile** and in **Peru**, plus 10 Supermercados Stock in **Paraguay** to A.J. Vieri, 138 convenience stores Golden Gallon in **U.S** to The Pantry, restaurants in Netherlands, 22 stores in **Indonesia** plus 34 in **Malaysia**, 2 shopping centres in the **Czech Republic**... all these divestments contributing to reduce its debt (€ 10.87 billion).

Negotiations are engaged in exclusivity with the Chilean Cencosud (€ 700 million sales), associated with Capital International, AIG Capital Partners and International Finance Corp for the sale of its stake in the **Argentinean** Disco (144 Disco supermarkets, 46 Super Vea supermarkets, 11 Plaza Vea hypermarkets and 36 Minisol hard discounts) for approximately US\$ 350 million. Cencosud owns 4 Unicenter shopping centres, 12 Jumbo hypermarkets and 23 Easy home centers.

It wants to divest its **Spanish** subsidiary, the largest local food retailer with 625 stores including 487 Superdiplo supermarkets, 48 Hipersol hypermarkets, convenience stores and 40 CashDiplo which generate € 2 billion in sales. Net loss is in excess of € 800 million. In fact, since 1998, Ahold has invested € 1.5 billion in it including 1.2 billion in Superdiplo which has lost half its value.

As concern its stake in Scandinavian retailer ICA, there is an option to acquire the outstanding 50 percent in April 2004. But Ahold said last month that the cost of exercising the option is € 1.8 billion, half a billion higher than previously expected.

This divestment program does not include US Foodservice that has registered US\$ 52 millions operating losses in the semester compared to a US\$ 237 million profit one year earlier. Ahold has also planned economies of scale and to reduce its spending (logistics, advertising costs, etc) by € 600 million before 2006. It also expects to spare € 200 million in invested capital and to reduce its investments by € 1 billion in 2003.

In the third quarter, Group net loss was € 122 million compared to €159 million profits in the same period a year ago. Operating profit decreased by 98% to € 9 million and sales by 7.1% to € 13 billion. In the first nine months, net sales slid 10.5% to € 43.3 billion. Excluding currency impact it grew by 3.3%. Operating profit before goodwill and exceptional items was € 857

million (down 53.4% or 45.5% excluding currency impact). Net loss grew from € 17 million in 2002 to € 62 million this year.

SPAIN

ZARA : the Spanish textile retailer has several projects for 2004.

At Inditex, the mother-company of Zara -which accounts for 71.1% of the group's sales with € 3.9 billion- and of 7 other brands, comparable-store sales decreased by 4% in the third quarter due to the heat wave.

In 2004, Inditex expects to draw € 690 million from its net worth to open 360 new stores including 80 Zara and build two new logistic warehouses. In 2003, Inditex has invested between € 500 and 560 million including 80% in 260 to 315 stores. It now operates 1,776 units in 48 countries. Expansion in Europe has become its priority, mainly in Great-Britain, Germany and Italy and should account for 78% of the 2003 expected sales at € 4.7 billion.

Its latest concepts, the lingerie Oysho chain (€ 20 million in sales) should be profitable as soon as 2004, and the Zara Home household linen chain has opened 20 to 30 new units in 2003. Both should expand internationally next year.

UNITED KINGDOM

Investment comeback in U.K shopping centers.

While transactions grew by 332% in the third quarter is a sign of a new record year for deals in shopping centres. According to the last statistics supplied by DTZ £ 1.25 billion (€ 1.78 billion) worth of UK shopping centres changed hands during the period from £ 376.9 million (€ 538 million) in the second quarter, which is the second most important quarter on record. Consequently, in the first three quarters of 2003 £ 2.65 billion (€ 3.78 billion) of operations have happened compared to £ 2.63 billion (€ 3.75 billion) in the same period one year earlier.

Foreign investor requirements have grown and DTZ predicts →

increasing operations over the next two quarters.

Source : Retail Week

Sainsbury, U.K.'s third largest food retailer behind Asda, has appointed a new ceo by April 2004 coming from Marks & Spencer.

In the first semester of the exercise 2003/4, Group sales grew by 1% only to € 14 billion but comparable sales were almost flat (€ 11.71 billion) compared to a 2.5% growth in the same period one year earlier. Profit before tax, exceptionals and goodwill increased by 7% to € 522.85 million.

Justin King, now at the head of the food division of Marks & Spencer, will be appointed as chief executive of the Sainsbury Group next April 2004 when sir Peter Davis becomes chairman until July 2005. Justin King will have to revitalize the company who was number one ten years ago and has been overtaken by Tesco and, more recently by Asda. Meanwhile its market cap fell from € 10.71 billion to 8.14 billion.

The battle for Safeway : profit declined in the first semester.

For the semester, the fourth largest food retailer announced that its taxable profit decreased from € 267 million to € 247.24 million on sales down 1% to € 7 billion. Operating profit declined also by 5% to € 300 million. This fall could be explained by the uncertainty tied to its future which pushed it to delay its investments limited to € 107 million compared to € 276 million one year ago. Its net debt fell to € 1.63 billion in the first half 2003 (49.5% of net worth) from € 1.88 billion. For the whole year Safeway expects to invest € 285 million to open one store and enlarge six in the second semester, which will increase its debt to approximately 50% of its net worth.

Morrison's, U.K.'s fifth largest food retailer, which will swallow Safeway, will increase its store count from 119 to 595 and its market share to 15% pushing it to the third rank ahead of Sainsbury. In case its bid is definitely accepted it will have to sell

53 stores. They might be bought by Tesco (21), Sainsbury (20) and Asda (12), for a total of € 700 million.

Somerfield : three new formats have been developed over the last 18 months.

The supermarket chain is currently testing several formats in U.K. They are small units under the Market Fresh sign, located in urban and affluent zones, which mainly offer fresh food and meals for modern and cosmopolitan consumers.

The «Essentials» units cater to local customers looking for food products and are located in primarily residential zones. They are «everything under the same roof» which focus strongly on fresh products: fresh chilled food, produce, bakery and wines. They also focus on a few services adapted to local needs and on a very good customer service. Their shopping environment is pleasant. They also include a kiosk offering DVD and video rental, a dry cleaning drop-off and film processing.

« Progressive » offers a very good choice of fresh food and grocery, a good service for daily and weekly shopping trips.

For now 5 stores including 2 Market Fresh, 2 Essentials and 1 Progressive have been opened and being tested.

NORTH AMERICA

UNITED STATES

Consumer trends in grocery shopping according to NRF.

How much do you spend on average per trip (in US\$) in the following stores ?

	Traditional grocery store	Discount	Membership warehouse club
US\$ 1-30	21.6	19.5	13.3
31-50	25.4	22.5	21.4
51-75	20.3	19.2	10.3
76-100	17.0	19.9	25.2
101-200	13.6	16.4	18.0
201 or more	2.2	2.5	11.7
Total	100.0	100.0	100.0
average	67.27	72.71	95.75

Source : NRF/DSN

According to NRF, which gathers all segments of retail, and its survey on American consumer trends, it appears that they should continue spending in the discount stores and that more retailers are courting them with more and more discount offers.

For this survey, it was necessary to determine which stores customers shop and what for. Then to break them down according to sex, age, income and education levels. On their side, retailers have been classified into discount, grocery, specialty and department stores.

According to the first results, there was a decrease last year in the customers shopping at traditional groceries and an increase of those who shop at discounts and membership warehouse clubs for their regular grocery needs. While studying down further, data reveal that a greater number of more affluent customers (those with US\$ 50,000 annual incomes and up) is visiting the grocery channel while the discount customers are increasingly interested in the lower economic outlets. However the membership warehouse club shoppers, the oldest, the best-educated and the most affluent of the studied sample, has an average of 47.1 and average incomes of US\$ 57,880 vs. 44.6 and US\$ 45,332 for the general population. Today consumers are less loyal to their preferred retailer and want the best item at the best price.

Source DSN

Customer relationships.

Nowadays, customer preferences are more fluid and choices multiple. According to ICSC and its Retail Traffic review, they want more quality, more choice and more convenience. They remain loyal to brands but not at any price and they like pleasant and organized stores. They may be are looking for more service that under pressure retailers are unwilling or →

unable to offer them.

The gap between what customers want and what retailers can provide relies in costs. Adding expenses in the form of more sales workforce or a more generous return policy, which are good long-term investment tools, is difficult to provide when margins are thin.

According to Richard Reinberg, director of the Center for Customer Driven Quality at Purdue University, when retailers try to improve service, they can fail because of poor hiring and training practices. At the Texas University, they say it is noticeable that more retailers begin taking interest in their customers profile, to respect their tastes and their time. This is the case of Gap. Before he retired, Drexler, Gap's ceo and president, began returning to its roots and the new president followed the trend helped by a customer research and strategic planning. It resulted in Gap using less hot pink and more black ink. And Gap is successful again. But some retailers never understand their customer message...

The need to better understand customers extends to owners and developers also. Developers think that the new American generations do not have the same approach as their elders. «What worked yesterday doesn't work today and won't work tomorrow.» Consequently to design their centres, some developers use demographic and psychographic information, tools that are now available and important considering changing profiles of the Americans especially the growing ethnic communities.

As a conclusion it is clear that retailers will have to find means to satisfy a larger number of customers and more often. It is easy to say : Give them what they want but you can't always do that, they say at Colorado consulting firm : «Take them one customer at a time and treat every one like they're precious.»

JCPenney follows Sears and May in the off-the-mall move to open free-standing units.

The department store chain J.C.Penney, which operates

anchor stores in shopping centers, mid-November has opened a freestanding unit in 9,000 sq.m and one level in the suburbs of Dallas (Texas). The environment is pleasant with wider aisles and centralized checkouts. Moreover, while its area is smaller than the average mall-based store (11,000 sq.m), the offer and the merchandise presentation are similar. The layout resembles the racetrack of discounts and specialty stores. Two similar further stores will be opened.

We already indicated that May will close 32 Lord & Taylor department stores located in U.S regional shopping centres in 15 States. Sears might move out shopping centers for good and has already launched the new «Sears Grand» concept, a freestanding unit in Utah, which will be followed, by 5 more units in 2004. In the end, 200 to 300 Sears units could get off malls (cf.LLDI September and November 2003).

Two eminent toy chains in difficulties : FAO Schwarz returns to Chapter XI protection. Toys « R » Us to close Kids R Us and Imaginarium stores.

The parent company of the famous FAO Schwarz toy chain, founded in 1842, will return to Chapter XI for the second time this very year. It announced it will liquidate the 15 remaining FAO Schwarz stores, including the flagship Fifth Avenue unit in New York, and the 38 Right Start (child-developmental stores) unless it finds a buyer by December 15. It also might liquidate the 89 Zany Brainy learning units.

In November the retailer announced that it had treasury concerns. In the fourth quarter sales slid and there was a loss of US\$ 18.8 million from US\$ 18.2 million in the same period a year ago. In the 1st semester 2003 the company lost US\$ 56.7 million.

While it was under Chapter XI protection earlier this year, FAO had to close nearly half its stores. As it repositioned its new business it failed to capitalize on the high-end image and present itself as «The

Toy Retailer» for more affluent customers than the average Toys « R » Us customer.

This toy empire has been vulnerable to the discount giants such as Wal-Mart and Target or to the toy specialty discount chain such as Toys R Us. In fact, early 2000, Wal-Mart began selling learning games in its stores which were sold before in specialty stores exclusively. Moreover, two years later Toys « R » Us acquired Imaginarium.

On its side, Toys « R » Us is suffering and has decided recently to close all its Imaginarium stores and Kids « R »Us off-price units having failed in making them profitable.

This decision will cost it US\$ 280 million. In the 3rd quarter, Kids «R» Us comparable-store sales plummeted by 11.4%. In the first nine months they fell from US\$ 351 million to US\$ 293 million. Toys R Us sales were also disappointing : comparable-store sales fell 3% in the 3rd quarter. Total sales grew by 2.2% to US\$ 2.321 billion and by 1.7% in the international division.

Levi Strauss has revised downwards its annual forecasts and said that full-year sales would drop by 6 to 7% or to 2 to 3% in case the dollar remains weak.

In November Levi's warned that its sales in the 4th quarter would be far from what it expected and there will be a new decline of its revenues for the 7th following year. In 2002 sales were US\$ 4.14 billion well off the US\$ 7.1 billion generated in 1996. During the first nine months of this year, they inched up a mere 0.4% and net debt at year-end is of US\$ 11.2 million. According to estimations, it should be of US\$ 2.1 to 2.2 billion at year-end compared to about US\$ 2.1 billion in the previous period.

This forecast revision is the consequence of a series of blows to the famous jeans maker which remains one of the most important brand worldwide thanks to its lower-priced jeans and pricier designer labels. A fierce price competition and →

changing styles in the denim market make it suffer so much that in the last months it has announced its intention to close its two remaining North American plants and cut more than 2,000 jobs to move overseas.

Since July, Levi Strauss has been selling a less expensive line of its « Signature » blue jeans in 2,800 Wal-Mart stores, and, very recently, in some of the 1,100 Target discount stores. It is a test before it decides to roll out its men's, women's and children's lines mid-January in more stores.

This extension of its offer to the mass customers is subject to controversial and executives of Levi Strauss admit that some of its core customers, mainly department stores, cut their orders this year, as they fear that Signature launch would cannibalize their sales. However it appears that this launch is not enough to stop Levi's sales slide.

In order to stop this situation, Levi's has just replaced its chief financial officer and hired Jim Fogarty from the management consulting firm Alvarez Marsal. He will have to reduce debt and costs and to increase revenues if he wants to avoid a potential bankruptcy filing.

Obesity, a new challenge that face soft drinks companies.

The growing obesity epidemic has become a serious threat that face the soft-drink industry and it is its largest challenge in the past fifty years.

Coca-Cola's chairman and chief executive has called for cooperation all persons working in the business while suggesting to supply consumers with choices in health and wellness drinks. He implores the public not to banish soft drinks as a simplistic solution to their obesity. And he also said it is necessary to increase one's physical activity.

The giant from Atlanta recently declared in New York that he is facing a certain number of challenges including economic difficulties in some markets and the need to concentrate on a profitable expansion

instead of trying to grasp for small increases in its sales volume. While he considers that obesity is a large problem, he thinks that the business has « a brighter than ever future » if it can offer consumers what they want.

On its side, the chairman and chief executive of Pepsi Beverages & Foods North America, has announced that future innovations will concentrate on health and wellness while offering better waters and juice drinks.

In fact, consumers are changing some of their buying habits : if sales of diet soft drinks are increasing it is because many Americans feel concerned by their weight. In the same time, traditional soft-drink sales remain flat in the U.S.A and researchers from Morgan Stanley explain that consumption per capita has been falling in all age categories.

ASIA

Affluent consumer spending in Asia.

Nielsen Media Research has conducted its Asian Target Market Survey (ATMS), that studies 10,500 affluent persons including businessmen, CEOs, CFOs, middle to top management in Bangkok, Hong Kong, Jakarta, Kuala Lumpur, Manila, Singapore and Taiwan who are well-educated and have high incomes.

According to the habits, lifestyles and socio-economic characteristics of these persons with high incomes in seven Asian capitals, it appears that spending in travels and luxury products remain high. « The spending habits and outlook of these high income earners are constantly being reshaped by changes in the world economy and they're amongst the fastest to resume spending when the economy recovers. »

In these conditions, average personal incomes of affluent consumers in Asia are as high as US\$ 27,000 per year while those in Hong Kong are higher (US\$ 65,000) and almost three times the regional average. Singapore comes next (US\$ 41,000), then Taipei (US\$

33,000), Kuala Lumpur (US\$ 16,000), Bangkok (US\$ 12,000), Manila (US\$ 8,000) and Jakarta (US\$ 7,000).

These surveyed consumers are apparently active investors and affluent managers. In the region, the average investment is as high as US\$ 147,000 while Singaporeans invest the most at US\$ 222,000, followed by Hong Kongers (US\$ 208,000). Among the various investment possibilities there are local stocks, pension funds and residential real estate. This last option is among the top three most preferred by a third of affluent Hong Kong consumers in spite of the continuous drop in value. As virtual banks proliferate, 60% among them declare to go online for banking services compared to 9% three years ago.

These consumers are also frequent travelers (40.6%) whether for business or leisure. On average there are 2.5 trips for holidays and 7 for business in Asia alone per year.

As concern other consuming products, 99% of buyers have a mobile, Nokia, Sony and Motorola are the top preferred brands in Asia and in Hong Kong. 92% have at least one watch (Rolex, Seiko and Omega), 65% own a car.

source : *Asian Retail Trade*

Ikea expects to enter Japan :

in its early projects, it wanted to open two stores one in Tokyo in late 2005 and the other in early 2006. Then the Swedish company changed its mind and four to six stores are planned in Tokyo's area and the same number in Osaka...

CHINA

Food prices higher.

Consumer price index (CPI) rose 1.8% in the year to October. In November it was up 3.2% compared to a year earlier due to food prices growing by more than 8%. It was the fastest pace in six years driven by a hike in grain and vegetable prices.

Bertelsmann from Germany has signed a joint-venture agreement with a Chinese bookstore chain.



Bertelsmann AG has signed an agreement in order to launch the first bookstore chain with a foreign partner. The German media conglomerate declared it has bought a 40% stake in Beijing « 21st Book Chain Co », its partner in launching this chain nationwide copied from its book club outlets in Shanghai and Beijing.

Bertelsmann's target is to have 5 million book club members in China by 2006.

Wal-Mart and imports from China.

The world's retail giant, which expects to import US\$ 15 billion in merchandise from China in 2003 compared to US\$ 12 billion in 2002, recently declared it was too early to say whether if imposed quotas by the American administration on some textile products would affect its activity.

For now, industry analysts saw a limited financial impact for American retailers because quotas concerned only a few specific items but if other categories such as baby's wear were to be added to this list, it could cost more. In fact, according to J.P.Morgan, baby's wear, synthetic hosiery and silk trousers are among the likely items to be in the quota lists in 2004 which could raise prices.

Wal-Mart does not unveil how much of the US\$ 15 billion is invested in textile but electronics and toys are among the most important categories from China.

In order to diversify its supply sources from Asia, Wal-Mart could import for US\$ 7 to 10 billion in merchandise from India, compared to US\$ 1 billion over the next two years, and already approached twenty local suppliers. If they can answer to the quality and delivery standards of the American giant, W-M could reduce its dependency from China.

Champion in China in 2004.

The supermarket sign of the French Carrefour will enter China next year while opening its first Champion unit in Beijing. The

retailer would be discussing with the Shoulian Group, its local partner in the common firm, Beijing Dia-Shoulian Commercial Retail Co (16 hypermarkets), in order to open supermarkets in the Chinese capital as early as 2004.

Champion follows Dia (€ 6 billion, 4,000 stores in 8 countries), another sign of the French Group, which will open 300 hard discounts in Shanghai over 2006 including 16 by year's end in Shanghai and Beijing following an agreement signed with Shanghai Linhua (€ 631 million, 2,214 stores in 20 cities).

SOUTH KOREA

Shinsegae has ambitious projects.

Shinsegae group's ceo has announced that he will discontinue his financial and credit card operations to focus exclusively on retailing and does not exclude to open convenience stores or to launch a teleshopping activity. He also declared that he would invest € 3 billion to open new department stores over the next five years : 2 in Seoul suburbs between 2006 and 2010 and one in Seoul itself by 2007. But main part of the investment will be injected into E-Mart hypermarkets which will grow from 57 in 2003 to 120 over 2010. However, their selling area will decrease from 11,500 sq.m to 3,500-6,500 sq.m approximately.

To expand overseas has become a priority target for Shinsegae and mainly in China where it operates one hypermarket. It expects to open 19 of these stores over 2007. Five sites have been already selected in Shanghai and 3 in Tianjin.

Source : Objectif Corée

MAGHREB

MAROCCO

Vinci will build Rosa Blanca shopping centre in Casablanca in the heart of the Maarif residential area.

In five levels, it will include:

- a large supermarket of 2,400 sq. m selling area under the Label'Ve sign,
- 7 middle-sized specialty stores (home equipment, apparel, leisure...),
- 108 other stores (8,200 sq.m), the majority under a franchise agreement,
- a 12-unit fast food court (3,300 sq.m),
- forecasted sales : € 800 million, 2.5 million visitors are expected per year,
- a medical centre,
- investment : € 40 million,
- 450 parking spaces.

A convention has been signed between the Moroccan Government and the French Vinci Group, which will manage the centre. Construction will start early 2004 to be completed by September 2005. The owner, National Investment Corporation, will build a winter theme park there with a ski slope

2004 ICSC events

- **18/20 February** : Latin America and Caribbean Conference, Cancun, Mexico,
- **19/21 April** : 29TH annual ICSC European Conference, Rome, Italy,
- **23/26 May** : ICSC Spring Convention, Las Vegas, USA,
- **4/9 July** : European Retail Property School, Lausanne, Switzerland,
- **17/18 September** : 2nd European Marketing Seminar, Oberhausen, Germany,
- **14 October** : 4th European Research Seminar, Paris, France

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SPECIAL STUDIES

New rules for foreign retail investors in China.

from January 1, 2004

New rules will take effect less than a year before the country must fulfill its WTO commitment to fully open retail to foreign investors by December 11, 2004.

The government wants «to bring an end to the circumvention techniques some big international names have used to break into the Chinese market.» Hence the Chinese Ministry of Commerce would have sent draft new regulations to some big retail firms including Wal-Mart, Metro, Carrefour and B&Q which are classified according to some categories and their past attitude : those that have never violated the Chinese regulations (Class A), those with violations investigated by the central government (Class B) and those that continue to violate such rules (Class C).

Retailers of Class B will not be able to open new stores in China during one year and will have to submit the government the proof they have corrected their errors before receiving approval from the Ministry of Commerce for business expansion after one-year probation. Class C retailers will lose all rights to invest in commercial firms or stores.

Foreign retailers who invest both in firms and in stores will have to submit their applications plus land and building rental contracts to the ministry. To open a new store with more than 8,000 sq.m it will be necessary to inject a capital of US\$ 3.63 million. For stores of 3,000 sq.m to 8,000 sq.m, US\$ 602,410 and for stores less than 3,000 sq.m it will be necessary to inject 30% of the total investment without having to submit the rental contracts to the ministry. But each investor will not be able to open more than 300 such stores.

According to these new measures, foreign retailers must buy the land use rights in order to run their business in China and must be in line with local urban commercial development plans.

According to the ministry of Commerce, commercial network plannings must be completed in all main cities of China before year's end, including municipalities, provincial capitals and cities under the economic development laid out by the central government. Otherwise the big box store opening rhythm might lead to over competition and a waste of social resources, they said in the ministry. According to the first statistics, only 10 cities including Beijing and Shanghai have completed these plannings.

According to China's WTO investment rules, foreigners could only create joint ventures in the five special economic zones and six cities the first year after it entered the organization, with no more than four joint-venture retailers in Beijing and Shanghai. All provincial capitals were to be opened to foreigners the second year and the third year limitations to regional control and stakes lifted. Only retailers with more than one year activity would be allowed to sell books, newspapers and magazines. They would be able to sell pharmaceuticals, pesticides and oil products in the fourth year and chemical fertilizers in the fifth year.

According to statistics, of more than 300 foreign commercial firms 70 only have been officially approved by the central government. According to the ministry of Commerce, retail sales should grow by 9.5% in China in 2004. In September, MasterCard forecast a 6.8% increase in the second half of 2003 to US\$ 193.4 billion. In order to keep that momentum on, this Ministry recently submitted a report to the central government, which suggests increasing farmers' incomes, urban wages, strengthening social security payments, canceling interest wages and lifting the threshold of individual income taxes...

Source : People's Daily Online

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Modern retail trade is on expansion path in India but does not account for more than 2% of sales.

India seems to have jumped a generation since the economic liberalization and the decision by the government to launch into mass market, privatization, sector by sector, and foreign investments in 1991. In a few years, the country evolved so much that it grew from an absence of telephones to mobiles, from typewriters to computers, and public sector monoliths to privatization.

The same wave of total transformation occurred in retailing in the metropolitan cities of the country. But even today, it is not yet opened to international direct investments. A foreign person is not allowed to wholly own and operate a company, even a minority-owned company, or lead a business in this country except via a franchise from an Indian concession : Subway and Marks & Spencer followed this way when they decided to enter the country.

It has taken almost a decade since India opened to foreign companies and that was a real commercial revolution. However modern retailing does not account for more than 2% of sales compared to 85% in the U.S.A, 55% in Malaysia, 40% in Thailand or 20% in China. Supermarkets account for a very small share of the total retail transactions. It is interesting to compare the American Wal-Mart, which generates sales in excess of US\$ 200 billion and has 1.4 employees, with the largest Indian retailer whose sales are just € 94 million!! At last, there are 12 million stores in India or 0.2 sq.m per capita. Units greater than 45 sq.m account for 4% only of the total built area

Development of modern retailing.

Indian organized retailing began evolving in the beginning of the Nineties when national department store chains appeared. However new formats sprouted three years ago only : Family businesses or foreign brand manufacturers such as Bata, Lacoste or Sony launched hypermarkets and new specialty store sectors...

Then the emergence of a large number of shopping centres in all the metropolitan cities throughout the country also contributed to stimulate the wave. In 1999 when Ansal Plaza, the first centre opened in Delhi with 16,000 sq.m, six new malls were announced, most of them located in Gurgaon, its suburbs. Since that time, the wave has become so large that office projects have been converted into retail developments. Finally, since the middle of 2003 shopping mall schemes in Delhi and its suburbs totaled 650,000 sq. m.

In Mumbai, the scenario was similar. Crossroads, the first international-class shopping centre with 14,000

sq.m of retail space registered a record of 35,000 visitors per day when it opened ! In 2000, projects in the pipeline in this city totaled 280,000 sq.m and by the middle of 2003, 460,000 additional sq.m were announced.

Compared to Mumbai and Delhi, the main cities in south India, including Bangalore, Hyderabad and Chennai, have been relatively slow to follow the wave. Developers have not been quick enough to respond to requirements and supply answers to half of needs only. While the first large developments were announced as soon as 2000-2001, the wave accelerated during 2003. Further large shopping center and family-entertainment schemes (150,000 sq.m) are forecasted in Bangalore and Hyderabad in 2004 in addition to 120,000 sq.m of space ready for occupation today.

In Bangalore in addition to four shopping centres (84,000 sq.m) that are already opened, five malls (56,000 sq.m) at least will be completed in the fourth quarter of 2004. In Hyderabad, three (37,000 sq.m) are also ready for occupation and eight (93,000 sq.m) will be ready by fall 2004.

The number of branded retailers operating on a national basis is still very limited. According to estimates, nearly two-thirds of retail chains are specialized either in apparel and accessories or in food. In most of other channels, a few brands appeared only in the past three years. Local retailers are generally traditional, freestanding, family-run businesses which have created their own presence in some cities.

Very recent developments.

The Phoenix Mills shopping center, built in the former premises of textile factories in the north of Bombay, includes about thirty shops and a Big Bazaar hypermarket. A **Lifestyle** department store, the sixth unit in this country and the second in Bombay, opened this summer in a 5,000 sq.m of retail space and three levels. It belongs to the new generation. Projects include five more units of 7,000 sq.m over 2005 : one in Bombay to be completed by year's end, 2 in New Delhi, 1 in Kolkata and a smaller one in Pune. Lifestyle has achieved € 26 million in sales in 2002 and expects to generate € 55 million in 2003. Lifestyle entered India in 1998 coming from Dubai.

Pantaloon, an apparel retailer owned by Pantaloon Retail India (PRIL), is also present in Phoenix Mills and would be the main competitor of Lifestyle in the textile sector. It posted € 58 million in sales in 2002/3 which could double to € 100 million in 2004 and reach 180 million in 2005. Its capital is composed of foreign

institutional investors such as Goldman Sachs and Alliance Capital with respectively 12% and 13%; 20% is being held by Indian financial firms and the remaining is owned by the Biyani family.

PRIL operates approximately fifteen Food Bazaar supermarkets in 600 to 800 sq.m of retail space in Vashi, Navi, Mumbai, Nagpur... It expects to develop its Food Bazaar departments located in Big Bazaar hypermarkets in Bangalore, Hyderabad, Kolkata and Mumbai.

The Hong Kong-based **Dairy Farm**, associated with Spencer, the retail subsidiary of the RPG Group in Calcutta, announced it will open 8 hypermarkets under the Giant banner by March 2005. Both partners already operate the first Giant hypermarket (10,800 sq.m of retail space), opened in India in June in 2001 in Hyderabad, and 70 small FoodWorld supermarkets. For now their expansion has been limited by laws on foreign investments in retailing. Dairy Farm and Spencer are also 50/50 partners to open and operate chains such as Health & Glow and Music World.

Metro opened its first Indian cash & carry mid-October 2003 in Bangalore suburbs which caters to business customers only. It should be followed by a second unit in the same city. While investing US\$ 38.8 million in each outlet, Metro expects annual turnover of around US\$ 40 to 45 million. Beyond Metro, wholesale trade is opened to foreign direct investments.

Modern retail trade meets difficulties in its development due to the high cost of real estate, logistics, taxation and a restricting legislation on working conditions.

The segment of population, who can afford buying durable consumer good, is composed of very affluent consumers and the new richer consumers, all accounting for a total of 40 million households. It would have grown from 14% of households in 1990 to 30% today and could reach 40% in 2007 to include 450 million people. Meanwhile the poorest segment of population would have decreased from 25% to 13.2% today. ■

Sources : India Property Research, Veille Internationale

SPECIAL STUDIES

Why does the Sultanate of Oman experience such a food retail store development ?

There is one supermarket for every 22,000 people in the Emirates, one for 72,000 in Saudi Arabia and one for much more in Oman. In Oman, the 7,194 food stores in operation, are classified as follows :

2003, Matrah Cold Store (MCS), a part of WJ Towell, and Al Seer Group from Dubai, formed a joint-venture firm, Al Fair LLC, in charge of the development of Al Fair food operations in Oman. In these conditions it bought

Grocery market turnover by channel				Store number by channel			
	2000	2001	2002		1998	2002	% growth
Super >400 sq.m	17%	18%	22%		30	45	50
Self-service (100-399 sq.m)	9%	9%	8%		112	118	5.4
Large groceries (40-99 sq.m)	22%	21%	20%		1,059	899	-15.1
Small groceries (<40 sq.m)	52%	52%	50%		6,439	6,132	-4.8
				total grocery trade	7,640	7,194	-5.8

N.B excluding wholesale business

According to retail firm MEMRB, the number of large and small groceries in the Sultanate exceeds by far its local needs. Hypermarkets and supermarkets account for the largest share of the food market (at least 40%). Carrefour's arrival in Muscat in 2001 seems to have been one of the major factors pushing this commercial revolution. The recent acquisition of Al Fair by Spinneys and the first Lu Lu hypermarket to be opened in Muscat by mid-2004 will still strengthen competition, push small grocery stores to close and independent supermarkets to modernize in order to survive.

Retail development.

Retail has just begun its revolution : Al Fair has undergone several changes in the past years : in July

nine shops in the Sultanate from MCS and, under the management of Spinneys of Dubai, announced it aims to invest in the brand development in order to make it the leading neighborhood food store chain in Oman.

Al Fair's and Spinneys renewed ties in 1999 is the sign that in a market where scale economies are determinative elements of profitability, all advantages are important. Experts admit that this joint venture will reduce costs as 70% of Al Fair's merchandise is coming from the U.A.E.

While big and small retailers are increasingly opening stores in Muscat compared to other regions in the country and as the market cannot grow any bigger, this battle will push some stores to close and the survivals will be at first those who have money and the means to lose some during a certain time. In fact, competition will still gain strength with new hypermarkets : a Safeer hypermarket was opened in Azaiba (Muscat) last October by Safeer Centre International LLCC (54 department stores and supermarkets in Dubai, Pic'n'Save and Select'n'Save

stores in Oman), the first Lu Lu in Al Ghoubra in the second half of 2004 and then later in Darsait. By mid 2004, Sultan Center will open a large cash & carry in Seeb close to Carrefour on one part of the 120,000 sq.m site. In its ambitious projects it plans to open 15 shops throughout the country. Carrefour is rumored to have identified the site of a second hypermarket.

While the population is rapidly increasing and should double to over 3 million people by 2010, a report published by the International Labour Organization reveals that the population growth in this Sultanate is outstripping GDP's growth. Which means that there is no explosive growth in consumer spending. But why such a commercial explosion ?

Retailing is one of the most dynamic sectors in the past five years.

In the last two decades, the relative dependence on agri-food imports has contributed mainly to the development of infrastructure in the regions. GCC countries are multi-ethnic markets hence a very large choice of food products in local markets. This is focused by expatriates who have an influence in the region and consequently in food product imports. Moreover, as the local population travels to Europe and North America, consumers have become more price, quality and packaging conscious and accept to pay more for good products.

If hypermarkets still account for only a small part of total retail sales in Oman, they succeeded in attracting attention and investments from large industry players and their development is a huge opportunity for local and international retailers as for a long time the corner grocery shop was the only choice to the consumer in Oman.

Evolution in Oman.

Since the past twenty years, demographics and consumer patterns have considerably changed : population is younger and more urbanized, demanding a better environment and wants to test new products...

The development of food retailing in Oman is very similar to other Gulf countries. It is more diversified

and broken into supermarkets, convenience stores, non profit institution retailers (who supply the army and the police), cash & carry, wholesalers and A&B groceries, smaller units than supermarkets.

According to MEMRB, there were 7,194 food stores in Oman in the beginning of 2002. It is a decrease of 6% compared to 1998. Large groceries suffered the strongest decline in the unit number (15%) and small groceries 5% only. Meanwhile, supermarkets grew strongly from 30 units in 1998 to 45 in 2002. Hypermarket and supermarket competition has pushed not only small groceries (below 40 sq.m) and large groceries (40 to 99 sq.m) to close but also independent supermarkets.

Compared to other Gulf Countries, Oman retailing is very characterized by small groceries in which traditional customers feel comfortable as they receive more personal attention and are known by their name and enjoy more personal attention.

The negative aspect of the big box store development seems to be their concentration in the capital : a little over 12% of the population, including expatriates, is living in urban zones compared to 96% in Kuwait, 83% in Bahrain, 82% in U.A.E and 78% in Saudi Arabia.

While the larger retailers are focusing on this low percentage of population, the retail market in Oman is more and more overcrowded and competition fierce.

About figures.

Food retailing in all the GCC countries is estimated at US\$ 20 billion by IMES Consultancy Ltd. Early 2003, these consultants announced that according to their figures, consumers spend more than US\$ 18 billion outside the home of which approximately US\$ 7 billion in retail stores. Between US\$ 3.5 billion and 4 billion are spent on groceries including 2.8 billion on food. According to OER, Oman accounts for less than 0.1% of the worldwide grocery retail market.

Price sensitive customers, conservative shopping attitudes, high rentals, a lack of appropriate sites... are the challenges met by retailers in full expansion in the Sultanate of Oman. ■

Source : Retail International

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