

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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INTERNATIONAL

Ahold, the Dutch retailer, has sold Bompreço to Wal-Mart.

Ahold has sold its Brazilian unit that operates 119 supermarkets and hypermarkets with sales of US\$ 1.17 billion. Ahold has also sold Hipercard, its Brazilian credit card operation, a leader in Northeastern Brazil with over 2 million cardholders, to Unibanco S.A. The combined value of these two operations amounts to approximately US\$ 500 million.

Unibanco is Brazil's third largest private financial group that concentrates on wholesale and retail banking, insurance and management of pensions and wealth.

The G.Barbosa chain (32 units), acquired in January 2002 by Ahold, is not included in the transaction due to the decision of the Office of Fair Trading. This way Wal-Mart become Brazil's third largest retailer from the sixth position with a 6.7% market share behind CBD (14.6%) and Carrefour (12.6%).

Beside, Ahold very recently reached agreement with Chilean retailer Cencosud on the terms of sale of its majority stake in the Argentine supermarket chain Disco. This agreement is still subject to the local anti-trust approval.

Cencosud has interests in real estate and retail stores : it runs 23 DIY units and 12 hypermarkets in Chile and Argentine and bought Ahold's stake in the Chilean supermarket chain Santa Isabel in July 2003.

Ahold U.S.A has decided to sell new assets, its weakest performing chains, Bi-Lo and Bruno's. Potential buyers might be a leading regional supermarket chain such as Publix or a national such as Kroger.

This decision is part of Ahold's

strategy to optimize its portfolio and to strengthen its financial position by reducing its debt which amounts approximately to € 11 billion. It is the reason why Ahold promised to sell for € 2.5 billion of assets over 2005. Ahold will "focus its efforts on its remaining U.S. food retail operations" including Stop & Shop, Giant Food (Landover, Maryland), Giant Food Stores (Carlisle, Pennsylvania), Tops Markets and its grocery online activity Peapod.

Bi-Lo runs 292 stores located in the South markets, 2 warehouses and has sales of US\$ 3.2 billion; Bruno's, based in Alabama, 178 supermarkets, 1 warehouse and net sales of US\$ 1.8 billion. In 2003 Ahold's U.S sales grew by 2.7% to US\$ 27 billion.

Ahold has also decided to sell its stake in CRC in Thailand for an undisclosed amount to its partner Central Group and withdraws totally from Asia.

CRC Ahold operates 47 stores and has a wholesale business delivering to some 300 convenience stores with sales of € 312 million in 2003.

The Central Group, one of Thailand's largest private firms, consists of six activities : retail and wholesale, hotels, property, manufacturing and food franchises.

CENTRAL & ORIENTAL EUROPE

Consumer spending in 2002 in 11 emerging countries according to Mintel.

Russia, the largest of the eleven surveyed countries by inhabitant number, unveils the lowest spending per capita.

countries	consumption spending (€ bil.)	population (million)	spending/capita (in €)
Bulgaria	12.86	7.89 (*)	1,630
Estonia	3.88	1.6	2,854
Hungary	46.18	10.18	4,539
Latvia	5.60	2.35	2,388
Lithuania	9.06	3.48	2,607
Poland	135.43	42.20	3,209
Czech Rep.	38.30	10.21	3,752
Romania	30.97	21.68	1,428
Russia	182.25	143.95	1,266
Slovakia	13.92	5.38	2,589
Slovenia	11.77	1.96	5,993
Total	490.2	250.6	1,956

* year 2001 Source : Mintel/Lettre de Veille Internationale

Retail sales in these eleven countries hit € 262.1 billion in 2002 and Russia accounted for more than 48%. International actors are dominant except in Slovenia and Lithuania where Mercato and VP Market are respectively leaders in their home markets.

Sales of the fifteen largest retailers account globally for € 17.5 billion or 6.6% of total retail trade in these eleven countries, a figure to be compared with € 428 billion generated by the twenty largest retailers in Western Europe.

International and local retailers.

Rank	Groups	Country of origin	Present in the following countries	2002 pre tax sales (€ mio)
1	Tesco	U.K	Poland, Hungary, Czech/Slovak Rep.	2,603
2	Rewe	Germany	Poland, Hungary, Slovak/Czech Rep, Bulgaria, Romania	1,945
3	Ahold	Netherlands	Estonia, Latvia, Lithuania, Poland, Czech Rep.	1,471 (*)
4	Metro (1)	Germany	Poland, Hungary, Romania	1,423
5	Mercator	Slovenia	Slovenia, Croatia	1,340
6	Tengelmann (2)	Germany	Czech Rep, Hungary, Poland, Slovenia	1,306
7	Auchan	France	Hungary, Poland, Russia	1,180
8	Carrefour	France	Czech/Slovak Rep, Poland, Romania	1,095
9	Aspiag-Spar	Austria	Hungary, Czech Rep, Slovenia	960
10	Biedronka (J.Martins)	Portugal	Poland	925
11	VP Market	Lithuania	Estonia, Latvia, Lithuania	879
12	Casino	France	Poland	874
13	Euronics	Netherlands	Czech Rep, Hungary, Poland, Estonia	647
14	Delhaize Le Lion	Belgium	Romania, Czech Rep, Slovak Rep.	430 (*)
15	IKI	Lithuania	Lithuania	418
total				17,494

* 2001 data (1) Media Markt, Praktiker and Real brands (2) Obi and Plus

has 160 retailers and Zlote Tarasy is looking for anchors.

Such a growing competition is putting existing centers under pressure and push them to expand : a 17,000 sq.m extension is planned in Promenada and a 11,000 sq.m in Reduta. Other shopping centres expand their offer by adding new stores. Targowek will be enlarged by a 24,000 sq.m retail park extension.

Factory outlet centers also meet a growing popularity following the success of Ursus in Warsaw. The second center will be built in 2004 in Piaseczno and a third one is under consideration.

Krakow will have to wait until 2005 and the opening of Galeria Kazimierz and further shopping centers will be probably built in the northwest of the city where Ikea and Makro are already present.

RUSSIA

Moscow's Gum changed owner.

A Russian company, Bosco di Ciliegi, has acquired the famous mall dating back to the 19th century and the tsarist's era, located in the Red Square. It bought a 50.25% stake for an undisclosed amount (US\$ 100 million are reported) from Perekryostok, the food chain arm of the Alfa Group conglomerate.

The Gum, publicly listed, runs department stores throughout Russia and a lease on its anchor store in the Red Square through 2042. Approximately 88% of its revenues are coming from its sales and rent at its main building. Its profits would amount to US\$ 17 million on US\$ 77 million sales in 2003 according to United Financial Group.

Bosco di Ciliegi, founded in 1991 as an importer of Italian wear, owns 46 shops in Moscow, St Petersburg, Samara and Novosibirsk and sells luxury brands such as Max Mara, Etro, Alberto Ferretti and Kenzo. A supermarket could be added on the ground floor of the mall.

Perekryostok bought the Gum →

(Gum...)

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in November 2002 and grew to 70-75% in its capital according to some sources. It would keep a quarter of the company only and senior management and investors would have the remainder. Meanwhile, Perekryostok has raised US\$ 75 million from two Western banks, Raiffeisen and HSBC, in order to develop its grocery chain.

Pyaterochka unveils good performance in 2003.

The nation's largest food chain by sales and store number has sales growing steadily since 2000 : from US\$ 75 million to 212 million in 2001, 540 million in 2002 and 630 million in 2003, an increase of 16.7% with 260 stores in operation. It expects US\$ 800 million in 2004.

Pyaterochka was founded in 1999 and Agrotorg and European Bank for Reconstruction and Development are among its main shareholders. In 2003 it invested US\$ 60 million to add 118 new stores in Moscow and St Petersburg.

WESTERN EUROPE

Rodamco Europe has acquired Donauzentrum in Vienna (Austria) in fall 2003.

Rodamco Europe, the largest property investment and management company in the European retail sector, has bought 90% of the shares of Sunrise Privatstiftung, owner of Donauzentrum, one of the largest leading multi-used centers in Austria for € 270 million. It includes mainly :

- a 60,000 sq.m shopping center,
- tenants : 40% are international brands (C&A, H&M, Esprit, Mango...) and 42% national (Interspar, Kika, Cosmos, Hervis, Intersport),
- a four-star hotel (137 rooms),
- 8,000 sq.m of office space,
- targeted sales : approximately € 275 million,
- ratio rent/sales : 5.4%,
- trading area : 1.85 million persons live within 30 minutes drive in the northern part of Vienna,
- 2,750 parking spaces.

The first phase of this complex was opened in 1975 in a 23,000 sq.m lettable space. Further phases have been added in the last twenty-five years to bring it to 112,000 sq.m. A new 15,000 sq.m extension is planned and will include several restaurants, a discotheque, etc...

This acquisition fits within Rodamco strategy, which consists in buying leading shopping centers with large catchment areas in Europe's key cities. It aims to establish an organization in Vienna, in the heart of Central Europe, in order to manage other assets of its portfolio in the Czech Republic, Hungary and Poland.

In addition, Rodamco has invested in shopping centers in France and in the Netherlands for a total amount of € 74.1 million. The firm has sold three assets in Holland for € 22.3 million. Its largest acquisition was the 9,140 sq.m extension of a shopping center near Eindhoven (Netherlands) from ING for € 48 million, extension that will be completed in 2006.

FRANCE

Franchise : evolution since 1971.

	1971	1977	1997	2001	2002	2003
Franchiser nbr	34	108	517	653	719	765
Franchisee nbr	-	7,500	28,851	32,240	33,268	34,745
sales (€ bil.)	-	-	28.51	30.49	33.71	34.12

Source ACFCI/FFF

In 2003, family equipment, including apparel and shoes, was the first category by store network and food was first by franchisees. The number of various retail trade networks grew from 50 to 96 and franchisees from 1,965 en 2000 to 3,233 in 2003. The services and auto category (repair, parts, renting) have been also growing just as aesthetics... Real estate continues going up, services to persons and firms, training and travels were less performing.

Retailing is still the largest sector of the French franchise as it accounts for 60% of the networks and above 53% of the franchisee number.

International signs mainly from United States, Spain and Italy are present in France in sectors such as fast foods, real estate.

Galleries Lafayette opened « Lafayette Maison » on March 5th, in the former premises of Marks & Spencer in Paris, on Haussmann boulevard.

This small luxury jewel, which cost approximately fifty million euros to build and equip, sells the very last trend in homeware and decor (40% of targeted sales), furniture, electric appliance, tableware, etc... Products are offered on each side of a central atrium and classified by universe (kitchen, bathroom...) and focus on accessories. Home brands account for 20% of the offering.

Galleries Lafayette, its mother company, expects this store will generate € 200 million in sales. It would be 20% above sales per sq.m of the same departments in its main building.

As these home departments have been removed into the new "Lafayette Maison," the main department store will be entirely renewed during one year at a cost of € 40 million and concentrates on fashion only.

A second Lafayette Maison is expected to open in Nice, in the Cap 3000 shopping center, in the second half of this year in a 4,000 sq.m space.

Centres Leclerc are leaders of the food market with a 17.2% market share in France, up 0.4 point.

The Group of independent retailers has reported sales growing by 4.8% to € 27.2 billion (gas included) for the year 2003. Same-store sales increased 3.5% over year-ago level. France, which accounts for 96% of the total, was up 4.2% to € 26.1 billion above the average of the industry (2.7%). To December 2003, 1,146 stores were in operation →

(Leclerc...)

including 382 hypermarkets, 115 supermarkets, 40 Leclerc Vêtements (apparel), 64 Brico-Jardin (DIY/gardening), 74 L'auto and 471 gas stations.

International had € 1.1 billion in sales with 36 hypermarkets in Italy, Spain, Portugal, Poland and Slovenia. In 2004, Centres Leclerc expect to hit € 1.3 billion, growing by 30%.

While using their central buying group Lucie shared with Système U, Centres Leclerc have the intention to increase their "parallel sourcing" negotiated with other European buying groups in order to offer cheaper net prices over national brands. In addition their low-price private label "Repère" will still be much cheaper than national brands. Their "premier prix Eco+" brand, which currently provides 630 items, will be expanded as well as the non-food offering and the specialty stores (Manège à Bijoux, drugstores...) will continue pushing forward.

Carrefour : hypermarkets must experience more growth in sales in their home market in 2004.

In 2003, net profit rose 18.6% to € 1.6 billion and sales including tax grew by 6% on constant exchange rates to € 78.9 billion excluding Chile. Operating margin increased from 4.4% in 2002 to 4.6% in 2003 and ROCE (return on capital employed) from 14.8% to 17.7%. In this exercise, Carrefour opened 969 stores or one million sq.m of new space.

But sales of the French hypermarkets, which account for 22% of the Group's consolidated sales and 45% of profits, are still lagging as they increased by 1.7% only to € 35.7 billion while EBIT profits were up 3.9%. In these conditions an aggressive price campaign will be led : its low-price private labels and Numéro 1 products sold in its Carrefour hypermarkets and Champion supermarkets will be extended in order to "increase sales, customer number and sales". This policy should reverse the trend from the second quarter of this year.

In 2004, Carrefour will invest €

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3 billion to enlarge and open 900 stores, equivalent to around one million sq. m of new selling space including 40,000 sq.m in French hypermarkets and 100,000 sq.m in supermarkets and acquire potential opportunities worldwide. Priority is given to organic growth and debt reduction which decreased by € 1.1 billion this year to € 7.9 billion and should decrease again by 500 million in 2004.

Carrefour expects an increase in sales of 6% on constant exchange rates, a two-digit increase in EPS before and after goodwill and a ROCE of 19%. Such a strategy can be positive as the retailer multiplied its cash flow by 2 to € 1 billion.

To December 2003, Carrefour operated more than 10,000 stores in 29 countries and 3 continents : 830 hypermarkets, 2,400 supermarkets, 2,500 convenience stores and 4,450 food discount stores.

The New Pinault-Printemps-Redoute focuses in the retail and luxury goods.

The strategic disposal of Finaref and Guilbert... last year to finance the acquisition of Gucci, in the capital of which the Group will grow to 100% in April, and of YSL has driven to a decrease of the operating result by 29% to € 1.29 billion from 1.82 billion in 2002. Net profit group share amounted to € 644.6 million from 1.58 billion on sales already released of € 24.3 billion down 11% from 27.37 billion.

Retail sales grew by 4.1%, same-store and exchange rates by 5.9%, especially abroad. Redcats, world's third largest distance selling chain, was particularly performing as its operating result grew by 11.3% to € 221.6 million. Conforama (furniture, white and brown goods) sales slid 5.1% due to a decline in the furniture market. Fnac (photography products, TV-video and IT equipment) suffered from a record drop offset by an increase in video. Department stores recorded an increase of 10.9% of their operating profit.

In the luxury branch, Gucci operating result in the first half fell

to € 32.6 million from 113.5 million in 2002 but sales seem to recover in the first two months of 2004. At YSL, Tom Ford would not be replaced as creative director by a big-name designer and the Italian fashion house could turn to licences and franchises for expansion.

In 2004 investments will remain at the same level as in 2003 (€ 150 million) and the Group expects to improve profitability at Gucci to 29% from 27% in 2003.

GERMANY

Slow improvement of the economic context.

Retail sales, which slid in November and December 2003, grew by 3.1% in January compared to December in real terms according to the Federal Statistics Office and its interim data. Over the year, they grew by 1% in January.

For the time being, consumer mood is still low. There are so many hard discounts (they would account for 40% to 50% of the total retail stores in Germany according to Edeka) and shoppers enjoyed so many large rebates in the last weeks that they do not feel the necessity to go shopping. Even large discounts feel the same phenomenon. Last year, 4,500 retailers went bankrupt and 30,000 retail employees lost their jobs. This figure is expected to fall to 20,000 in 2004.

Edeka and Rewe interested in Spar.

Both German companies have said they were interested in Spar. The French Intermarché, the major shareholder of Spar, which owns 85% of the capital, would rapidly sell its German subsidiary once the current restructuring program is completed. Netto food discounts and the wholesale business might not be included in the global transaction.

Last year, ITM and the banks agreed with the Group that the Eurospar/Intermarché branch would stop its activity by mid 2004 and close, privatize or divest of stores.

Edeka improving its performance in 2003.

As sales grew by 2.9% to € 24.6 billion EBIT improved by 1.8% to 442 million in 2003. Group net sales increased by 2.4% to 31.27 billion including its subsidiary AVA AG and its partner, the Globus Group in St Wendel. In the full year, the group, including Ava, opened 220 new units (300,000 sq.m) and closed 400. Currently it has 9,100 stores among which 6,500 are operated by independent retailers.

Edeka expects economies worth € 250 million in the administration and logistics sectors for 2004 which should help to improve its market share and performance. The reform of the group's structure should create synergies of similar worth.

Rewe registers profits in spite of a low consumer demand.

Rewe had a pre-tax profit in excess of € 400 million in 2003 growing by 30% from a year earlier. Sales of Europe's fourth largest retailer increased 4.7% to above 39 billion. In these conditions, Ernst Dieter Berninghaus, Rewe chairman, announced that the company would continue expanding in Europe and open 340 new units.

While food sales increased by 6.6% to € 32.5 billion, the tourism division fell by almost 7% to 4 billion. Rewe is thus looking for a buyer to acquire its 49% stake in the airline LTU.

Tengelmann's discount Plus has decided to enter a new country every year and to manage its foreign activities from the German headquarters.

The international expansion will be accelerated under the management of Michael Hürter, chairman of the branch and its colleague, Alfred Glander, who declared "We want really show Europe who we are." During an interview with Lebensmittel Zeitung, both directors unveiled that according to their medium-term projects they planned to generate more than 50% of their sales outside Germany and had consequently selected 18 countries.

Plus is already present in Portugal, Spain, Austria, Hungary, Poland and the Czech Republic, each of these countries being, until today, a totally independent branch. Romania is in the pipeline for this summer and the next step will be Greece. European operations will be managed from Plus in Germany. Future projects include moulding Plus into a European entity with a stronger position against the banks, without neglecting the particular aspect of each country.

Metro : sales are growing outside the home market according to 2003 figures.

Germany's largest retailer has reported that its sales grew by 5.7% in 2003, excluding exchange impact, exceeding its forecasts of 5.5%. At current exchange rate, sales increased by 4% to € 53.6 billion with 2,123 units in operation.

The share of international sales grew steadily from 35% in 1998, to 42.2% in 2000, 44.4% in 2001, 46.3% in 2002 (including 29.7% in Western Europe, 14.6% in Eastern Europe and 2% in Asia/Africa) to 47.2% in 2003 (€ 25.30 billion).

Last year Metro added 81 new stores in foreign countries and the store count fell by 11 units in Germany.

Breakdown of Metro sales and store number (2,123) to September 30, 2003.

	Metro/ Makro	Real	Extra	Media Markt/ Saturn	Praktiker	Kaufhof
activity	cash & c	Hyper	large super	electronics	DIY	dept.stores
store number	458	285	476	415	341	148
2002 sales (€ bil.)	24	8.2	2.8	9.6	2.6	3.9
% total sales	46.5	16	5	19	5	8
country number	26	3	1	10	8	2

Source : Metro/Lettre de Veille Internationale

NETHERLANDS

Vendex KBB, the Dutch retail group, to be acquired.

Vendex KBB, which accounts for 11% of the non-food market in the Netherlands, is struggling for life. It operates 15 different brands including the Vroom & Dreesmann

department store chain and the specialty stores Dixons (electric appliance) and Brico (DIY). The conglomerate is now under the pressure of investors who push it to sell some assets from which they expect € 12.5 billion. But no decision will be taken before early April once the annual profits will be released. The American private equity Kohlberg Kravis Roberts and a rival consortium of funds Permira and Cinven would be ready to acquire it.

In 2003, its sales grew by 3% to € 4.488 billion below expectations (4.5 billion) because of a decline in textile sales, a sector highly impacted by a low demand. In the 4th quarter, sales fell by 0.2% to 1.181 billion for the same reasons.

In fact, since March 2003, non-food sales in the Netherlands have been strongly influenced by unfavorable market conditions.

UNITED KINGDOM

Marks & Spencer has opened its first "Lifestore" in Gateshead, in the suburbs of Newcastle, on February 25, 2004. It is a new challenge to boost its falling image and popularity.

Vittorio Radice ran Habitat and Selfridges and was hired by Marks & Spencer last year to boost its homeware division. This store is a small investment of £ 14 million (€ 20 million) in an activity which

accounts for £ 500 million only (714 million) on annual group sales of € 10 billion. The target is to build a chain of 20 similar stores throughout the country including two more within a year. Green plastic bags and blue uniforms are over and replaced by designer paper bags and apparel in the Conran style on young staff. The offering is broken into nine →

(Marks & Spencer...)

themes with a range of 12,000 lines and price range from € 0.77 a glass to € 2,860 a sofa.

In the past years, customers had deserted Marks & Spencer while the new team was busy in revitalizing the dowdy fashion empire. During some time, sales grew but in the past months doubts have appeared. Sales were not as strong during the Christmas season as consumers preferred to spend at Next or Debenhams.

In U.K. home equipment specialists since forty years include Habitat opened in 1964 by Sir Terence Conran, who joined Mothercare. Then he acquired Heals in 1981 and merged with British Home Stores to form the Storehouse Group in 1986. Ikea entered U.K in 1987. In addition, The Pier and Cargo and also most supermarkets now sell homeware lines at affordable prices.

Sainsbury improves its market share.

Sainsbury regains market share in a highly competitive food market in U.K but will feel the impact of the new Morrison's/Safeway competitor. According to TNS, Sainsbury's market share grew from 16.4% to 16.5% in the quarter to February 1.

Meanwhile, Morrison with a total of 15.3% combining with Safeway (8.8%) will be better positioned to compete. Tesco has registered the highest growth in the period and grew its share from 26.9% to 27.2%. Asda increased from 17% to 17.1%. Somerfield has slightly declined to 5.2% and Iceland owned by Big Food Group remained steady at 2.3%.

NORTH AMERICA

UNITED STATES

Employee theft, a record in retailing : if it decreased in percentage, the loss remained high with US\$ 31.3 billion in 2001.

Retailers are relying more on technology to reduce employee theft. Their best arms are education

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and the stability of the workforce. It is one of the conclusions that can be drawn from the very last survey by the University of Florida, which covers 22 different sectors of retailing. Conducted in 2001, its results were released in fall 2003.

As concern retailers, the good news is theft stabilization. In fact, it fell from 1.8% of annual sales in 2000 to 1.7% in 2001 compared to the record of 1.95% in 1994. But the shrinkage amount was approximately US\$ 31.3 billion in 2001 or 8% more than in 2000.

Theft by employees accounted for US\$ 15 billion or 45.9% of the total according to estimates. If the shrinkage rate was overall higher for home-improvement dealers, employee theft was slightly lower than the average with 42% of the total in 2001. Researchers have indicated that retailers succeeded 35.2 employee apprehensions for every US\$ 100 million in sales, which indicates that more thefts have been caught than in the past years. The average loss per employee theft was US\$ 1,341.02 or lower than in 2000.

Shoplifting, which accounted for 32% of total theft in 2001, or approximately US\$ 10 billion, was more important in home-improvement centers than in other stores with 35.4% of total theft in this type of stores. Retailers have announced they had apprehended almost 135 persons for every US\$ 100 million in sales and had 108.4 prosecutions, a growing figure. Moreover, the average loss per shoplifting theft increased by 5.8% to US\$ 207.18.

On average retailers spent 0.52% of their annual sales in 2001 to protect themselves against loss, slightly lower that year compared to 2000. The study analyzed 67 different strategies used in four directions: asset control, the most used method, systems, employee awareness and pre-employment screening. If retailers better controlled their price changes and merchandise reception, a growing number among them declared they relied more on information coming out of the POS

systems to check errors.

When workforce is volatile, shrinkage rate is likely to increase. Generally, a dishonest employee works in a store less than nine months on average. It is interesting to note that shrinkage rate in companies with less than 50% of annual turnover are much below the overall average at 1.61% of sales. Retailers with annual turnover above 50% declare a shrinkage rate of 1.85%. If the management turnover is above 50%, the shrinkage rate is at 2.1%. Among retailers who have part-timers, accounting less than 25% of the workforce, it accounts for 0.96% of sales only. If part-timers account for 51% to 75%, the rate hits 1.86%.

Source : Home Channel News

The housing market is still dominated by The Home Depot : its profits have increased by 39% in the 4th quarter 2003.

The world's home equipment giant is convinced that this very good performance is the proof that investing billions of dollars in the workforce, improving customer service and store remodeling is profitable. In fact, in the fourth quarter, it earned US\$ 951 million from 686 million a year before on sales of US\$ 15.13 billion growing from 13.21 billion in 2002. Same-store sales increased 7.6%. In addition, sales in the full year hit US\$ 64.82 billion from 58.25 billion in 2002 and profits 4.30 billion from 3.66. As for 2004, it expects its sales to increase by approximately 9% to 12% and income per share excluding exchange impact by 10 to 14%.

Bob Nardelli, Home Depot's chief executive, declared that "He sees a tremendous runway for growth going forward," while remaining attentive to possible downturns in the economy and the housing market. But he believes that the chain of 1,707 home-improvement centers in the U.S.A, Canada and Mexico can sustain a rapid expansion pace. Consequently, he is ready to invest US\$ 3.7 billion in 2004 to renovate and add 175 new units as well as upgrade technology.

(Home Depot...)

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Last year it increased its market share in several key markets. As for international expansion, Home Depot wants to concentrate on Mexico and Canada with respectively 9 and 14 new stores and denied any rumor about Kingfisher, arguing that times were too difficult for an international acquisition.

In January 2004, Home Depot announced he wanted to continue attracting customers with brighter stores, easier checkout and a certain number of new products. It wants to continue expanding self checking, recordless systems at checkouts, and the electronic catalog, some of the sectors the company estimates it is necessary to invest in order to grow sales and profits as well as the associates profitability. Home Depot plans also to grow its pro segment by expanding its equipment rental business and home services...

In the same 4th quarter to January 30, Lowe's, its largest competitor, announced a 28% increase of its profits to US\$ 407 million.

The remodeling market is booming. In 2003, Americans spent US\$ 130.4 billion, a 7.3% increase from 2002. This spending is likely to still increase over the next decade by at least 5% a year according to the National Association of Home Builders.

Source : Home Channel News

Discount stores are gaining ground over department stores.

According to the annual statistics by J.P Morgan based on a large sample of retailers over the past six years, it appears that traditional department stores have been losing ground to discount stores in all times. For the analysis, sources include the U.S. Commerce Department and the Census Bureau as well as company reports.

Today strip centers including either a discount store or a warehouse-club anchor have the favor of consumers. In fact, they gained market shares of total retail and food services sales in 2002 because of their quality positioning

and convenience.

In 2002, department store sales fell 3.5%. Meanwhile discount stores and supercenters such as of Wal-Mart and Target increased by 8.6%. Dollar stores were the second best performers with sales up 14.7% and membership-warehouse clubs by 10.3%.

Furthermore, supercenter sales jumped 21.1% in 2002 from 2001. In the past decade, their consolidated annual growth rate hit 28.5% while all department stores in the same period grew by a modest 0.5% per year.

In 2002, discount stores and supercenters claimed to account for 10.4% of the retail market including retail and food services sales but excluding automotive and gas sales while department stores gained 3.7% only.

While studying department stores further, it appears that national full-line chains such as J.C.Penney and Sears have seen their annual consolidated sales falling for six years by respectively 1% and 0.3%. Federated Department Stores grew by a modest 0.3% and May by 2.2%. Upscale department store chains such as Neiman Marcus grew by 4.8% and Nordstrom by 4.3%.

In comparison, Wal-Mart had a 13.4% growth rate and Target 12.3%. Dollar General was even better with 18.4%. To be even more precise, discounters managed their stores and sales space with a far more efficiency.

While studying the compound average growth rate for the past six years, department stores of the sample saw their average sales per unit decreasing by 0.8% and sales per gross sq.m by 0.7%. Meanwhile surveyed discount stores grew respectively by 6.5% and 3.2%. It is interesting to note that in the same period, department stores have cut the average size of their units by 0.1% while discounters grew their own by 3%.

Likewise, discounters tended to better manage their inventories as, in percentage of sales during

the study, they accounted for 11.5% compared to 19.4% for department stores. Discounters turned their inventory on average almost two times the rate of department stores but the discount figure is boosted by the fresh food and produce sales of supercenters.

In conclusion, department stores have more than ever to differentiate, offer upscale merchandise and a superior customer service because it is clear that consumers want more and more value prices and one-stop shopping.

Source : Women's Wear Daily

ASIA

Tesco to expand rapidly in the Chinese market and take the control of its Thai Lotus subsidiary.

According to Taiwan Economic News, Tesco, U.K's largest grocery operator, is to acquire 50% of Hymall, a Chinese subsidiary of the Taiwan-based Ting Hsin International Group. Tesco would propose US\$ 200 million to buy the 25 hypermarkets located in Shanghai and other major cities.

Ting Hsin has interests in grocery retailing and is trying to cooperate with international retailers to improve its technology and grow stronger facing the new competition in China. It plans to open 15 new stores in mainland China in 2004 bringing the total to 40 and to 150 by 2008... mainly in the eastern region and the suburbs of Baoshan, Jinshan and Nanhui. Then it will expand into the northern and northeastern markets of Tianjin, Changchun, Dalian and Shenyang.

Tesco wants also to take the total control of Lotus, its Thai supermarket chain. Consequently, Charoen Pokphand Group will reduce its own stake from 7% to 5% in 2004 declared the chairman of Ek Chain Distribution System Co Ltd, a joint-venture set up with CP and Tesco to operate Lotus.

Lotus will invest US\$ 1.2 billion to open 100 stores in China and expects →

(Tesco...)

sales to reach 4.3 billion within the next three years.

CHINA

The Chinese consumer : revenue disparity between urban and rural areas.

In spite of China's robust economy, large disparities appear here and there. According to a survey by the Institute of Economic Research Institute of the Chinese Academy of Social Sciences it shows that for the last five years the gap has kept increasing and China has become one of the world's countries where it is the largest.

A national survey indicates that average income per urban inhabitant was 3.1 times that of the farmers in 2002 from 2.8 in 1995. In addition, incomes of urban inhabitants do not take into account some advantages such as medical care or unemployment insurance costs covered by the central government and to which most of the farmers have no access. Worse, they have to pay their own educational costs. While taking into account all these factors, urban income should be four, five or six times that of rural inhabitants. According to the same survey, in 2002, the top 1% of the highest incomes owned 6.1% of the total incomes of the society or 0.5 percentage points more than in 1995. The top 5% had almost 20% of the total, 1.1 percentage points more than in 1995 and the next 10% had 32% of the total or 1.2 percentage points more than in 1995. 43% of the social disparity is coming from the urban-rural disparity. It is more important in western regions and relatively low in developed eastern areas. A partial policy against farmers and heavy taxes are the main causes of the trend.

Hence the central government is studying the problem and researchers suggest in a new report that it leads a policy in favor of the rural development in order to reduce these disparities and to push forward its tax rebate policy -launched in

- La Lettre de la Distribution Internationale -

1994- in rural zones. This report analysis shows that average income per rural inhabitant would increase by 5.4% if it was tax-free which means that their income would be closer to those of their urban counterparts. This same report suggests that the central government should cover medical and educational costs in rural areas. Moreover, it is necessary to establish a better social security system in order to reduce this disparity. Researchers also suggest establishment of an integrated labor market to give farmers the same rights as urban residents in employment and income as more and more farmers are rushing into towns in order to survive.

Source : *People's Daily*

Consumer goods in steady growth in this country according to forecasts by the State Information Center on expansion trends in 2004.

As consumption is oriented towards cars, housing, education and tourism in urban areas and as revenues are limited in the rural districts, general consumer goods expansion should not be very high in 2004 but a steady growth should continue throughout the year.

Home appliances would maintain a two-digit growth and the color TV set output reach 72 million units or ten more million than in 2003; washing machines would grow by 5 million to 20 million, air conditioners by 15 million to 65 million and refrigerators by 6 million to 26 million.

Pharmaceutical industry sales should increase by at least 20% to US\$ 30.2 billion and profits by more than 30% to 3.9 billion.

Carrefour opened its first hypermarket in the Muslim district of Urumqi located in the northwestern of Xinjiang, 3,000 kilometers west from Beijing.

The French retailer will thus open a commercial battle along the famous Silk River. It is relaunching its expansion in this country as it has been slowed down by the official authorities during six months. But

Carrefour has complied with the Chinese law that forbids foreigners from owning more than 65% of a retail joint-venture.

Jean-Luc Chereau, the president of Carrefour China, declared during a press conference "We are the first foreign distribution company in China to completely restructure... This has allowed us to relaunch our expansion with the agreement of the local and national authorities... We hope to open our hypermarkets roughly at the rate of two per month..." including a second one in Urumqi, which would bring the total to 50 by fall 2004 in this country..."

Urumqi, where this new hypermarket (6,500 sq.m) is located, is 3,000 kilometers west from Beijing, and has 2 million inhabitants. It is the forty-second Carrefour in China and the first of 12 new units to be opened in 2004. Its food and textile offer is adapted to the taste and morphology of local consumers.

Recently, a new hypermarket was opened in Beijing (10,000 sq.m) and one in Shanghai. In both cities, the average basket amounts to € 10 compared to € 6 in Urumqi. Carrefour's priority expansion program includes large cities of the East but it plans the coastal cities of Harbin, Dalian, Tianjin, Qingdao, west will come later.

Moreover, Carrefour is opening tens of Dia food discounts in Beijing and in Shanghai and their development potential concerns 500 units in each of these two cities. Approximately fifteen Champion supermarkets will also be opened in 2004.

In China, the battle is engaged with Wal-Mart and Metro, which seek to increase their market share in a commercial landscape in permanent evolution. Carrefour, which entered the continent in 1995, is the first retail foreign group in China but the fifth by sales (total sales in Asia amount to € 5.4 billion including € 1.3 billion in China) according to the Minister of Commerce. ■

Source : *AFP*

SPECIAL STUDIES

Supercenters and international expansion are two main vehicles of Wal-Mart's growth.

Wal-Mart has become so huge a global retailer today that it accounts for 60 million sq.m of space that is more than 90% of Manhattan and the country of Monaco 29 times!!... Its sales are 50% higher than Target, Costco Wholesale, Sears Roebuck and Kmart combined! It is also the largest private employer with 1.2 million employees. Sales and profitability of its annual exercise to January 31 have been boosted mainly by an excellent January.

In the 4th quarter, the world's discount giant net profit grew by 8.5% to US\$ 2.7 billion from 2.5 billion a year before in the same period. Net sales increased by 12.2% to 74.5 billion from 66.4 billion in 2002. Same-store sales in the U.S. were up 4.8% over 2002.

In the full fiscal year to January 31, net profit grew by 13.8% to 9.1 billion from 7.9 billion in 2002, which corresponds with a net margin of 3.53% of sales compared to 3.46% in 2002. It posted annual sales of 256.3 billion, up 11.6% over last year.

Operating profit of supercenters (hypermarkets), that account for 67.9% of sales, grew by 9.1% on sales up 10.9%

Sam's Clubs sales topped US\$ 34.5 billion, up 8.9%, and had a growth of 10.1% to 1.12 billion in annual operating profit.

International sales grew by 16.6% to US\$ 47.6 billion and operating profit jumped 18.6% to 2.4 billion. Its best performing countries were Canada, Mexico and the United Kingdom. The market remained difficult in Japan. Germany was still under performing (there was a US\$ 150 million charge due to a change in the tax law) however it improved its same-store sales. After having declared it was on the verge to register a positive operating cash flow in 2004 and be profitable in 2005, it seems that Germany is still far from this goal. If the group does not unveil its figures in this country, its loss could reach € 100 million, or approximately 1% of the group's pre-tax profits on sales to € 2.82 billion according to M+M Eurodata.

As of January 31, Wal-Mart had 1,478 Wal-Mart Stores, 1,471 Supercenters, 538 Sam's Clubs and 64 Neighborhood Markets in the U.S and more than 1,300 abroad including 11 in Argentina, 25 in Brazil, 609 in Mexico, 220 in Canada, 52 in Porto Rico, 31 in China under joint venture agreements, 15 in South Korea, 92 in Germany and 265 in the U.K.

As a whole, expansion in 2004 will be led through supercenters and new store opening outside U.S.A : thus 130 to 140 new outlets will be added in existing markets. China is very promising, Russia and India very attractive... Recently, Italian sources said WM was interested in the Italian supermarket chain Esselunga (US\$ 3.7 billion in sales)...

While Wal-Mart is certainly the world's largest retailer by sales but, as Lee Scott, ceo, said, "his business is still "only 8%" of overall retail sales in the United States, its home market."

By the end 2005, Group's consolidated sales are expected to grow to US\$ 318 billion and profits to 11.4 billion. By the end of 2007, WM is expected to generate profits of 14.3 billion on revenues of 383 billion.

Wal-Mart's supercenters are under a pressure : a battle of giants.

Wal-Mart is battling a negative publicity over illegal workers and pay and is blamed for not promoting women into management positions. Like Target, Kmart, Costco, Sears, Best Buy or Home Depot, it is facing a fierce fight because of its expansion ambition that might have a major impact on the future of its supercenter.

Format evolution to October 31, 2003 : supercenter growth.

years	supercenters	discounts	Sam's clubs	Neighborhood Markets
2003 (*)	1,430	1,476	533	60
2002	1,258	1,568	525	49
2001	1,066	1,247	500	31
2000	888	1,736	475	19

Source : WWD/Wal-Mart, quarterly reports * store count to 3rd quarter ended 10/31/03

Wal-Mart supercenters are a golden mine for the giant since it opened the first unit in 1998. Including forty projects in California, it expects to add 1,000 new outlets in the U.S over the next five years.

In 2004 it should open 213 new supercenters and, according to its latest conclusions, the giant could group some of them much closer. While there is a risk of cannibalization, the phenomenon can offer advantages. The initial store may suffer operational problems during a while such as out-of-stocks, untidy aisles, long check-outs, even unsatisfied shoppers and same-store sales may decline. But as WM knows how to use each store information and adapt it to microenvironment, happier

shoppers is the final issue.

Lee Scott noted : "So many of our supercenters open at US\$ 100 million a year that it actually amazes us. We wouldn't necessarily like to have a lot of 120 million, 130 million and 140 million supercenters, we would rather put another store in that market and have two stores doing 80 million or 90 million rather than one store doing 120 million." In these conditions, in northwestern Arkansas where it runs 5 big-box stores within some thirty kilometers of its headquarters, including two only 5 kilometers apart, WM estimates that the market can still support additional units and has decided to open further two.

Expansion raises objections.

40 pending supercenters in California (the first unit was opened on March 3rd) have generated strikes, lawsuits and various ordinances, detractors claiming there will be pollution, traffic jams and low wages for workers.

It seems that one of the most publicized quarrels about a retailer's expansion right is taking place in Los Angeles. In fact, the municipality is currently drafting an ordinance that would forbid every store exceeding 10,000 sq.m with more than 10% of floor space devoted to non-taxable food sales in all city, state and federal economic assistance zones, which represent 40% of land in Los Angeles. In short, this ordinance would forbid any supercenter building through lack of suitable land. The decision should be taken shortly.

Now, California is not the only State that wants to regulate the format. It is estimated that in the past sixteen years, approximately 200 communities have fought against it. Recently, WM was rebuffed twice by the city of Dallas and is leading long quarrels in Arizona and Florida... Now, the constant pressure of Wall Street is pushing WM to continue expanding, as new stores are vital to big-box retailer development. In order to answer to the State of California, WM claims that its presence would save consumers "at least" \$ 3.76 billion a year and add 36,400 jobs... An average supercenter creates 400 to 500 jobs within the community three-quarters of

which are full time. A 20,000 sq.m supercenter generates 75 to 100 million dollars and pays 5 million in sales tax revenues a year. Moreover, it makes charitable donations and contributes more than 140 million a year to local community organizations...

Wal-Mart's urban approach.

In fact, WM is very flexible in this approach. But to create new formats specially adapted to city centers is money and time costly. Lack of suitable sites, logistics challenges, high taxes and pressures from unions explain why urban cores are rarely approached by big-box operators. There lies the power of the giant. In Tampa (Florida), for example, it combined a 20,000 sq.m supercenter with a 4,000 sq.m Neighborhood Market to open the hybrid concept, "urban 99 prototype" in 9,500 sq.m in January in a densely populated market. But the lack of real estate prevented the retailer from building a bigger unit. Food presentation, perishable and catering departments are very similar to a Neighborhood Market but the influence of the supercenter can be felt in the non-food section.

While opening stores in urban cores, Wal-Mart, like Target, is taking market shares from traditional retailers, drugstore and grocery chains and Kmart. Of the Big Three Discounts, Kmart is the chain that has still the best urban locations, including two in Manhattan. But it is vulnerable, as it does not know how to fight efficiently on price with Wal-Mart or on aesthetics with Target.

Now urban expansion is a priority for Wal-Mart but a difficult priority. However, if there are people who fight against big-box stores, there is a substantial number of shoppers who appreciate their low prices and convenience. Hence the essential question : Are American consumers ready to forego that? As a conclusion by Wal-Mart : "What we've learned in recent years is, like the rural consumers we served when the company first began, there are many customers in urban areas without access to goods and services at reasonable prices. It's quite an opportunity and a bit of a challenge at the same time". ■

Sources : *Women's Wear Daily* and *DSN Retailing Today*

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MIDDLE EAST COMMERCIAL DEVELOPMENT : HYPERMARKETS AND SHOPPING CENTERS ARE BOOMING.

The first hypermarket appeared in Middle East in 1995, in Dubai, when Carrefour, former Continent, was opened. Since that year, the format has been developing in the region, from Egypt in the North to Saudi Arabia and Oman in the very south. Actors are rushing and beyond MAF, Carrefour's local partner, they include Géant of the French Casino, Panda and Spinney's of the Savola Group.

- **in Dubai** : MAF (Majid Al Futtaim) announced in October 2003 that its latest project, Al Nakheel Mall or Mall of the Emirates, would double its space to 400,000 sq. to become the world's largest mall outside North America once it is completed in 2005. It will include the Middle East's first indoor ski station and children's playgrounds and will be anchored by the largest Carrefour in the region in 2005.

Once completed in September 2004, Gardens Shopping Mall (300,000 sq.m) will have a Géant hypermarket (16,800 sq.m) in which Retail Arabia, its local partner will invest US\$ 20 million. It will be the second Géant in the Gulf, the first one was opened in Bahrain in 2001.

The Mall of Arabia that is presented as an answer to Disneyland will also include a large hypermarket.

- **in Bahrain** : Géant, the anchor of Bahrain Mall, opened in May 2001, is the only real local hypermarket. It will be joined by Carrefour in the Mall of Bahrain whose construction is to start this very year in the Seef district of the capital Manama.

Other projects include Seef Mall, Al A'Ali and Al Dana, this last one with a Giant hypermarket of a Saudi Group, not to mix up with Géant of the French Casino.

- **in Saudi Arabia** : the Savola Group conglomerate is actively converting its Panda supermarkets into hypermarkets. The first unit under that sign will be opened in Riyadh in 16,700 sq.m. It will be the anchor of its own shopping center, Azizia Mall that will occupy 32,000 sq.m of trading floor space and will be completed this year.

To the North of the city, The General Organization for Social Insurance is developing Granada Center (200,000 sq.m) and will be anchored by the Kingdom's first Carrefour (12,500 sq.m).

- **in Egypt** : the MAF Misr joint-venture is developing the Carrefour brand in this country, which includes Alexandria City Centre in Alexandria and Maadi City Centre, southern Cairo. A second centre is announced in Cairo, Egypt's third one, and construction is scheduled to start this year.

A 14,000 sq.m Monoprix hypermarket is being developed in Cairo in Dandy Mega Mall which is built in several phases to some 70,000 sq.m of GLA over the next months.

- **in Lebanon** : Casino's third Géant hypermarket in Middle East is being built in Dora, in the north of Beirut. It will anchor the regional shopping center Admic Dora and occupy 11,000 sq.m of floor space out of a total GLA of 60,000 sq. MAF Investments could have bought a site for the first Carrefour in this country close to it.

Moreover, Spinney, once owned by the British Inchcape and currently a part of Dubai-based Cupola, operates a great number of stores strategically well located in the suburbs of Beirut.

In short, all these new hypermarkets, opened in the region by large players include : 2 Carrefour in Abu Dhabi, 1 in Al Ain, 1 in Ajman, 1 in Sharjah (Emirates), 1 in Muscat (Oman) and 1 in Doha (Qatar) and further projects by Carrefour in Saudi Arabia, Egypt, Oman and probably in Kuwait, Jordan and Syria should be added to this list. On their side, Casino and its local partners have also developments for Géant in Sharjah.

The Kuwait-based Sultan Center has several operations not only in Kuwait but in Oman also and would be ready to open cash & carry. Lulu Center owned by Indian Emke will build its first hypermarket in Al Ghoubra (Muscat) in 2004 and add a second one a few months later. Tesco, still absent from this region, has historical commercial

links with Jawad, the Bahrain-based supermarket chain, and with Spinneys. Its recent acquisition of the Turkish Kipa supermarkets gives it a closer presence in the Arab world.

As a conclusion, the hypermarket is now well entrenched in Middle East and the format keeps pushing its expansion forward throughout the region.

Shopping center development.

Beside hypermarkets, 3.55 million sq.m of shopping centers have been built in the six GCC (Gulf Co-op Council) : Bahrain, Kuwait, Oman, Saudi Arabia, Emirates and Qatar. Further 1.24 million sq.m is currently being developed, 3.54 sq.m planned to top 8.3 million sq.m within five years according to the latest survey by Simon Thomson of Retail International.

Dubai enjoys the largest part of this expansion.

Dubailand, the latest project announced by Prince Sheikh Mohammed bin Rashid Al Maktoum, is presented as a Middle East's answer to the American Disneyland as its investment is as high as US\$ 5 billion. It will include the Mall of Arabia, stated above, whose first phase is expected to be completed in 2005.

To the south, the City Centre in Deira, which occupies 160,000 sq.m and pioneered by MAF Investments as the region's most successful shopping center, is being expanded by Dubai Festival City. The new phase covering 650 hectares is being built by the Al-Futtaim Group, the local partner of Western brands such as Marks & Spencer and Toys R Us. It will be a mixed-use complex with a large shopping center (250,000 sq.m), a golf course and apartments.

Estithmaar Realty, developers of the residential complex Jumeirah Beach, would add a 60,000 sq. m shopping center there. In fact, some of these malls may overshadow Burjuman Two (75,000 sq.m) nearing completion and anchored by a Saks Fifth Avenue department store (7,500 sq.m).

Reef Mall (25,000 sq.), under development, is virtually adjacent to Al Ghurair City, the first shopping center opened in Dubai and which was lately enlarged and totally renovated for US\$ 120 million. Other malls opened in 2003 include Mercato Mall (23,000 sq.m), the first region's theme center, in Jumeirah, and Century Mall (20,000 sq.m) in the district of Mamzar.

According to Retail International, Dubai will multiply by four its area within five years to total 2.5 million sq.m including 950,000 sq.m already under development. It has 17% of retail area of the six GCC countries and 75% of new centers under construction. It is expected that Dubai will account for 30% of all retail space in the Gulf by 2009. Such a concentration for a relatively small population could appear excessive but one must not forget that the indigenous population has increased by 24% in four years, that GDP registered the same growth and the government is trying to attract tourists to reach 15 million by 2010.

The cultural shock of the Arab world.

Currently, the Arab World attracts less than 1% of total foreign direct investments behind Eastern Europe and Latin America. Its difficulties lie in its constantly evolving regulations, bureaucracy and corruption. "The government officials ignore you because you are a foreigner" declares Tim Hinde, managing director at Chrysalis, a retail consultant, and adds "It took me a year to stop being angry and frustrated and say "This is how it is, deal with it" and once you know that, it is easy."

In short, to enter Middle East markets, it is necessary to have a good knowledge of the various cultures, be very tactful and, above all, be cautious. ■

Sources : Middle East Grocer, Centre Retailing

Erratum.

In the February issue of La Lettre de la Distribution Internationale, you should have read :

-page 5 : Ahold consolidated sales amounted to € 56.1 billion

-page 7 : CBD reported a same-store-sales increase by 6.3%

-page 8 : Wal-Mart China asked us to correct our information as follows : "Currently, Wal-Mart has opened 35 stores in China."

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