

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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- Franchise accounted for 2% only of total retail sales in China in 2003. **12**

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INTERNATIONAL

The best cities to locate a business today.

	rank 1990 (*)	rank 2003	rank 2004
London	1	1	1
Paris	2	2	2
Frankfurt	3	3	3
Brussels	4	4	4
Amsterdam	5	5	5
Barcelona	11	6	6
Madrid	17	7	7
Munich	12	10	8
Berlin	15	8	9
Zurich	7	11	10

Source : Cushman & Wakefield/Healey & Baker
* in 1990, only 25 cities were included in the study

This survey has been conducted between June and July 2004 by Cushman & Wakefield Healey & Baker, a global real estate company, after having interviewed 501 senior executives among the main 15,000 European firms in nine European countries (Germany, Belgium, Spain, France, Italy, Netherlands, United Kingdom, Sweden and Switzerland).

London maintains its leading position ahead of Paris in spite of a growing competition. Paris is by far the European favorite capital for exhibitions, fairs and congresses. Top seven cities remain stable. Munich moved up to the 8th position overtaking Berlin and Milan (11th). Zurich is back in the top ten ranks.

To be classified in this survey, key factors include access to markets and customers, availability of qualified workforce as the most important factors, then communications and cost factors including staff. Quality of life is the least significant component and languages spoken are becoming increasingly important.

As for the future, Warsaw, in the 20th position, should register the biggest influx of firms over the next five years. Worldwide, Shanghai is the favorite (44 of the interviewed firms expect to establish a branch there); Beijing, New York and New Delhi can also expect investments from Europe.

As concern worldwide expansion

over the next five years, China can again expect to see the biggest influx with Shanghai and Beijing ahead of New York and New Delhi.

	firm number
Shanghai	44
Beijing	29
New York	14
New Delhi	10
Mexico City	9
Hong Kong	8
Mumbai	8
Sydney	8
Bangkok	7
Tokyo	7
Sao Paulo	6

Source : Cushman & Wakefield/Healey & Baker

European investment projects are flowing eastwards.

Russia and the new European Union members Hungary, the Czech Republic and Poland, have attracted 283 projects of foreign investments in the first half 2004 compared to 156 in the same period one year earlier according to Ernst & Young. It represents one fifth of Europe's total up from 14% in the first half 2003.

Overall, the number of Foreign Direct Investments into Europe grew by 27% to 1,432 last year. United Kingdom is the leading country with 313.

Russia has attracted 66 projects compared to 58 in 2003 more than Spain. Almost a quarter of the new investments into Russia in the first six months of 2003 and 2004 were in the food sector even if other sectors such as oil, chemicals, plastic and rubber... were also important.

It is clear that this flow, concentrated in Moscow and Saint Petersburg, is led by a cheap workforce. United States and Germany account for a third of the total, the remainder is coming mainly from other Western countries. Last year, Russia had attracted approximately US\$ 7 billion in foreign direct investment. While it accounts for \$ 90 to 100 per capita since 1994, Hungary and the Czech

republic and some of the Baltic States are closer to \$ 2,000.

Foreign Direct Investments.

rank	country	1st half 2004 projects
1	Great Britain	313
2	France	156
3	Hungary	84
4	Germany	81
5	Poland	69
6	Belgium	69
7	Russia	66
8	Czech Rep.	63
9	Spain	62
10	Sweden	50

Source : Ernst & Young

Shopping center transactions doubled in the first six months of 2004.

The number of Continental Europe deals doubled to 85 and € 3.4 billion in the first half of this year compared to the same period one year earlier. According to CB Richard Ellis, it is the strongest period since 2000. Including United Kingdom, the total volume of investments for this sector jumps to € 6.3 billion and the average transaction continues to be in excess of 30 million.

The Czech Republic and Poland have registered strong half years. Both countries have accounted for 43% of total deals including the sale of the German Metro assets in Poland to the American property firm Apollo Rida for € 750 million.

Large property firms were among the main real estate buyers last year while investing € 922 million. They sold € 1.57 billion. American investors are showing a growing interest in shopping centers and sit among top three investors for the first time with € 1.1 billion. Main reasons include the purchase of Metro portfolio by Apollo and the purchase of Rinascente portfolio by Simon Group for 421 million.

Between 1999 and 2003, the Dutch, French and Germans were among the largest investors.

Markdown in European retail trade : it cost € 33 billion last year.

The 4th European barometer on shrinkage conducted by Checkpoint Systems on 423 large retailers, operating 23,275 stores in 24 countries and accounting for 20%

of the total European retail trade, shows that it decreased by 2.2% in twelve months from 1.37% of sales to 1.34%. However, it remains very high at € 33 billion or an average of 71.52 per capita.

United Kingdom is the leading country with 1.59% followed by Finland, Greece, Portugal and France. Switzerland and Germany are less affected by the problem among the 24 surveyed countries.

In France, total cost amounts to € 6 billion or 101.63 per capita and per year. The average rate accounts for 1.40% of sales and decreased by 0.7% only in one year.

Leather goods, lingerie, ready-to-wear, jewels, perfumes and cosmetics are the most often stolen merchandise. While customers are the main thieves accounting for 48% of markdown, employee theft still increased from 28 to 29%.

Retailers realized how important was the phenomenon and increased their investments in security by € 300 million to 7.2 billion. They also expanded their source protection programs and EAS (Electronic Article Surveillance), security investment accounting henceforth for 23% of shrinkage. As these efforts are not sufficient, 9% of the surveyed retailers are conducting pilot projects on RFID (Radio Frequency Identification) tagging technology.

EUROPE

FRANCE

Rodamco Europe reinforces its presence in the French retail sector.

The largest publicly listed property investment and management company in the retail sector in Europe and Netherlands-based company purchased an additional 13,630 sq.m of retail space of the regional shopping center Parly 2 (87,000 sq.m), west of Paris, from the SCI Parly Haussmann for an amount of € 27 million and a yield of 6.13%. It has thus increased its ownership from 46.95% to 68.63% of GLA.

Reform of retail law : French Finance Minister Nicolas

Sarkozy promised to act before he leaves his office at the end of November 2004.

A report has been prepared mid-October by a special committee headed by Guy Canivet, president of France's Supreme Court. It recommends gradual solutions rather than the full-scale repeal of a law that forbids the sale of products below their official cost price.

This report is supposed to lead to the presentation of a reform project. It analyzes relationships between manufacturers and retailers within the restrictive retail legislation, suggests reinforcing the administrative and legal frame of the regulation and recommends excluding promotional expenses from the cost price of products. While deducting those costs, retailers will be able to reduce sale prices to consumers.

Carrefour downgrades its objectives for the full year 2004. The world's second largest retailer will not leave Japan.

In the third quarter to September 30, total sales gained 2.9% to € 20.31 billion (US\$ 24.82 billion) and 4.2% on a current exchange basis. Like-for-like sales grew by 0.6%.

In France, sales remained almost flat at € 9.99 billion (\$ 11.79 billion). Sales at the hypermarkets which lost an additional 0.7% in July and August fell 2.6% to € 5.09 billion (\$ 6.01 billion). On a like-for-like basis and excluding gas, sales decreased by 4.6% including 5.5% in food and 2.8% in non-food. They could have lost € 422 million in the first nine months including 229 million invested in prices (more than 335 million will be invested in the full year).

Sales at supermarkets Champion gained 5.8% to € 2.1 billion (\$ 2.48 billion) and sales at hard discounts Ed grew significantly by 13.9% to 554 million (at same-store sales, they were up 2%).

In Europe, sales gained 5.8% to € 7.46 billion (\$ 8.8 billion), in Latin America 2.2% to € 1.4 billion (1.65 billion) and in Asia 9.9% to 1.46 billion (1.72 billion). Outside France, sales growth hit 8.5%.

Carrefour has been fighting a weak consumer demand in Europe, a



"deteriorating" market in France and a fierce competition from the hard discount chains. In September, the situation was getting worse due to a price cut campaign of food products to follow government regulations requiring food wholesalers to offer the same prices to all retailers. In such a context, Carrefour declared it would not be in line with its objectives of a 5% sales growth and a two-digit increase in EPS before and after goodwill in the full year 2004.

Moreover, the French retailer denied the rumor it would sell its eight hypermarkets in Japan for \$ 400 million to cover its loss in Europe. In September, it said it would cut its net debt 20% by 2006 by spinning off non-core assets and unprofitable stores. In the same time, it announced investing \$ 3.6 million by 2005 mainly in China and Korea.

Casino revises its operating profit objective for the year 2004.

After Carrefour, it is now the turn of Casino that suffers from the low consumer demand, the deflation trend and price cuts following the Sarkozy's agreements signed in June. In the third quarter, sales slid 1% to € 5.645 billion.

In the first nine months, sales grew by 0.2% to € 16.746 billion. Organic growth was up 3.7%. In France, sales gained 1.3% to 13.49 billion; Géant hypermarkets decreased by 1.3% to 5.146 billion (down 1.9% in the third quarter). Supermarkets (Casino, Monoprix, supérettes) remained flat with an increase of 0.3% (down 2.9% in the third quarter). The food discount arm (Franprix, Leader Price) performed very well growing by 6.5% in the first nine months but Leader Price sales slowed down in the third quarter with a 2.8% growth only.

International sales gained 12.9% in the third quarter and organic growth was up 14% in the first nine months. United-Sates, which account for more than one third of the Group's international consolidated sales, had like-for-like sales up 12% in the third quarter. Latin America confirmed the recovery of the economic growth with sales up 33.4%. Poland still resisted positively and Leader Price continued expanding in the country. In Asia, sales continued growing in

Thailand and organic growth was positive again in Taiwan.

Picard Surgelés is acquired by BC Partners.

The investment fund BC Partners has negotiated the acquisition of Picard Surgelés for an amount of € 1.308 billion from the Candover, Chevillon & Associés, Montagu Private Equity and Astorg Partners, who had bought it from Carrefour in 2000 for € 920 million. The founding family Decelle should retain 20% of the capital.

This operation, which is subject to approval from the authorities, should be completed by year's end.

Picard Surgelés operates 570 frozen food stores in France and 45 in Italy with a 12% market share in a sector growing between 1 and 2% a year. It opens approximately forty units a year. In 2003 its sales grew by 12.7% to € 747 million.

This firm was founded in the Twenties by the Picard family. It was successively bought by Armand Decelle in 1973 and by Carrefour in 1994.

GERMANY

KarstadtQuelle or the survival of a massive retail group : an agreement has been reached with the Ver.di union.

Germany's largest department store group will cut 5,500 jobs or 5.7% of its workforce, including 4,000 in the department store branch and 1,500 in the mail order activity (Neckermann and Quelle). 67 of the 77 small department stores will be kept in operation but 10 could be closed.

Employee salaries will be frozen during three years and the management salaries will be cut by € 26 million. Overall, the company will spare € 760 million over the next three years. While the rescue plan anticipates a capital increase of € 500 million, the two main shareholders, -the Schickedanz family and the insurance group Allianz- will subscribe to it for 280 million.

In addition, KarstadtQuelle wants its creditors, including the French Société Générale bank, to extend and increase its credit line of 1.75 billion.

In fact, the Group is paying the

strategy mistakes of its successive managers who led the company to very costly investments in the Seventies and beyond : the acquisition of the mail order firm Neckermann in 1977 and Hertie department stores in 1994, a new travel activity established jointly with Lufthansa, the merger with the mail order Quelle in 1999 at a delicate period for the sector... then several stake acquisitions in health centers, sporting goods chains and the Starbucks coffee chain leading to a € 100 million loss between 2001 and 2003.

Karstadt management has been unable to react in time while other competing department store chains such as Kaufhof, bought by Metro in 1995, decided as soon as 1996 to close 42 branches and shed 12,000 jobs. KarstadtQuelle is suffering from the expansion of the specialty big-box stores in major suburban cities, from food discount chains and its too large dependence from a totally atonic domestic market (90% of sales are generated in Germany).

Henceforth, while an operating loss of € 1.34 billion has been announced for the current year, the chain expects to be profitable again by 2005.

Spar to cut 1,000 jobs.

ITM Entreprises, holding of the French Groupement des Mousquetaires (Intermarché, Eco-marché, Bricomarché), will cut 1,000 positions in a total of 3,600 in the wholesale division, with the hope to save € 70 million and be profitable again in 2005. This decision, part of a restructuring program set up in 2002, leads to the concentration on the core wholesale and food discount activities.

Costly strategy mistakes as well as wrong deals in the Nineties led to the current situation : the retailer has been losing money since 1998, one year after its acquisition by the French Intermarché. In the first three months 2004, operating loss was as high as € 31.2 million compared to 64 million for the whole year 2003.

Intermarché saved Spar in 1997 and required a restructuring plan while committing itself to finance it. It now seeks to take its full control in order to sell it one block.

ITALY

Auchan and Ifil have signed an agreement : the French firm buys share of La Rinascente food activity.

Recently, the Rinascente Group has been divided into two distinct companies : Rinascente S.p.A that manages the textile activity (Rinascente department stores and Uvim variety stores) and Societa Italiana Distribuzione Moderna, food.

According to the deal, Ifil, the holding company of the Agnelli family, sells to Auchan its stake in Societa Italiana Distribuzione Moderna including 34 Auchan hypermarkets (€ 2.5 billion sales), 175 SMA supermarkets (€2.4 billion), 50% of SIB Spa (54 DIY outlets) and 51% of Gallerie Commerciali Italia Spa for approximately € 1,063 million. Ifil is a holding company controlled by Italy's Agnelli family.

This operation that is still subject to regulatory approval should be completed by the end of this year. The transaction foresees a payment of € 810 million at closing and payment of the balance by the middle of 2005. This way, Auchan becomes Italy's third largest retailer behind Coop Italia and Carrefour.

NETHERLANDS

Ahold and its law problems. Agreement signed on final price for Canica's stake in ICA AB and transfer of the controlling interest in Disco to Cencosud.

Ahold's former president, Cees van der Hoeven, involved in the accounting scandal early 2003 together with three other managers, reached an agreement with the SEC, the American stock exchange authorities, as he will not be prosecuted. However, he is no longer authorized to manage American firms. But he will be brought to Court and have to pay a fine whose amount will be unveiled shortly.

According to a former agreement with the Court in Netherlands, all legal proceedings in this country have been stopped in exchange of a € 8 million-fine.

In the third quarter, net consolidated sales of Royal Ahold were affected by a weaker US dollar and asset divestments. Consequently they fell 7.9% to € 12 billion compared to the same period one year earlier. Excluding currency and divestments impact, they were up 1.2%. In America, sales decreased by 1.3% to \$ 6.1 billion in the period. In Europe, they remained flat at € 3.0 billion in spite of a 3.1% growth of identical sales at Albert Heijn.

In addition, Ahold has reached final agreement with Canica AS on the purchase price of Canica's 20% interest in the Scandinavian joint venture ICA AB for an amount of € 811 million. ICA Förbundet Invest AB, third partner in the Scandinavian joint-venture IC A AB, has agreed to purchase in cash from Ahold half of the Canica's stake for € 318 million. Once both transactions are closed, by the end of November, Ahold and ICA Förbundet will respectively own 60% and 40% of ICA AB.

Casino increases its stake in the Dutch Laurus.

Laurus, Netherlands' second largest food retailer, seeks to raise € 200 million through the issue of new shares. This way, Laurus seeks to revive its three supermarket chains (Konmar, Edah and Super de Boer) with 720 outlets. Their total net sales decreased by 8.1% to € 2.64 billion in the first nine months of the year compared to 2.99 billion for the corresponding period of one year earlier. Their market share has also declined to 16.6% in a price war led by Ahold's Albert Heijn supermarkets started in 2003.

The French Casino owns 38.7% of Laurus and has already invested € 200 million in it. It will subscribe to 51.2% of this share issue and a bank syndicate the remainder. This way, the French retailer will grow its stake between 40 and 45% of the capital.

POLAND

Top twenty retailers by sales in 2003 in Poland.

rank	retailers	origin country	signs	sales (€ bil.)
1	Metro Polska	Germany	Makro, Real, Praktiker, Media Markt	2,629
2	Jeronimo Martin Dystrybucja Polska	Portugal	Biedronka	964
3	Tesco Polska	U-K	Tesco, Savia	960
4	Auchan Polska	France	Auchan, Elea	887*
5	Ruch SA	Poland	-	825
6	Carrefour Polska	France	Carrefour, Champion	819
7	Géant Polska	France	Géant, Leader Price	751
8	Rewe	Germany	Selgros, Minimal	572
9	Ahold Polska	Netherlands	Hypernova, Albert	561*
10	Milo SA	Germany/Poland	Milo SA	496
11	Plus Discount	Germany	Plus Discount, Obi	489*
12	ITM Polska	France	Intermarché, Bricomarché	330
13	E.Leclerc	France	E.Leclerc	323
14	Eurocash	Poland	Eurocash	310
15	KDWT	Poland	KDWT	272
16	Schwarz Group	Germany	Kaufland, Lidl	261*
17	Polski Tyton SA	Poland	Polski Tyton SA	230
18	Zabka Polska SA	U-K	Zabka Polska SA	204
19	Eldorado SA	Poland	Eldorado, Stokrotka	203
20	McLane Polska	United States	McLane Polska	197

Source : GfK *estimates

Ahold has also announced having partially completed the sale of its 99.94% controlling interest in Disco SA to the Chilean retailer Cencosud SA by transferring the ownership of 85% of the outstanding Disco shares for US\$ 315 million. The remaining 15% will be transferred to Cencosud as soon as the Argentine antitrust authorities will have authorized it.

Carrefour Polska (16 hypermarkets, 72 supermarkets) has announced it will invest € 110 million in this country within the next eighteen months mainly to build Champion supermarkets in Poznan, Gdansk and Rzeszow. Projects include 30 other units in cities of more than 50,000 inhabitants over 2006/7.

RUSSIA

Russia discovers consumer credit.

According to the Russian Central Bank, retail lending hit US\$ 15 billion by mid-2004, a 50% increase in the first six months or \$ 1 billion since the beginning of 2000. In spite of the phenomenal growth, the consumer credit market –installment loans, credit cards, car loans and mortgages- is still in its early stage. Total consumer debt accounts for a just 3% of GDP compared to 75% in the USA and between 20% to 30% in Eastern Europe, for example in Poland. One person in one hundred holds a credit card compared with 2.5 cards per person in the U.S. So far, the Russians have been very fond of them in spite of interest charges as high as 40% for installment loans and credit card rates of 25% to 30%.

It is an interesting market for banks as they can generate big margins. The French BNP paid \$ 300 million for a 50%-stake in the Russian Standard bank end of July. Soon after, GE Consumer Finance paid 100 million to acquire Delta bank. Both Standard and Delta have built their activity on an instant credit offer to customers, a way which the State savings bank Sberbank, too slow and too bureaucratic, did not follow yet.

The recent trend is the co-branded credit card such as Ikea with Delta Bank. Delta has issued 14,000 cards in the past two years and made \$ 40 million in loans; Russian Standard 1.1 million cards with 379 million in credit, or 77% of the market.

But bankers are conscious of the risks as Russians have a recent past in the credit sector. They try to solve the problem via complex computer-based grading systems that collect information on employment, education, marital status and incomes. So far, these safeguards seem to be sufficient as the default rate is tiny, approximately between 2 and 3%. But analysts underline that if the repayment rate is impressive it is because economy is booming and the consumer-credit phenomenon has just started.

Source : Jason Bush, Moscow, Business Week

Kingfisher expects to open its next Castorama store over the next two years.

Three Western home-improvement/DIY firms are currently present in Russia: the German franchisee of Obi operates two units in Moscow, Ikea 3 in respectively Moscow, Saint Petersburg and Kazan and French Leroy Merlin 1. Leroy Merlin has opened a first store in June that occupies 12,000 sq.m of selling area in Mitishi, in the north of the capital. A second one will be added before the end of this year.

"The sector (estimated to be worth US\$ 5 billion) consists of uncovered open markets. Prices are high, quality is variable and the shopping environment is poor," says Kingfisher chief executive Gerry Murphy. In addition he estimates that the market development and the Russian customer sophistication is ten years behind Poland, for example, where Kingfisher operates already 22 units.

Russians, who are accustomed to work with their hands, could be perfect DIY customers. Many are homeowners as they were given their existing homes after the fall of communism. They have relatively high disposal revenues because they have no rent or mortgage to pay.

Kingfisher believes it can be successful in Russia where it expects to operate 75 units over 2008. It hopes to duplicate in this new market the success met in China where it has 18 stores with £ 84.5 million (€ 121.70 million) sales.

Mosmart has opened its second hypermarket (26,000 sq.m) in Moscow, on Dmitrovskoye Shosse, and a third one in mid-October on the Moscow Ring Road, MKAD.

Mosmart is a privately held Russian joint venture firm between the Hypermarket company and the Sedmoi Kontinent supermarket chain. Swiss ENR Russia Invest and property investment trust Eastern Property Holdings own a 10% stake of its capital since April this year.

The first Mosmart was opened in Moscow in June 2003 that occupies 16,500 sq.m. Four more units will be in operation in the

capital over 2006. The first unit in the province will be opened in Nizhny Novgorod next year.

SWITZERLAND

A price battle is on the way as Aldi and Lidl are ready to enter the market.

Aldi has announced it will open stores in the French and German speaking Switzerland. Its large competitor Lidl will soon enter it as well. Local opposition is already strong : Migros and Coop, both domestic food retailers accounting for 73% of the local market, are ready for a price battle. Denner, Switzerland's third supermarket chain, has launched a price rebate campaign until 30%.

The first unit of the Aldi network, with a parking lot, will be opened in Romanshorn in the country's northeast. According to experts of the industry, Aldi like Lidl should open sixty hard discount units in order to break even.

In spite of a low consumer demand, Migros and Coop continue growing their market share : Coop sales gained 5.6% in 2003 (€ 22.17 billion) going nearer its largest competitor. At Migros, they gained 1% only to FS 20 billion (€ 30.59 billion), both chains growing through their network expansion. The Manor group, third largest local retailer, announced a 0.8% drop to FS 3.05 billion (€ 4.66 billion), Spar remained stable at FS 790 million (€ 1.2 billion).

UNITED KINGDOM

Sainsbury is taking drastic measures. George Magan, a former treasurer of Britain's conservative party, is launching a € 7.2 billion takeover bid.

This announcement came a few days after the grocer had declared it would halve its dividend and cut costs to finance its price reductions and improve its image in an effort to win back its customers.

Britain's third largest food retailer announced also it will ax 750 administrative jobs, hire 3,000 supermarket employees and price reductions between 1.0% and 1.5% to boost its sales and fight back →

against its historic rivals Tesco and Wal-Mart's Asda. In addition, twelve stores will be closed and 131 refurbished.

In all, Sainsbury hopes to be able to increase sales by £ 2.5 billion (€ 3.6 billion), excluding gas and banking services over the coming three years, investing in its supply chain.

It already declared that profits before tax, exceptional elements and goodwill would be between £ 125 and 135 million (€ 180 and 195 million) in the first half 2004 compared £ 366 million (528 million) in the same period last year.

Tesco's share of the food market continues growing while Sainsbury stops its slide at least temporarily, according to the latest figures from TNS Superpanel. In fact, in the quarter to October 10, Tesco's was 28.1% compared to 26.6% last year. Asda's was 16.8% from 16.6% and Sainsbury 15.4% from 15.3%.

H&M is successful in United Kingdom.

The Swedish apparel retailer (1,000 stores in 20 countries) is meeting such a success there that U.K might become its second largest market after Germany as sales gained 16% during the summer season.

In U.K, it operates 86 units with sales of £ 102 million (€ 147 million) between June and August 2004, boosted by seven new outlets and in spite of a poor season that made consumer spending fall. This quarter growth was faster and more significant than the 14% in the first nine months of the year and reveals that sales are taking off. If it continues positively, U.K would overtake Sweden as its second largest market in 2005 after Germany where it has 250 outlets that generate more revenue.

In the third quarter, H&M's profits gained 18% to £ 186 million (€ 268 million) and were above expectations. Gross margin was 55.9% compared to 55.6% in the same period one year earlier and operating margin was 18.5% from 17.8%. In the United States where the chain nearly breaks even, H&M has 70 stores and total sales were up 27% to £ 64.6 million (€ 93.15 million) in the third quarter thanks to a tight cost control.

It just entered Slovenia, its 20th market, and its expansion program will speed up towards the end of this year with 65 new units mainly in Germany and in U.K (5).

NORTH AMERICA

UNITED STATES

Supermarket forecast : a decrease of their market share is foreseeable.

As the economic context is improving, it appears that conventional supermarkets will have to cater to a new type of shoppers in order to better compete against supercenters according to a conclusion of a conference call at Retail Forward.

Compound annual growth rates (CAGR) by retail channel : supermarkets are a slow-growth channel.

	CAGR 2003/2008 (forecast)			CAGR 1998/2003 (actual)		
	nominal	real	inflation	nominal	real	inflation
Total retail sales	5.3	5.6	-0.3	5.1	5.2	-0.2
E-commerce	26.8	33.2	-4.8	82.2	105.4	-11.3
Top 5 channels :						
Supercenters	15.0	15.6	-0.5	23.3	22.7	0.5
Drugstores	6.9	3.7	3.1	8.6	5.1	3.3
Building/hardware	6.2	5.0	1.1	5.7	5.9	-0.2
Small-format value	6.2	6.7	-0.5	6.1	5.6	0.5
Warehouse clubs	6.0	6.5	-0.5	10.6	10.0	0.5
Bottom 5 channels:						
Apparel/acces.stores	4.4	8.7	-3.9	4.1	6.3	-2.1
Supermarkets	2.5	0.6	1.8	3.6	1.3	2.3
Shoe stores	1.4	3.8	-2.3	0.4	1.9	-1.5
Discount dept.stores	1.0	4.3	-3.1	0.3	2.1	-1.7
Traditional dept.stores	-1.0	2.2	-3.1	-1.7	0.0	-1.7

Sources : Supermarket News/US Department of Commerce

Top fifteen American retailers by sales in 2003.

rank	company	2003 sales (\$ 000)	2003 income (\$ 000)	2003 stores	activity
1	Wal-Mart	258,681	9,054	4,906	discount/grocery
2	Home Depot	64,816	4,304	1,707	DIY/home improvement
3	Kroger	53,790	314	3,774	grocery
4	Target	48,163	1,841	1,553	discount/grocery
5	Costco	42,545	721	420	grocery
6	Sears	41,124	3,397	1,970	dept. stores
7	Safeway	35,552	(169)	1,817	grocery
8	Albertson's	35,436	556	2,305	grocery
9	Walgreen	32,505	1,175	4,227	drugstores
10	Lowe's	30,838	1,877	952	DIY/home improvement
11	Ahold USA	26,951	1,289	1,489	grocery
12	CVS	26,588	259	4,179	drugstores
13	Best Buy	24,547	705	767	consumer electronics
14	Kmart	23,400	524	1,515	discount/food
15	J.C.Penney	17,786	(928)	1,077	dept.stores

Source : Stores

services. Those, which will survive, will be those, which can create new formats on wealthier markets.

The still limited development of food discount stores in America.

The potential of food discount chains is significant in the U.S.A according to Goldman Sachs as they account for less than 2% of the nation's food-at-home sales in 2003 compared with 33% in Germany. In fact, there are 1,954 limited-assortment stores or hard discount stores in operation for 281,421 persons or 144,000 per unit in this country.

Hard discount stores not only offer convenience but their surface is less than half of traditional supermarkets and their price are much lower than those of Wal-Mart, all ingredients American shoppers are looking for. Their number is limited on this continent because, according to Goldman Sachs, Americans are wealthier than people in other countries where this type of stores is very successful. Another reason to the relative under-development of the format is the almost absence of available data on its performance : thus, "Sav-A-Lot figures are included in those of the wholesaler Supervalu that does not break down the operating profit of each of its retail chains and Aldi USA is a private firm belonging to Aldi in Germany."

The hard discount format will more than triple its size by 2013 and sales increase from US\$ 11.7 billion in 2003 to 36 billion in a ten-year period. Obstacles to a wider development of the format in America include a slow consumer adoption, a rare real estate availability, a rapid over-storing market, an aggressive response from traditional supermarkets and a pressure on labor costs.

Hard discount market share by country according to Goldman Sachs :

country	penetration
Germany	33%
Spain	14
France	12.4
Belgium	12
Netherlands	9
Ireland	6
U-K	5
United States	2

Source : Supermarket News

Home Depot pushing services and relying on technology to boost profitability.

In the past three years, world's largest home-improvement chain has invested \$ 2 billion in technology including inventory-management systems. It also invested in Web-based kiosks in stores so that customers have access to thousands of special-order products. Those measures helped Home Depot to improve its profit margin by 0.8% in the second quarter to 12.3% to compare with 11.7% at its rival Lowe's.

Meanwhile, focus on services such as kitchen and bathroom installations and a higher margin offer of home-brand and national brand merchandise contribute also to boost profits. According to analysts, The Home Depot, a giant with \$ 65 billion sales, is back on the way that made it an innovator in the Eighties and early Nineties.

To innovate, it is relying on data. Thus, in order to know how to design its new Manhattan unit, 400 telephone interviews were led with New Yorkers and 200 with local contractors. In the end, it built a two-story-10, 000 sq.m outlet. 7% of its floor space is devoted to closet designs for those who live in tiny city apartments. The kitchen department is so popular that shoppers have to wait during five weeks to get an appointment. In addition, Web-based kiosks will become self-service, credit card checkout counters as soon as early 2005.

In these conditions, of the 185 projects that Home Depot expects to open during this exercise, 37 will be far from the traditional big-box layout and will be adapted to their community context.

Its rival, **Lowe's**, whose 1,019 stores are very bright and clean, is the leader of the home-improvement activity in percentage of total sales growth, quarter after quarter except one, for the past three years. Very appreciated by Wall Street, its stock price at \$ 54 has more than doubled in the past four years while Home Depot has been stagnating.

Source: Brian Grow, Atlanta for BusinessWeek

Macy's becomes a national chain with 423 department stores and US\$ 13.5 billion sales.

Federated has decided the conversion of 184 home-furnishings stores into Macy's by January 2005 and eliminates the famous signs of Richs, founded in 1867, Lazarus (1851), Burdines (1898) and The Bon Marché (1890). These units will join the 239 department stores already operating under the Macy's sign in the United States, Guam and Puerto Rico.

According to this decision, Federated aims mainly to reinforce its marketing policy and reduce some costs. It should give it more power in buying, building exclusive merchandise arrangements with vendors and develop its private label. It aims also to use a price policy more understandable by the customer. It will not lead to layoffs or changes in the store organization and the fashion buying would continue to be done at the regional level so that assortments are adapted to regional differences.

Federated is used to convert regional operations into Macy's. In the past two decades, Bamberger, Abraham & Straus and, more recently, Stern's, were changed to Macy's, some to Blomingtondale's. However, with 423 units, it remains far behind the leading three department store chains : Sears Roebuck (870), J.C.Penney (more than 1,000) and May (497).

All department store chains have to reinvent themselves because their customers and shopping habits are always changing. Consequently, Federated new initiative is on the right way to answer to new trends. Macy's average customer at 40-year old is younger than before (46). Having reinvented the junior department has paid off and having re-introduced electronics to some stores will contribute also to attract younger customers.

Leading US department store chains by sales in 2002.

	US\$ bil.	
Sears		23.00
J.C.Penney		17.70
Federated Department Stores		15.44
The May Department Stores		13.40
Kohl's Department		9.10
Dillard's		7.90
Nordstrom		5.90
Saks		5.90
Neiman Marcus		2.90
Marshall Field's		2.70

Source : Retail Forward

Leading European department store chains by sales in 2002.

chain	country of origin	sales (€ bil)
El Corte Ingles	Spain	6,60
Karstadt	Germany	6,30
Galerias Lafayette	France	4,30
Kaufhof (Metro)	Germany	3,90
John Lewis	U.K	3,10
Debenhams	U.K	2,60
Vendex KBB	Netherlands	2,20
House of Fraser	U.K	1,50
Bhs	U.K	1,40
Wilkinson	U.K	1,30
Au Printemps	France	0,93

Source : Mintel

ASIA

CHINA

Wal-Mart seeks to reinforce its presence in China. Metro raises its investments by € 600 million. Carrefour has unveiled aggressive expansion plans.

Wal-Mart, world's largest retailer, operates 43 stores only on the Chinese continent and plans to add ten to fifteen in 2005. It hopes to expand thanks to the new law, which allows foreign retailers to open fully-owned stores from December 11. However, W-M forecasts that its development will be conducted in association with Chinese partners. W-M is the 17th retailer in China and has already invested \$ 193 million in this retail market worth \$ 240 billion.

Carrefour China is the fifth retailer in China but it is the largest foreign retailer with € 1.25 billion sales in 2003 according to the China Chain Store and Franchise Association. It operates 53 hypermarkets, a few Champion supermarkets and more than 130 Dia hard discount stores in the country. Concerning 2005, it expects to open 13 to 18 supermarkets, ten to fifteen hypermarkets and one hundred Dia. Its four priority cities are Beijing, Shanghai, Guangzhou and Shenzhen.

Metro, world's 4th largest retailer, present in China since 1996 with 23 stores, has announced that it will increase its investment by € 600 million over the next three to five years to open 40 new stores including 2 before year's end. Ten

more will be added next year. Nine years after it entered this market, Metro expects to break even in 2005.

Ikea has announced a national expansion plan.

Two stores were opened in Shanghai and Beijing in 1998 and 1999 respectively, a third one, under construction, would be completed by 2005, in a new large residential district in northern Beijing. Ten more should be added over the next four to five years.

As for its expansion on this continent, Ikea has studied 14 cities including Chengdu, Dalian, Nanjing and Qingdao, and begins to look for province cities for the next two years. Its aims to offer functional and well-designed home furnishing at prices as low as possible, a strategy based on the huge potential of the country in this field and Ikea's cost saving efforts. While prices decreased by 10%, sales grew by 35% in 2003 and by 50% in the first quarter 2004. "We hope 8 million people will visit Ikea in China this year and that half of them will buy our goods" said Ian Duffy, president of Ikea China.

INDIA

The first real hypermarkets appear in India.

ITC opened the first hypermarket in Sehere in September and 50 other units should follow within one year in the rural area of Madhya Pradesh and Uttar Pradesh. In addition to the traditional lines such as food, grocery, footwear, TVs, microwaves, cosmetics and other accessories, customers are offered consumer durables for farmers such as grains, fertilizers, pumps and even tractors and scooters, a coffee-shop, bank services and a petrol station...

K Raheja is the owner of the Shoppers Stop food stores and Crossword bookstores. It expects to launch a new high-end food

chain by April 2005. Its subsidiary Shoppers Stop will own the majority of the capital. Moreover, it intends to convert its 14 Shoppers Stop into real hypermarkets.

Tata, which operates 10 apparel and quality accessories shops under the Westside brand, is to open hypermarkets within a few months. The first unit will be in Ahmedabad and occupy 4,645 sq.m under the Star India Bazaar brand. It will fight against the Pantaloon Retail India Group's Big Bazaar, RPG Group's Giant and potentially Shoppers' Stop.

Excluding the grey market in which most shops operate in India, sales of the retail trade are approximately \$ 4.2 billion. "Organized" retail should grow by 20% by the end of the decade from 2% now.

Source : Retail Asia

JAPAN

Aeon will build the largest shopping center in the archipelago and add 170 « super centers ».

The food retailer will open a 200,000 sq.m shopping center including 120,000 sq.m of retail space to be completed in 2008 in Tokyo suburbs. It will include 3 to 4 main anchors (department stores and supermarkets) and 200 specialty shops. Construction investment will amount to US\$ 183 million. Aeon anticipates annual sales around 455 million.

This new scheme is part of Aeon expansion plan as it seeks to expand rapidly and to create alliances with other retailers. Focus will be on Japanese metropolitan areas where Aeon is facing a fierce competition.

In addition, Aeon that operates six food "Super Centers", announced in May its intention to add 170 in 4 years including at least 4 before the end of its annual exercise in February 2005.

Aeon, present in China, Hong Kong, Taiwan, Thailand and Malaysia, overtook Ito Yokado (\$ 32.23 billion sales) and became the largest Japanese supermarket chain by sales (\$ 32.26 billion). It plans \$ 37.30 billion for the total current



exercise thanks to the recent acquisition of Mycal supermarkets.

Department stores are facing many problems : Mitsukoshi plans to close 10 stores by May 2005. Takashimaya forecasts sales decline.

Mitsukoshi, Japan's second largest department store chain, has decided to close 10 stores and ax 800 persons over May 2005. It is part of a five-year restructuring program in its third year, which aims to stop unprofitable projects while expanding and strengthening its core stores.

However the chain has just opened a new store on 16,000 sq.m and ten stories, adjacent to its flagship, in central Tokyo at a cost of US\$ 150 million in October. In addition, end of September, Mitsukoshi has re-opened another store after having converted it into a specialty unit offering mainly luxury brand accessories on 22,000 sq.m.

To close department stores is totally new in Japan retailing but Mitsukoshi explained that the total losses of its three units in Osaka, Yokohama and Kurashiki were in excess of \$ 36.4 million a year. After the closure, it will be left with 15 large department stores and its Nihonbashi flagship accounting for more than 30% of its total sales.

The retailer announced it is revising its forecasts downwards in the current year to February 2005 : net loss would be at \$ 22.7 million

against a net profit of \$ 68.2 million and projects consolidated sales at 8.34 billion, down 1% from the previous forecast of 8.34 billion. It will be four unprofitable years in the last eight.

Takashimaya, on its side, has reported sales down 3.7% in the first six months but its expects to make a profit this year. Trendier chains such as Isetan have done better but overall the 98 members of the Japan Department Stores Association have announced sales falling 13% since 1999.

In the Eighties and in the beginning of the Nineties, Japanese department stores in city centers were the "grandes dames" of retailing. But since the middle of the Nineties and the recession, they lost much of their prestige. Retail deregulation and deflationary pressure have contributed to the superstore and specialty store expansion at the expense of traditional stores. Hence a continuous decline of department store sales and a growing loss. However, they estimate that they can cross this crisis while opening new units and streamlining supply. In fact what they need is a brand new product strategy while focusing on a clearly defined customer profile.

Daiei refuses Wal-Mart's help.

Japan's third largest retailer, struggling under a 7.9 billion (\$ 9.7 billion) heavy debt, has

chosen Industrial Revitalization Corporation of Japan (IRCJ) help, a public funds created mainly to save it. It is possible that for its turnaround plan IRCJ needs an outside partner such as Wal-Mart, which expected to take over the 266 stores of the struggling retailer.

Seiyu to cut costs.

The Japanese retailer (400 stores) invests US\$ 162 million in order to link all of its Japanese stores to the computerized inventory, sales and purchasing systems of the world's giant, Wal-Mart. 76 stores are already connected, 230 will be by the end of 2004 and all of them in 2007. These systems help WM to offer lower prices to customers by cutting costs and by linking all of its stores to its global suppliers.

In the first half 2004, Seiyu was still in the red as it had to pay pre-retirements to 1,600 persons or 20% of its total workforce. Its net debt was still high at US\$ 26 million on 4.8 billion in sales down 50%. For the total current exercise, Seiyu is expecting to return to the black after two years of losses. It anticipates profits remain unchanged at \$ 4.5 million but it revised its sales downwards to \$ 9.87 billion from 10.

Seiyu is 37.8% owned by Wal-Mart since 2002, which has the possibility to grow to 66.7% through a private placement of new shares. ■



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American shopping center evolution and influence on shoppers' attitude.

About the past.

The first shopping center of the new generation was born in Edina, in Minneapolis suburbs, on October 1956. It included several "revolutionary" concepts as it was the nation's first enclosed mall air conditioned, including a skylight garden courtyard, public areas, a goldfish pond, an aviary, hanging plants and artificial trees. Its exterior walls were blank and retailers' windows were all indoors. It included 72 shops and two department store anchors on two levels and two parking levels. It completely upset the manner in which Americans did their shopping and totally modified the retail landscape. Today, it is integrated in American life as it includes a pharmacy, a post office and movie theaters.

It took more than one century for shopping to evolve from the ancient general merchandise stores to city department stores, which dominated retailing in 1900. But as there was a growing number of Americans who bought cars, city streets, built for horses and carriages, could no longer handle the traffic or answer to the parking demand. Hence the apparition of strip centers in outlying suburbs around 1920.

Victor Gruen's impulsion.

The modern shopping center would probably have appeared much earlier but the Great Depression then World War II put a brake on retail and building evolution. After two decades of restrictions, the time had come for a new retail architecture style. The man who enjoyed that new situation was Victor Gruen, an Austrian architect, who fled the Nazis in 1938 and arrived in New York with nothing in his pockets except eight dollars. He began redesigning windows for shops on Fifth Avenue and became the first shopping center architect. He was a socialist and had an idealistic vision of the manner of how business could transform society.

By the early Fifties, Victor Gruen designed Northland, a shopping center of 65 hectares in suburban Detroit with 10,000 parking spaces. Then came Southdale with its enclosed architecture, which was the first center to fully concrete his vision. In a few months, 20,000 customers a day exceeded by far developers' forecasts. In fact, Southdale success led to other mall construction all over America and a new retail trend appeared mainly based on planning and control. While creating a totally enclosed environment, without exterior windows, developers have been able

to use a lot of tricks to make shoppers move inside the center : transparent handrails in order to give a vision without obstacles, artificial trees to give a verticality sensation and encourage customers to take the escalators, permanent lighting to maintain the illusion of mid-afternoon in order people do not realize how much time they spend doing their shopping.

Walt Disney and his influence.

This story repeats the methods of Walt Disney in the mid-Fifties. It was no surprise that Disneyland opened in 1955, just a year before Southdale. Among the best attractions it included an imitation of a downtown main street just as Southdale copied. "I don't want the public to see the real world they live in while they're in Disneyland" Walt Disney said, "I want them to feel they are in another world."

Today many malls include real theme parks and leisure activities that stimulate spending as customers have the impression to be on vacation. It is obvious that almost from the beginning malls were theme parks mainly thanks to chain store development, each of them being the mini theme of a brand. 5% only of these Southdale original shops belonged to chains. Now, success led to increase this rate and six years later it grew to 100%. Today, many chains such as Gap, Foot Locker and Radio Shack can be found in malls.

Malls have also helped department stores, generally tied to the context of a particular town or region, to become national chains and eminent retailers. That was the case of Nordstrom, Saks and Federated Department Stores, the parent company of Bloomingdale's and of Macy's.

How the mall contributed to the suburban development and caused problems to American city centers.

In 1954, when the construction on Southdale began, suburban shopping centers generated sales superior to urban downtown total retail sales. Then, proliferation of malls sped the trend up and rapidly dozens of cities were pondering over the viability of their business district centers. Many of them chose to shut off traffic from their downtowns and converted them into pedestrian malls. The situation was ironic as the mall was the copy of a city center in the suburbs and cities henceforth were trying to create a mall downtown.

Then Victor Gruen began transforming himself into a town planner to renovate urban centers across America. Few projects succeeded in delaying the trend. In 1976, famous department store chains generated 78% of their sales in their suburban outlets and cities began to look after new means to attract one part of the suburban foot traffic. Today, cities have given a new purpose to their former business and industrial centers converting them into entertainment districts with chains such as Hard Rock Café, Planet Hollywood and Niketown. Consequently, the city has become a kind of theme park.

Then, in 1966 malls were considered as ugly buildings and nothing better than merchandise barns. In fact, the government had pushed to spending and consumption for years, in order first to avoid a new depression and then, in a kind of Cold War mindset, it put consumerism on the same level as patriotism and democracy.

Now, malls were not supposed to have this impact. It is clear that Gruen included the land in his mall projects so that its price is set aside from the civic and community functions. But this idea was rarely incorporated into the final projects. First, because the building of a shopping mall generally increased neighboring land value so that developers, who did not share Victor Gruen's ideas, found more profitable to sell off the civic-targeted land to speculators who inevitably built commercial businesses on it. This way, the mall gave birth to other malls and so on...

During the Seventies, Victor Gruen, who had become very disillusioned, had left his utopist dreams essentially driven towards merchant ends and came back to Vienna. He then began to criticize what had been his life's work. He died in 1980 convinced that profiteers had corrupted his ideas.

Meanwhile, millions of Americans who had never heard of Victor Gruen, continued shopping malls.

The current shopping center or "mall."

It definitely changed the retail landscape and the manner in which Americans shopped. In fact, a pharmacy, a post office and a theater can be found there. Henceforth, America has more shopping malls than high schools (47,000). They attract more than 200 million customers a month, employ more than 17 million people or 12% of the national workforce, excluding agriculture, and generate more than US\$ 2 trillion in annual sales or three-quarters of the total American retail sales, not including auto and gas, plus another \$ 84 billion in sales-tax revenues.

If their impact is more difficult to measure, it is however easier to see. While providing an alternative to shopping in downtown, malls have contributed to the suburban growth while they were stimulated by the

phenomenon leading to changes in the manner people eat, socialize, work and, of course, shop. These changes led to other mutations such as the chain store expansion at the expense of high-street independent stores.

Today modern consumers would have difficulties imagining a world without the mall "offspring". Among the most important is the discount born in 1962 with the Kmart, Target and Wal-Mart big-box stores. Chain discount was not a very new concept as Frank Woolworth had opened more than 1,300 variety stores between 1879 and 1919. But new suburban discount stores did not copy the Five and Dime units of Woolworth but they took their origin from malls and their large floor layout, large parking spaces and sufficient volume to allow for loss leaders. If Kmart was the first to expand rapidly while opening 162 discount stores in 1966, it is Wal-Mart who finally controlled the phenomenon with its first \$ 1 billion sales in 1979 and \$ 1 billion sales a week in 1993. And today Kmart has lots most of its previous glory.

Wal-Mart's success has inspired other variations of malls such as warehouse-clubs, including Costco, and the « category killers" including Home Depot, Lowe's, Staples and Toys R Us. Toys R Us has just announced it would probably retreat from the toy market because of the fierce competition led by Wal-Mart. All those firms are, in their own manner, Southdale's offshoots. But all these malls are not successful and, according to a survey by PricewaterhouseCoopers in 2001, 19% of them are dead or dying. In reality, 85% are more than twenty-years old. Dead malls are demolished. Others are converted into complexes that include hotel, office buildings and residential housing as ingredients of a community integrating private and public interests.

Internet is another large challenge. Many online retailers have made significant progress ranging from Amazon to Apple with its popular iTunes Music Store. The most successful is eBay, an online auction site that is the real world's largest mall. It is no doubt that virtual-retail technology will continue evolving. But it is unlikely that it will take the place of the mall as some forecasters thought in the beginning because many consumers still like to see and touch what they buy. In addition, they think it is pleasant to go to the mall because some include entertainment areas. It is the case of Mall of America, the nation's largest mall. It was opened in 1992 in Minneapolis, a few kilometers from Southdale. This way, Southdale has become a historical monument and is no longer Minneapolis's most famous shopping center. Mall of America is a retail and entertainment complex that includes 520 shops, 50 restaurants, 8 nightclubs, an aquarium and the country's largest indoor park occupying 420,000 sq.m. It employs more than 11,000 people and attracts 42.5 million customers a year! ■

Source : Paul Lukas, Fortune

Franchise accounted for 2% only of total retail sales in China in 2003.

If a country has already 1,500 foreign and domestic franchise companies, more than 70,000 franchisees and if another 300 foreign companies are waiting to enter this market, it is necessary to be a particularly aggressive and attractive country such as China. In fact, McDonald's (560 fast foods), Kentucky Fried Chicken (more than 1,000), Dairy Queen, 7-Eleven, Pizza Hut (110), Days Inn and Sign-A-Rama, Starbucks (70) are to be found in this market.

Important franchisors did not start up China through franchise but via joint ventures with local partners. KFC, that entered the continent in 1987, has become one of the best foreign brands and stands as a good and successful example with 200 new outlets in 2002 and 200 in 2003. It began using the franchise formula recently only and on a limited scale. McDonald's, that opened its first restaurant in 1992, has been pondering over it since 2003.

In these conditions, sales of franchised units gained 44% in 2003 compared to one year earlier but they however did not account for more than 2% of total retail sales in China.

Today, foreign franchisors are not limited to joint ventures. Since June 1st 2004, international companies are allowed to establish fully-owned retail firms. Then, why do foreign franchisors still stay aside from this formula in China? The answer is to be found in the legal system, problems tied to trademark piracy, to infrastructure under-development, uncertainties on contract enforcement and the weak chance of conflict settlement.

The franchise concept is new to the Chinese market.

While foreign franchisors such as KFC succeeded in entering the country almost twenty years ago, the foreign franchise is often perceived as illegal even if nothing forbids it.

Compelled to transform the country into a modern economy, the government has undertaken a huge task and created a legal system to support this economy. Hence a new legal infrastructure and process to solve conflicts that have been apparently under the pressure of constant changes since the economy first opened to foreign investments. In addition, the difficulty tied to the market entrance has been reinforced by restricting regulations on these international investments.

Foreign investors meet domestic competition.

A foreign company has to face local competition. Several Chinese franchisors, including Beijing Quanjude Roast Duck, Tianjin Goubuli Steamed Bun, Shanghai

Ronghua Fried Chicken and Lanzhou Jinding Beef Noodles copy the international foreign models.

And these local operators have not only the knowledge and understanding of the market as well as relationships but local laws are in their favor. Existing regulations, that provide the frame for domestic franchise operators, are not applicable to foreign franchisors. "This gives domestic franchisors regulatory stability while foreign franchisors are still waiting to see what the new regulations governing their operations will involve," says Fraser Mendel, intellectual-property rights expert based in Beijing.

The Chinese rush.

If the situation is so unattractive for franchisors, how can this Chinese rush be explained? The economy has stimulated the fast growth of a middle-class with high disposable incomes and a pent-up appetite for faster, more convenient and more fashion lifestyles. This explosive trend is mirrored in the annual sales growth at an average rate of 10%, food and textile growing even more significantly.

While disposable incomes are low compared to western standards, the typical franchisor does not try to reach the 1.3 billion Chinese consumers and does not think it is necessary to do it, thinks Phil Zeidman, an international franchise expert, who maintains that "The buying power of this country is concentrated in urban centers (there are more than 100 of them), each having a population of more than one million." He also adds that television has upgraded the knowledge level of the Chinese on the Western consumption patterns and a modernity touch has created a demand for franchise products and services mainly American and European.

The first entrants are waiting for the day China will ease its norms and align them with the Western ones. Its commitment for franchise following its entry into the World Trade Organization (WTO) include removing restrictions on geographic location, number, equity amount and form of establishment for international investors from December 2004.

Foreign investors can also hope that the question of intellectual property rights will be solved rapidly.

Useful precautions.

It is imperative to take a few precautions while entering this market whose norms are in permanent evolution and the legal frame fluid. Foreigners when choosing local partners and franchisees must consider four basis criteria : experience, funds, public resources and credibility. A master franchise is a safer approach for a new entrant. ■

Source : Retail Asia