

# LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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- **Retail development in the Gulf Countries.** 3a

## LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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## INTERNATIONAL

### World's Top Ten most expensive retail locations in 2004 : Fifth Avenue is still ahead of Champs-Élysées.

2004 rank	2003 rank	city	country	street	rent sq.m./year/€	rent sq.m./year/US\$
1	1	New York	USA	Fifth Avenue	8,406	10,200
	2	Paris	France	Champs-Élysées	6,287	7,648
2	3	Hong Kong	China	Causeway Bay	5,036	6,126
3	4	London	U.K	Oxford Street	4,573	5,564
4	10	Dublin	Ireland	Grafton Street	3,372	4,103
5	9	Munich	Germany	Kaufingerstreet	2,940	3,577
6	8	Moscow	Russia	Tverskaya	2,877	3,500
7	5	Sydney	Australia	Pitt Street Mall	2,835	3,449
8	15	Tokyo	Japan	Ginza	2,752	3,348
9	6	Seoul	Korea	Myeongdong	2,664	3,241
10	7	Athens	Greece	Ermou	2,640	3,212

Source : Cushman & Wakefield/Healey & Baker

Tokyo (Ginza), Dublin (Grafton Street) have the highest growth according to the annual survey by Cushman & Wakefield/Healey & Baker which makes a census of 229 most expensive locations in 45 countries. Paris is quoted three times in the top ten : beyond the Champs-Élysées, the Rue du Faubourg Saint Honoré (€ 3,682/sq.m per year) and Haussmann Boulevard (€ 3,368/sq.m per year). The Asia-Pacific region recorded the strongest rental growth with a rise of 8.1%.

### Globalization of REITs and real estate development.

REITs (Real Estate Investment Trusts) manage and develop commercial real estate. With them, ordinary investors can own stakes in shopping centers, warehouses as well as in hotels throughout the world.

They began working about forty years ago in the United States and have become very popular those past times. For the first time in ten months of 2004, their value has increased by 14% while the Standard & Poor's 500 has remained stagnant. This success has inspired other countries. According to a study by Ernst & Young of 20 countries, Australia, Belgium, Brazil, Canada, Costa Rica, France, Greece, Hong Kong, Italy, Japan, Korea, Luxemburg, Malaysia, Mexico, Netherlands, Porto Rico,

Singapore, Spain, Taiwan and Turkey have recently passed laws allowing REITs creation and legislation is pending in United Kingdom and Germany. Even if their rules may differ from one country to another, the reasons for investing in commercial real estate are the same. They attract because a high percentage of their rental incomes (90% in the U.S and 80% in several European countries) can be returned each year under the form of dividends. They also resolve domestic problems and allow workers in Sydney to invest in shopping centers in Singapore or in hotels in U.S. Developers, looking for space to build shopping centers and warehouses domestically, can now use their funding to build overseas.

American REITs, present overseas, are primarily to be found in the hotel, retail and industrial sectors. As shopping centers REITs have saturated the US market, they go overseas to find new customers. General Growth Properties, second largest American real estate owner, has invested \$ 100 million to create joint ventures in Brazil and Costa Rica. Simon Property Group, the largest publicly traded REIT in North America, holds stakes in 49 shopping centers in France, Italy, Poland and Portugal and operates 4 outlet shopping centers in Japan.

The Mills, specialized in →

“commercial entertainment” with 29 large shopping centers in United States is an interesting case : in 2003, it built Xanadu, a 134,000 sq.m center in Madrid in partnership with Spanish developers. That includes El Corte Ingles (department store), Hipercor (hypermarket), 220 stores, 30 restaurants, a 15-screen multiplex cinema and an indoor ski slope. Second phase will occupy 184,000 sq.m and include one hotel and a leisure park...

Source : The Wall Street Journal

**Third quarter online retail explosion: eBay, Amazon, Google and Yahoo! have posted a two digit, even a three digit-growth, of their profits.**

eBay, the online auction site from California, will soon be ten year old. Its quarterly sales grew by 52% in one year and sales of Amazon by 27% to reach respectively \$ 806 million and 1.44 billion. Google, a privately-owned retailer since August 2004, had sales of 806 million from 394 million in the same period one year earlier. Yahoo! is ahead of the others with a 154% growth in the same period.

eBay’s annual profits could exceed 800 million due to the explosion of retail sales. It estimates that its 52 million online regular users will buy for \$ 1.2 billion of watches and jewels and expects to sell for \$ 2.5 billion worth of electronic and computer products. With 10.7 billion in car sales in 2004 it is one of the world’s largest car retailers.

Amazon, which registered high losses, has become the largest online retailer by sales. It is now profitable. As concern 2005, it expects \$ 8 billion in sales.

**Third quarter growth (US\$ million)**

	2004 sales	2003 sales	2004 net income	2003 net income
Amazon	1,446	1,134	54	16
Yahoo!	907	357	253	65
eBay	806	531	182	103
Google	806	394	52	20

Source : Le Figaro

**EUROPE**

**Carrefour has announced the divestment of its stake in Modelo Continente and the**

**acquisition of 13 hypermarkets in Poland from Ahold.**

World’s second largest retailer has entered into a definitive agreement to acquire 13 Hypernova hypermarkets in Poland from the Dutch Ahold. Their sales area ranges from 5,400 sq. to 8,300 sq.m and annual net revenues is in excess of € 120 million. The transaction, -whose amount is not unveiled, is still subject to the fulfillment of certain conditions, including approval of the Polish Competition Authorities, -is expected to close in the first quarter 2005.

In Poland Carrefour currently operates 16 hypermarkets (a 17<sup>th</sup> will be opened before the end of 2004) and 70 supermarkets with sales of € 808 million. In October, it opened a new unit of 10,500 sq.m in Arkadia, Poland’s largest shopping center in the suburbs of Warsaw. With this acquisition, it will become the second largest operator in this country with 30 hypermarkets and 70 Champion and Globi supermarkets.

Ahold has been active in Poland since 1995. On January 1, 2003 it merged its Polish, Czech and Slovak operations into one single entity as Ahold Central Europe with consolidated net sales of € 1.6 billion. By end of 2003, it sold 2 hypermarkets to Carrefour and retained 170 Albert supermarkets and 12 small Hypernova hypermarkets.

**Divestment of Carrefour’s stake in Modelo Continente for € 345 million.**

Mid November, Sonae from Portugal has acquired the 22.37%-stake of Carrefour in Modelo Continente, S.G.P.S, SA. It acquired also from the French Group several trademarks including «Continente », « Mappemonde » and « Jackerton »

for their use in Portugal.

Today, Carrefour operates 8 hypermarkets and 361 MiniPreço hard discount stores in Portugal. It is the third largest food retailer in this country, which it entered in 1991.

Over the past three years sales have increased by 25.6%.

«The divestment of non-core assets and the acquisition of assets which reinforce current market share, will help the group grow profitability and Return on Capital Employed outside of France, one of the five key priorities for the next twelve months as outlined on September 1.”

**BELGIUM**

**Delhaize le Lion : third quarter figures indicate strong earnings growth and increase in profit outlook for the year in spite of a weak US dollar.**

Profits before tax and exceptional elements grew by 16% to € 108.9 million. The retailer that operates half of its 2,530 stores in the USA has reported sales falling to € 4.5 billion during the period compared to 4.7 billion a year ago. “We are particularly pleased with the 1.7% comparable store sales growth and the margin increase in our US operations...” said Delhaize Group president and chief executive Pierre-Olivier Beckers.

In the first nine months, sales amounted to € 13.5 billion, a 3.0% decrease due to the weakening of the US dollar by 9.3%. At identical exchange rates, sales would have grown by 4.2%. Operating profit grew by 5.9% to € 629.1 million. The operating margin increased from 4.3% to 4.7% and net earnings by 33% compared to the first nine months of 2003.

The Belgian retailer expects sales growth this year to be between 2.5% and 3.5% and aims its portfolio to grow to a net total of 2,581 stores by the end of the financial year.

**FRANCE**

**Towards a reform of the retail law?**

Representatives of manufacturers and retailers met French Finance Minister Nicolas Sarkozy on November 18 and gave their agreement to a process based on 7 points including mainly :

- the necessity to make the law evolve rapidly, make it work progressively and on an irreversible basis in the “consumers interest”,



- the integration of the commercial cooperation into the calculation of the sale at loss,
- clear definitions of negotiations on manufacturers' selling conditions,
- to favor the small and medium-sized companies in the retailers shelves,
- the adoption of specific arrangements for agricultural products,
- to study concentration in organized retail trade....

Main lines of this project were given to the First Minister who has no intention to upset relations between manufacturers and retailers but promised to "fight against expensive cost of life" in 2005.

For the time being, commercial negotiations between manufacturers and retailers remain unchanged. According to national statistics, prices in supermarkets and hypermarkets decreased by 0.9% in September and 0.3% in October.

**Carrefour creates a Pan-European real estate company, Carrefour Property.**

As announced by Daniel Bernard, president and chief executive, last September, the target consists in reinforcing the Group's means without getting into debt to speed up its development strategy, make opportunity operations in countries where the group is present and divest assets worth € 1 billion.

As concern commercial real estate, Carrefour owns 64% of stores operated worldwide whose market value is between € 18 and 20 billion. In order to manage these assets aggressively, perpetuate the patrimony and prioritize its development, Group's portfolio is broken down into three categories :

- the non-strategic assets (offices and warehouses) : Carrefour prefers to act as a tenant. It is the reason why lease back operations have been led in the Paris area and in Spain (Madrid) for one year,
- the peripheral assets (shopping galleries) are sold to investors (Carrefour sold some shopping galleries to Klépierre in 2000).
- strategic assets : buildings that house France's 275 hypermarkets and 590 supermarkets as well as hypermarkets in Spain and Italy are

set to be grouped under a single real estate holding company. This real estate park occupies 3.6 million sq.m and is valued at around € 8 billion. They are leased to the Group's operators on a long-term basis.

Carrefour Property is a pure Carrefour product. In the long term, there are plans to invite investors to acquire a stake in the company.

**Bricomarché : two new formats for its two banners Bricomarché and Logimarché.**

France's third largest DIY chain operates 509 Bricomarché including 470 in France, 17 in Portugal and 22 in Poland which are specialized in decoration, DIY, building materials, garden and pets. It operates also 67 Logimarché in France selling decoration, DIY and gardening. Sales of both categories amounted to € 1.63 billion in 2003 (1.7 billion is forecasted for 2004).

Logimarché will open new stores of 800 sq.m average area compared to 540 sq.m today in cities of 10,000 to 15,000 inhabitants. Bricomarché (2,300 sq.m average area) will open a new 3,000 sq.m-format offering decoration and indoor equipment by 2006.

The French DIY market is broken as follows :

- Kingfisher (Castorama and Brico-Dépôt) 31.3%
- Leroy Merlin 23.8
- Bricomarché 13.2
- Mr.Bricolage 12.9
- Domaxel 6.5
- Bricorama 3.9
- Various 8.4

Source : Unibal

**GERMANY**

**Sonae : construction of the Alexa shopping and leisure centre began in October in the heart of Berlin next to Alexanderplatz.**

- 43,000 sq.m GLA for 200 tenants,
- 2,000 sq.m for restaurants and services,
- 9,000 sq.m for entertainment,
- underground parking : 1,800 spaces on several levels,
- developers/investors : the French Foncière Euris and the Portuguese Sonae Imobiliaria, the latter will take over the property management of

- the completed center,
- total investment : € 500 million of which 290 million for the center,
- opening is scheduled for fall 2006.

A 150-meter tall office tower with a gross floor area of 42,000 sq.m is planned. To the south, Degewo is building a residential, hotel and office complex with 39,000 sq.m of gross floor area.

**NETHERLANDS**

**Royal Ahold announced third quarter 2004 results : losses deepen.**

The retailer recorded a net loss of € 166 million compared to 100 million in the same period in 2003. In the first nine months, loss amounted to 539 million and sales to 39.6 billion, a decrease of 8.5%. According to the Group, this is the result of an exceptional loss related to the ICA AB share transactions of 87 million and long-lived asset impairments of 130 million.

At U.S retail, net sales were significantly impacted by a lower dollar and by a fierce competition between supermarket chains. US Foodservice situation improved apparently and the business should be positive for 2004. In spite of this situation, Ahold's president and CEO, Anders Moberg, reiterates its outlook for 2004, which he considers as a year of transition in spite of a growing debt in the third quarter to € 7.5 billion.

Ahold has completed sale of its Spanish retail activities to the Permira Funds, a transaction announced on October 3, 2004. The closing was subject to the fulfillment of certain conditions, including antitrust approval.

**POLAND**

**Arkadia, opened in Warsaw on October 20, is Poland's largest shopping centre and one of the largest of Continental Europe.**

- It includes :
- 106,000 sq.m. GLA of space, 3 levels,
- Carrefour hypermarket (18,400 sq.m),
- a Leroy Merlin DIY big-box store (11,800 sq.m),
- 190 shops including international →

outlets such as Benetton, Sephora, C&A, H&M, Douglas, Media Markt/Saturn, Peek & Clopenburg and Zara,

- 20 restaurants and a nine-screen multiplex cinema,
- 4,000 parking lots,
- owner/developer : the French BEG Group,
- manager : BEG/Cefic.

The German Aareal bank has granted a € 140 million-long term loan for the construction phase. It already financed several shopping centers in Poland outside of Warsaw including Galerie Kazimierz in Krakow (36,000 sq.m).

## RUSSIA

### Retail market is attracting foreign investment funds as shopping center demand is growing.

1.2 million sq.m of new commercial area is expected to be completed by end of 2005 according to Stiles & Riabokobylko in Moscow. Foreign real estate investors have understood the country's potential, still far from saturation. Yields are attracting. A prime quality commercial product in Moscow can generate 13% to 16% a year (12% to 14% for offices).

Invesco Real Estate will invest € 160 million in the Russian market and expects a 11%-annual yield. Fleming Family & Partners, first real-estate fund specializing in Russian assets, is reinforcing its presence in the country and planning to launch a second fund. A first fund was launching during spring 2003. Eastern Property Holdings, a Swiss-listed real estate firm, has already invested \$ 66 million and will add another 100 million next year in real estate. In July, it purchased a 25%-stake in Mosmart, the Russian hypermarket developer and operator, in partnership with ENR Russia Invest, a Swiss investment holding firm.

Moscow attracts European retailers : after Mega I (160,000 sq.m), Ikea opens a second Mega shopping center this December southeast of Moscow that occupies 200,000 sq.m GLA. In addition, its first center in the province will be located in Kazan, the capital of Tatarstan, and is expected to be completed by end 2005.

**Metro**, active in this market since 2001, is the second largest retailer by sales generating € 510 million in 2003 from 12 stores only. The local **Pyaterochka** chain is ranked first with € 630 million and 220 stores. "Russia is a real success story. It is the country where Metro Group has the most dynamic growth at the moment. Metro will continue to focus its expansion on Eastern Europe and Asia with a particular emphasis on Russia and China."

The French **Auchan** is developing a 70,000 sq.m- hypermarket also in the capital that is due to be opened by the end of 2007.

Big retailers face difficulties in building schemes in Moscow as the land can only be leased. Outside Moscow, land can be bought.

According to a recent report by Aton Capital, the Russian retail market accounted for more than 77% of the consumer spending last year and over 30% of the country's GDP. Consequently, the market might absorb at least 50 new projects a year over the next ten years according to Stiles & Riabokobylko.

Rumors say that Aldi and Lidl from Germany and the French Carrefour would enter the Russian market...

Source : *The Wall Street Journal*

### Russian shopping center developers to buy large parcels of land as fast as possible.

**Park House** is the most aggressive chain developing projects in parks or in woods. In 2002, it opened its first shopping center in Samara in 20,850 sq.m. A leisure center will be added in 2005. It was financed by net worth of Vremia Group's companies and by a loan from Sberbank. A new Park House center was opened in Volgograd occupying 52,800 sq.m and two others should be shortly completed in Iekaterinbourg (56,000 sq.m) and Togliatti (67,800 sq.m). It is finalizing two more shopping schemes with the help of foreign architects.

Park House is currently trying to buy land in Kazan, Nizhny Novgorod, Chelyabinsk and Ufa.

**Torgovy Kvartal** is a management company founded by the Mig investment Group. A first shopping center of 31,000 sq.m was opened

in 2001 in Krasnoirsksk in the former premises of a TV plant. It was anchored by the first Ramstore hypermarket in 2003; a cinema, restaurants, a fitness club, a bowling and an exhibition center will open later. Once completed, it will be a regional and leisure shopping center of 54,000 sq.m.

Torgovy Kvartal expects to open complexes in Saratov, Cheliabinsk, Krasnodar and Kazan with its usual partners Ramstore, Perekryostok, Mir, Eldorado, l'Etoile, Starik, Khottabuch and Sportmaster.

Russian developer **Macromir** is building two shopping centers in St Petersburg that total 146,000 sq. and are due to be completed within one year. The Rio center in Moscow will finish its construction by the second quarter 2005 comprising 92,000 sq.m.

Source : *Lettre de Veille Internationale*

### Foreign investment increase in St.Petersburg.

Foreign investment volume in the City is expected to reach \$ 900 million in 2004 according to the economic development committee. In the first six months, they totaled \$ 411.3 million, a 39% increase on the same period in 2003. Cyprus was the third largest investor in 2003 and maintained its position this year following Holland and the United States.

Meanwhile, total invested in the city fell back by a quarter. Industrial production slowed down and new residential constructions did not reach their target. According to the same committee, this delay is attributed to the commercial and real estate saturation in the city.

The city is waiting for a new law determining the land price that will help attracting local and foreign investors. It should be presented to the Assembly shortly and contribute to lower costs threefold.

### Ramstore arrived on St.Petersburg's retail market.

Turkish Ramenka firm opened its first hypermarket and 29<sup>th</sup> store in the Northern Venice mid-November. It occupies 5,200 sq.m in the Gulliver shopping complex. Selection is composed of 30,000 items, mainly food, textile, home goods and →

**SPECIAL STUDIES**

# Growing interest of investors for the best opportunities in Central/Eastern Europe Outlet centers evolve with the European Union

**Investors' position.**

Long before Poland, Hungary and the Czech Republic joined the European Union, international investors and developers were already buying and developing shopping centers by the end of the Nineties. Between 1998 and 2004, retail total investments in this region amounted to € 2.8 billion according to Cushman & Wakefield/Healey & Baker. Almost 50% of this total was invested in Poland

The first western shopping centers were opened at the end of 1999. Local retailers have strongly resisted to foreign competitors arrival but their governments ignored them as they were in a hurry to join the E.U. Consequently, international actors such as Carrefour, Tesco, Ikea and Metro have presently a strong presence in Poland, Hungary and the Czech Republic.

Today, economies of these countries are flourishing and retail sales are high especially compared to the West. However, financial investors begin to wonder about yields and their length in the time. As they decreased from 10% to 7%, it becomes more difficult to find good opportunities for investors but margins for developers are improving as much. In addition, several signs indicate that the market is maturing.

The expansion potential for the region is promising; economies of east of Central Europe, including Poland, Hungary, the Czech Republic, Slovakia and Slovenia should grow by more than 4% a year until 2009, according to The Economist Intelligence Unit, compared with 2% GDP for the euro zone.

If consumer spending is growing, wages are well below those in other European Union countries and The Economist Intelligence Unit estimates that it would take almost six decades for the ten new entrants to catch the average GDP per head in the E.U. Now, these statistics could be wrong due to the importance of the grey market, which accounts for between 20 and 30% of the global economy.

**Retail investors by nationality.**

country	percentage
USA	40.99
Germany	15.48
France	13;01
Netherlands	12.09
Ireland	5.38
Israel	3.97
Austria	3.43
Denmark	3.36
Czech Rep.	1.26
United Kingdom	1.02

Source : Cushman & Wakefield Healey & Baker

**Yields or investment cap rate.**

In Prague, three quarters of yields fell from 8.5% to 7% compared to the same period last year. In other capitals, they decreased by 50 basis points in 2003 but they remain stable in many secondary cities. Therefore investors estimate it is still worthwhile to be present in this region as risks decrease. In addition, bankers make easy loans not only because of the expansion potential but also because the vacancy rate are low and rents, even if they have been falling for five years, are today relatively stable.

Romania is very attractive because it offers cap yields that are often higher than in many other central and eastern Europe markets. So, a prime shopping center rate could be around 11%.

The battle among investors in and around capitals has led some of them to consider secondary cities. Others are considering further away, in Slovenia, Slovakia, Kazakhstan, Russia and Romania. According to Jones LangLaSalle, the region commercial area should increase from 6.5 million of sq.m to 9.5 million over the next two years.

**Ten new countries, which joined the E.U are ripe to be equipped with outlet shopping centers.**

**Poland**

Eastern Europe's giant is well positioned for the

**Existing and planned outlet centers in Central/Eastern Europe.**

country	project	city	developer	GLA area sq.m	opening date
Czech Rep.	Freeport Excalibur	Hate	Freeport Leisure	24,000	Sept. 2003
Hungary	Factory Outlet Centre	Budapest	Miller Group/Raiffeisen Inगतlan	14,000	Nov. 2004
Poland	Factory Ursus	Ursus-Warsaw	Neinver Polska (*)	9,000	Dec. 2002
Poland	Fashion House	Gdansk	The Outlet Company	25,000	spring 05
Poland	Warsaw Outlet Centrum	PiasecznoWarsaw	The Outlet Company	25,000	fall 2005
Poland	Outlet Centrum	Sosnowiec	The Outlet Company	9,000	Feb.2004

Source : VRN \*Neinver has 4 projects in Poland (Warsaw, Krakow, Poznan and Szczecin) and is considering the Czech Republic.

future. With approximately 40 million citizens, it is the largest country having joined the European Union on May 1, 2004. Around 50% of the population is under 34 years old and it is the largest market for consumer goods in Eastern Europe.

While consumers are ready to shop at Polish shopping centers, the road infrastructure must not be underestimated as it is poor and includes three main roads only.

However, outlet development is running very fast : two are opened and two more are under construction. In 2002, the Spanish developer Neinver has opened one complex of 9,000 sq.m in Ursus, fifteen minutes' drive from Warsaw downtown. He has planned five more in the region : three in Poland (Krakow, Poznan and Szczecin) and two in the Czech Republic. The first year, almost two million consumers visited Ursus including 70% coming from Warsaw and 25% from the suburbs. Only 5% were tourists. More than 70% of the shoppers were less than 35 year old and 34% less than 25. Consequently, it is not astonishing that brands such as Levi's, Wrangler-Lee-His, Adidas, Nike, Puma, Reebok, etc, are among the 49 retailers of the center to generate the best figures.

The U.K.-based Outlet Company has opened the 9,000 sq.m first phase of its center in Sosnowiec in February 2004. It is a joint venture between the Belgian developers, Liebrecht & Wood, and Tom Dootson, founder of the British real estate company Peel Holdings. The Outlet Company is the cornerstone of Fashion House in Gdansk due to be completed in spring 2005. This enclosed mall designed with a fishing-village theme is built in two phases totaling 25,000 sq.m.

The Outlet Company has also planned a center in Piaseczno due to be opened end 2005.

### Hungary.

The country is historically and geographically located at the crossroads of East and West. It is another example

of contradictions and opportunities to seize. In 2001, average annual wages was approximately US\$ 6,600. Compared to their western counterparts, Central and Eastern Europeans have lower rents and utilities costs consequently they have a larger proportion to spend for their purchases.

Hungary's first shopping center, Premier Outlets Centre, formerly called Budapest Outlet Centre, was opened last November 11 occupying 14,000 sq.m in Biatorbagy, a large village located 15 minutes west of the capital. It will compete with the new 16,000 sq.m developed by the Belgian GL Group only 1.5km from the Miller scheme. Its space could be enlarged to 50,000 sq.m over the next three years. The developer is a joint venture between the British Miller Developments and Austrian bank Raiffeisen who invested € 25 million. It is managed by GVA Grimley Outlet Services England.

Since Hungary joined E.U and its financial stability, the country attracts investors.

### The Czech Republic.

Freeport Excalibur Outlet Mall was opened in September 2003 and remains the single outlet center of the Republic. It is practically located in the Czech-Austrian border, which 9 million persons pass through annually. It is a 24,000 sq.m enclosed mall with 70 stores. But, just as in Poland, this region is not yet ready for such a traffic and its opening had to be delayed a few months. It attracts the wealthiest population of Europe as there are more millionaires per capita who love bargains in the neighboring Austria than any other country. The advantage is that labor costs in the Czech Republic are about 20% of what they are in Austria. One year after its opening, sales per sq.m is \$ 4,700.

Eastern Europe seems to rapidly catch up Western Europe. While it took thirty years for retail trade to develop, it is expected that it will take only ten in Eastern Europe. ■

Sources : VRN, Europroperty

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# **Retail development expanding at full speed in the Gulf Countries.**

## **Strong presence of international brands**

**B**ig box stores and large glittering malls are opening here and there in the Gulf's desert plains. Dubai expects 2.3 million sq.m for a 1.2 million inhabitants. Twenty large shopping centers are being built in Saudi Arabia to serve one of the quickest-growing populations in the world. Bahrain and Qatar are building retail-focus waterfronts. They are financed by oil-rich royal families and local conglomerates that choose not to invest in Western countries, as retail development is one of the possible means to escape the dependence from oil.

### **Western brands will contribute to the new mall development.**

In fact, the Gulf is much more famous for its mercantile traditions and consequently, it has only on a few local signs and retailers. It is the reason why it totally relies on familiar and attractive Western brands to enter an unfamiliar territory.

License agreements with local commercial firms offer retailers possibilities to generate sales as high as at home without having the need to concern about investment. In the end, whether you are in the Al Seef center in Bahrain or in Kingdom Center in Riyadh, brands are very familiar. In Kuwait, Qatar and Oman, Marks & Spencer and BHS (British Home Stores) sell the same basic products, Mango and Zara offer fashion apparel and Virgin music. Debenhams, that operates eight department stores in the region and expects to add three more in 2005, considers that Middle East as the place that cannot be ignored for an international development. Debenham's and Harvey Nichols will be anchors of the Mall of Emirates in Dubai, which will occupy 223,000 sq. next September 2005.

### **Policy is uncertain.**

Policy uncertainties exist in the region, especially in Saudi Arabia. Dubai is stable and prosperous.

The success of retail trade is lying on local culture and climate. "Shopping is a leisure industry, especially in Saudi" said people at Cushman & Wakefield Healey & Baker. People don't go to the cinema or clubs and bars because there just aren't any. Even in winter, people tend not to go out during the day. Instead, they'll promenade and meet their friends in the shopping centers in the evening."

Another underlying reason concerns the manner in which inhabitants of the Gulf States work. They operate one store that caters to local shoppers accustomed to travel and shop in Europe and international tourists do not yet exist in the region. Dubai is decided to transform itself into a regional real theme park. With that objective, the State relies on the construction of the 465,510 sq.m-Dubai Mall which should catch up Edmonton Mall in Edmonton (Canada) as the world's largest shopping center with the world's longest indoor ski slope at the Mall of the Emirates.

In 2003, four million tourists visited Dubai. The State expects 15 million visitors by 2010 including wealthy Russians and Europeans looking for sun during the winter season.

### **Tourists are coming from the neighboring region.**

Most of the new entrants are likely to come from the Gulf and Middle East." After 9/11 and the global focus on terrorism, the people in many Muslim nations are asking themselves why they need to go to the US and Europe for leisure and entertainment" declares Peter Walichnowski, chief executive officer of Majid Al Futtaim Investments. They now prefer to invest on the spot. Hence large schemes that include 2.3 million sq. for 1.2 million inhabitants in Dubai. Now, it is clear that if tourists do not visit the region any more, all these new commercial equipments will be useless. But as Dubai is confident and presents itself as a location for business development and companies set their Middle East headquarters there because there is no tax.

### **Commercial explosion.**

Typical Gulf's malls include one or two multiplexes and other leisure activities, large children's playgrounds. They devote up to 30% of the area to fast food courts, restaurants and cafeterias. Leases are generally copied on western models with terms, which range from twenty years for anchors to 10 to 15 years for major stores and five years for small stores. Owners calculate their lease according to sales of each store category and control performance in order to adjust percentage at the time of rent review.

Retail development in the region is dominated by six large brands that have franchise agreements with

western houses. In Saudi Arabia, Al Hokair Trading franchises 45 worldwide fashion brands including Mexx, Nine West, Pro Mod and La Senza. Al Shaya, Middle East's largest chain operator, manages brands such as Next, Starbucks and Debenhams and, in Dubai, Al Tayer Group has just added Harvey Nichols to its luxury portfolio including already Giorgio Armani, Gucci and Bulgari.

Investments by these groups are so important that they imply they can take risks for their expansion and operate stores at loss to build one presence, considered as unacceptable for non-franchised retailers. In Dubai, they also enjoy from governmental initiatives such as the annual promotion of the shopping, which lasts one month.

It is a completely unique situation that franchisors and shopping center developers belong to the same company or are parts of the same group. Thus, Al Futtaim Group does not only build the mixed-use complex of Festival City in 139,350 sq.m with more than 400 stores in Dubai but it occupies also a third of the retail space with brands which it operates. It is also building a shopping center in Bahrain and Al Shaya in Kuwait. "It makes us more sensitive to the retail market than most developers" says Phil McArthur, director of leasing and marketing for Dubai Festival City of Al Futtaim: "We have double the investment, double the opportunity and double the risk. But the fact that we're putting our own formats in our space means that other retailers see our confidence."

According to the president of Majid Al Futtaim Investments, Westerners make the mistake to think that the globe is turning around one fixed point somewhere in the middle of the Atlantic Ocean while Far East and the Indian sub-continent have a stronger attractive pressure. "There is no reason why Dubai can't become the Las Vegas and Hong Kong of the Middle East."

### **Dubai retail development case.**

Retail trade is streaming towards Dubai and two projects are quarrelling for the title of the world's largest shopping center: Dubai Mall and Mall of Arabia which account for an 1.8 million sq. m of new commercial space within the next five years. To generate average sales per sq.m of at least £ 2,000 (€ 3,000), each inhabitant, man, woman and child should spend £ 4,350 (€ 6,300) a year in the 20 Dubai shopping centers. This is to be compared with annual spending less than £ 350 (€ 500) in the neighboring Kuwait.

But retail is not about serving the local population. It develops to serve almost entirely on the expanding tourism industry. There were 4 million visitors in Dubai in 2003.

In fact, tourism accounted for 28% of GDP in the first six months of 2004 and in the four past years, visitor number in the Emirate at the very south end of the Arabian Gulf increased by more than 50% and the wave continues growing... The government has fixed as a target to attract 15 million visitors a year by 2010 and this impact on retailing will be essential as 1.5 million sq.m of new space is being built plus 250 new apartments and hotels.

Large complexes include:

- **Dubai Festival City** is "a city in the city", a scheme of 250,000 sq.m that represents three times the surface of Monaco or 200 hectares and is built by Al Futtaim Group. Its opening is due to September 2006. It includes two shopping centers including one focusing on discount with 2 anchors: Ikea (85,340 sq.m) and a hypermarket (76,200 sq.m). The other center will be oriented towards Fashion. "The Boulevard" will include 10 anchors and "The Crescent" 250 shops under European and Middle East brands.

- **Mall of Arabia** is a part of Dubailand, Dubai's largest real estate project. It includes six different "Worlds", theme parks, sports facilities, resorts, spas and several hundreds of shops. The park construction alone will cost more than £ 2.5 billion (€ 3.6 billion) to its developer, Emaar Properties.

- **Dubai Mall** is the collection of 10 to 15 distinct centers. It is part of a huge project that includes the world's tallest tower. Its developer is also Emaar Properties.

- **Mall of the Emirates** is the largest center under construction outside North America with 400,000 sq.m. It will include a 400-meter ski slope, a Carrefour hypermarket (18 580 sq.m) and 7,000 parking spaces. It will be developed by Majid Al Futtaim that owns and operates Deira City Center, one of Middle East's largest centers. It is due to be completed by September 2005.

- « **The Gardens** » in the southern corridor of Dubai will include four distinct areas in 140,000 sq.m of space and 250 shops. Department stores, a leisure complex, including the first Dubai's Imax cinema, and a Géant hypermarket will settle in it later. Its developer, Nakheel, expects to attract 1.5 million customers a month.

In spite of the political uncertainty, Dubai is stable and prosperous. "It is an economic marvel," estimates Harvey Nichols ceo who expects sales of \$ 5,400 per sq. m ■

Source: Plaza

appliances. It is locally furnished. However, most of consumer goods are imported from China and Europe, only a small proportion of textile is coming from Turkey.

The 30<sup>th</sup> unit was opened in Moscow soon after and seven more units will be added before the end of 2004. The 35,000 sq.m-Udelny Park shopping center, being built and to be completed by first half of 2005, will be Ramenka's most important project in the St.Petersburg area. It will include a 5,500 sq.m-hypermarket and famous stores from Moscow and St.Petersburg. It will account for an investment of US\$ 30 million compared to 1.5 for Gulliver's complex.

It has a new 50,000 sq.m-project in St.Petersburg for 2006 but the location is not disclosed. Totally, it expects to open 15 units in St Petersburg over the next four to five years. Its target is to control 10% of the Russian organized retail market.

In all, by end of 2005, the Ramstore number should grow to 50 as it expands to Samara and Volgograd (former Stalingrad).

Ramenka, a joint-venture between KOC Holding, Turkey's largest industrial conglomerate and Turkish constructor Enka, invested \$ 250 million in its expansion between 1997 and 2003 and expects to add \$ 270 million over 2007. It revenues are estimated to 550 million in 2004 and are expected to reach 1 billion in the next three years.

## UNITED KINGDOM

### Marks & Spencer "refreshes" management team as sales slide.

In the six months to October 2, UK sales of the apparel and food retailer slid 0.3% to € 5.2 billion. Group's pre-tax profit before exceptional items slid 10% to € 420.54 million due to exceptional costs including the closure of the Lifestore business and the takeover bid threat of £ 9 billion (€ 13.5 billion) by Philip Green in June. Profits were down to € 304.16 million.

In the period, women's apparel sales were disappointing in spite of a two-digit growth by Per Una. The summer season was difficult for children's wear but men's wear

performed relatively well. Food sales were up by 3.2% but same-store sales were down 2.1%.

Stuart Rose, new chief executive since June, tries to turn the firm round through "radical changes" in the business. The new team is composed of the finance director, a director in charge of logistics, technology, information and property. He himself is responsible for retailing, buying and merchandising. The current finance director, the executive director retail, international and franchises, human resources director and business unit director are leaving as well as chief executive of the M&S Money business following the completion of the sale to HSBC.

Store modernization, product line, supply chain and logistics improvement should have a positive impact by next spring. In addition to a structural change, the Per Una line was bought from its designer, George Davis, for € 185.56 million, and negotiations are being led with suppliers and strategic initiatives defined.

Marks & Spencer is suffering from the competition led by Tesco, whose apparel sales were up 39% in the first six months, and from Asda that has become U.K's largest apparel retailer.

### Sainsbury has posted a € 55.6 million-loss in the first half of its 2004/5 exercise.

Britain's third largest supermarket chain unveils the worst and largest loss in its history (£ 39 million, € 55.6 million). Operating loss was € 367 million compared

to a 510 million profit during the first six months of 2003/4. Meanwhile, sales decreased by 10% to 12.4 billion. Same-store income excluding VAT was 187 million from 528 one year earlier.

The chain's new chief executive, Justin King, a former Asda and Marks & Spencer executive, has to turn the company round to reach its sales target of £ 2.5 billion (€ 3.5 billion) next year. His restructuring plan will generate new charges of € 785 million. He will ax 750 administrative jobs, hire 3,000 supermarket employees and reduce price between 1.0% and 1.5%. 13 units out of 543 will be closed and 131 refurbished.

These bad figures have stimulated rumors of takeover bids including one from a former treasurer of

### Top twelve British retailers by sales in 2003 (€ bil.)

rank	company	activity	sales ex.VAT
1	Tesco	grocery	35.47
2	J.Sainsbury plc	grocery	20.95
3	Asda	grocery / apparel	19.90
4	Safeway	grocery	12.53
5	Marks & Spencer	diversified	10.58
6	GUS	DIY / catalog showrooms	7.46
7	Wm Morrison Supermarkets	grocery	7.16
8	Boots Group	chemists, opticians	6.85
9	Dixons	electricals	6.82
10	Somerfield	grocery	6.56
11	John Lewis Partnership	dept.stores / grocery	6.53
12	Kingfisher	DIY / electricals	5.97

Britain's conservative party.

Tesco is still the leading retailer. Sainsbury, in the second position, is far behind Tesco but ahead of Asda. Safeway and Morrisons are present →

### Top ten privately owned retailers by sales in 2003 (€ bil.)

rank	company	activity	sales ex.VAT
1	Littlewoods Shop Direct Group	diversified	4.87
2	Arcadia Group	apparel	2.40
3	Costcutter Supermarkets Group	grocery	1.62
4	Wilkinson Hardware Stores	diversified	1.52
5	Lidl & Schwarz	grocery	1.45
6	BHS Group	diversified	1.29
7	Aldi	grocery	1.28
8	Ikea	furniture	1.27
9	Specsavers Optical Group	opticians	0.79
10	Harrods Holdings	department stores	0.75

under two different entities as the takeover of the first retailer by the second took place in the beginning of the exercise. Kingfisher is still scaling back in this ranking and does not appear among the top ten because of its divestments.

For years, Littlewoods stood as the largest privately-owned retailer. But the gap widened on Arcadia as it bought the mail order business of GUS. The charismatic Philip Green owns two separate firms, Bhs and Arcadia. In the current global world, several of these firms belong to foreigners. Domestic firms including Wilkinson and Specsavers are two expanding chains.

## NORTH AMERICA

### UNITED STATES

#### Kmart merger with Sears or the takeover of a "Grande Dame" by the former discount King.

Fourteen years ago, both firms were major actors of the U.S. retail scene. As they became fragile, they decided to merge in order to better face competition led by Wal-Mart and specialty stores. This \$ 11.5 billion-operation gives birth to a new group, Sears Holding, sitting in the Top Three of the American retailers behind Wal-Mart and Home Depot with 3,500 stores (including 1,500 Kmart) and \$ 55 billion in sales. It was largely boosted by Edward Lampert, the billionaire magnate of the ESL hedge fund and majority shareholder holding 52.6% of Kmart and 14.6% of Sears. Lampert has declared that he will push the new company to operate differently than most retailers focusing on long-term profit growth rather than quarter-to-quarter growth. Both brands will be maintained.

Sears is a flagship brand of the American department stores. It was the first retailer believing in suburban development, to promote credit, a pioneer in the sale by telephone, late-store openings, self-service and use of computers. Richard Warren Sears, a 23-year old man and a Minnesota-railway sales agent who sold watches, founded it in 1886. In 1896, he launched the first general merchandise catalog

and opened his first store in 1925 in Chicago... But Sears image has tarnished as it suffered from the discount competition led by Kmart and specialty chains.

Above all, it suffered from its proud managers who were persuaded they were the best.

In 1962, S.S.Kresge opened its first discount Kmart. Success was great. In 1969, there were 250 Kmart stores in operation with sales above one million dollars at the time. Kresge, which was on the verge going bankrupt a few years earlier, was in 1970 the largest operator of self-service discount stores in the U.S.A. In 1989, its sales exceeded Sears's sales but in 1990, both groups were suffering from Wal-Mart's competition. Kmart was placed under Chapter XI protection early 2002 and had to close 600 stores to keep 1,500 only. It was able to exit the bankruptcy court in May 2003 and in March 2004 it published its first profitable quarter in three years. During the past summer, Sears has bought 54 Kmart discounts for \$ 621 million.

Kmart has posted a net profit of \$ 553 million in the quarter to end of October compared to a \$ 23 million-loss in the same period one year ago on total sales to 4.4 billion from 5.1 billion, a 13.7% decrease. Sales at stores opened at least one year fell 12.8%.

The combined Sears Holdings expects to make the supply chain efficient, promote own-brands, negotiate better prices from manufacturers and pass the cost savings on to American consumers (\$ 500 million synergies could thus be obtained). Sears could also continue going off malls and develop free-standing units surrounded by large parking lots.

Several hundreds of off-mall Kmarts should be converted to Sears Grand, the chain's new developing format of approximately 15,000 sq.m, which looks like a discount store or a hypermarket rather than a department store.

#### Wal-Mart : growth plan for 2005.

store type	total count end 04	units to be added in 2005	estim. number end of 05
Supercenters	1,713	240-250	1,963
Discounts	1,365	40-45	1,240
Sam's Clubs	549	30-40	564
International	1,487	155-165	1,650
Neighborhood Markets	76	25-30	101

Source : DSN

In 2005, Wal-Mart will invest \$ 14 billion to build about 500 new stores totaling 5 new million sq.m and will increase its selling area by 8% to 60 million sq.m. They will be mainly supercenters : 160 will be relocation or expansion of existing discounts. Focus will also be on overseas expansion with about 155-165 new units in the existing markets, i-e 10 countries : Argentina, Brazil, Canada, China, Germany, Mexico, Porto Rico, South Korea, United Kingdom and Japan through Seiyu.

#### Burger King : how to stop the decline ?

For fifty years, the chain had been a jewel of the aggressive burger companies as the second-largest chain. As a branch of the Diageo PLC, it began suffering because the liquor manufacturer was more concentrated on the promotion of its Guinness beer, Smirnoff vodka and other brands. Between 2000 and 2002, Burger King's profits slid by 21% to \$ 288 million and its hamburger market share slid from 18.5% in 2001 to 15.6% in 2003. Since it was bought by Texas Pacific Group and two other investors at the end of 2002 for \$ 1.5 billion, sales and profits continued to fall because of a poor menu and dirty restaurants according to analysts. Currently, it is on the verge to be overtaken by Wendy's.

In such a context, a new president and ceo, Gregory D.Brenneman was appointed in July. As a former consultant from Bain, he has the reputation to put firms on their feet.

In ninety days, this new ceo has had just time enough to launch a turnaround plan of the chain, which had already introduced low-calorie salads and a veggie burger in his menus. To increase its breakfast sales, his teams have finalized the Enormous Omelette Sandwich to be developed in 2005, a sandwich →

made of four layers of egg, sausage and cheese. Brennenman expects also to buy back some restaurants from franchisees to give the parent company a greater control over fast food menus and decoration. He also tries to find new means to lower startup costs from \$ 1 million to 600,000 for every new unit. Hence an optimism renewal among the 1,200 franchisees.

Source : Business Week

## ASIA

### CHINA

#### **Hong Kong : a mixed-use complex is being built in Union Square, Kong Kong hub, occupying 1.2 million sq.m**

Several components include :  
- "Elements", a shopping center occupying 93,000 sq.m and two levels, is due to be completed by 2006. It is designed by Benoy, which realized Blue Water in U.K and will be based around the theme of nature and zoned according to the five elements : metal, wood, water, fire and earth. On its roof, there will be a landscaped-oasis of 70,000 sq.m.

The metal zone will group world-class shopping and dining, wood health and beauty boutiques, lifestyle stores, water local and international cuisine, fire entertainment and earth international trendy fashion. It represents an investment of US\$ 10 billion.

- a 105-storey tower with 6,000 luxury apartments and services,
- 245,000 sq.m for premium offices space,
- 1,100 five-to-six star-hotel rooms in the Tall Tower, the world's future tall tower,
- developers : MTR, a Hong Kong transportation and real estate leading firm with sales of US\$ 975 million, in cooperation with four other partners.

6,000 families will occupy the luxury apartments of Union Square and 30,000 executives will live and work in that complex. Union Square is a cross border coach terminus and serves as a gateway for the tourists from mainland China and the international Hong Kong

airport. It will be the Kowloon terminus for the railway to Disneyland whose phase 1 is due to be completed in 2005.

In 2003, 6.8 million inhabitants lived in Hong Kong with US\$ 23,100 revenues per capita, Asia's third highest GDP. Consumer spending is as high as US\$ 772 per person.

#### **B&Q aims 80 stores in China by 2009. The French Leroy Merlin opens its first store in Beijing and Obi in Shenzhen.**

Europe's largest DIY chain, that entered the Chinese market in 1999 while opening its first store in Shanghai, tries to speed its presence. It plans to run 80 outlets in 30 main cities including 13 within one year according to David Wei, B&Q China Region president. So far, B&Q operates 20 units in 11 cities including Shanghai, Beijing, Guangzhou, Shenzhen, Nanjing... In the first half, their sales grew by 76.2% and profits by 400%. An investment of US\$ 2.4 million is announced to improve logistics this year.

B&Q China president thinks that China has become one of the world's largest building material consumer. However, most of these products are now sold by small retailers.

#### **The French Leroy Merlin, a branch of the Auchan Group, has opened its first store in China on November 27<sup>th</sup>.**

France's largest DIY chain has opened a pilot store occupying 9,000 sq.m in a three-level shopping center in the suburbs of the Chinese capital. The other anchor is the second Beijing's Auchan hypermarket with 11,000 sq.m, opened the same day. Both are located in a region in full expansion with middle and low-income households, owners of their housing.

To achieve the DIY store, opened everyday except one from 9 am to 10 pm, Leroy Merlin signed a partnership agreement with the local company, Yushang, a former Beijing's largest retailer. It stresses decoration and offers very low-priced products. In this country, lodgings are delivered concrete rough without equipment and new owners spend on average € 80 per

sq.m a year to equip them. A second Leroy Merlin store is planned for the beginning of 2006.

#### **Obi will open stores in the south of the country, in the province of Guangdong.**

The building materials and DIY retailer is expected to open stores in Shenzhen and invest US\$ 60 million. It has already opened in ten Chinese markets.

#### **Spar enters the Chinese and Indian markets.**

Spar International, the world's largest association of voluntary trading retail food stores, has recently been designated by the Chinese government to propose its franchise to local independent retailers on a voluntary basis and contribute to protect the independent food retail retailers in view of the opening up of trade with China in December 2004.

Spar International has signed a license agreement with the Chinese retailer, Jia Jia Yue Supermarket Co, in Shandong province, eastern China. According to this agreement, 15 Interspar hypermarkets and supermarkets will be opened in this province within the next three years. Spar owns 15,084 stores in 34 countries and 4 continents under four various formats -convenience stores, supermarkets, large supermarkets and hypermarkets-through license agreements. Spar International is responsible for Spar development.

In addition, Spar signed a licence agreement with the Indian food chain **Radhakrishna Foodland Pvt Ltd**. Accordingly, the Spar brand will be introduced in the country. Thus, small independent food retailers will be allowed to have access to assistance in the marketing and merchandising fields, store renovation, employee training, point of sales equipment and supply of most of their products from a single retail platform.

#### **Wal-Mart imports from China affect markets.**

Wal-Mart's purchases of goods made in China are so important that they influence the international monetary policy in some way, a →

unique situation in the business world.

Wal-Mart by itself accounts for more than 10% of all American imports, which would rank it in the 8<sup>th</sup> position in the top ten trading partners of China ahead of Russia and United Kingdom. As it does not export anything, these large-scale imports contribute to wide the US commercial gap. Now, USA will achieve a trade deficit in excess of \$ 600 billion this year, including 150 billion with China or almost 6% of GNP.

According to a spokeswoman from the giant's headquarters, it imported \$ 15 billion in merchandise from China in 2003/4 : 7.5 directly and 7.5 through its suppliers. Meanwhile, its total net sales were 256 billion including 209 billion coming from the domestic operations.

The situation lies in the heart of the controversy over the U.S trade balance deficit and the peg of the Chinese currency to the US dollar. It begins with consumers, always bargain-hunters of the best price, who buy toys, electronic games and apparel. For every dollar of merchandise that U.S exports to China, the U.S imports \$ 6.50 in Chinese merchandise. In the end, the Beijing's central bank had reserves of \$ 514.5 billion at the end of September.

Source : The Wall Street Journal

## JAPAN

### Wal-Mart, Ito-Yokado, Aeon and Izumiya bid for Carrefour's hypermarkets.

Three Japanese retailers and Wal-Mart have placed competing bids to buy the 8 Carrefour hypermarkets valuing them at more than \$ 300 million (€ 226 million). The world's second largest retailer has refused to comment he would sell them and retire from Japan while it did not unveil its 2005 investment plan for the country...

Aeon is the largest Japanese supermarket chain by sales (\$ 32,26 billion), ahead of Ito Yokado (\$ 32,23 billion). Izumiya is a smaller general merchandise retailer, all of them refused to comment their bid. Wal-Mart has only one supercenter in the

archipelago and slowly renovates the 400 stores of its partner Seiyu.

These retailers are motivated by the fact that Carrefour occupies huge pieces of real estate and that in this country it takes many years to put together parcels of land to have a big space and open huge stores such as Carrefour hypermarkets.

### Seiyu : Wal-Mart increases its stake in the capital of its Japanese partner.

The Japanese supermarket operator will issue new shares to Wal-Mart and other investors, a decision taken in partnership with them. With it, the American retail giant will increase its stake from 37.08% to 37.31%. In addition, it has an option to increase this to 51% by December 2005 and 67% by December 2007.

### Daiei will ask help from the founder Isao Nakauchi and his family.

As the company is struggling, refused help from Wal-Mart and was forced to turn to the State-backed Revitalization Corp of Japan, Japan's third largest retailer is asking Isao Nakauchi and his family to sell personal assets including real estate and shares. Actually, they own houses and land in expensive residential districts of Tokyo and Ashiya. However these funds may risk being insufficient for its debt remains colossal (US\$ 9.7 billion).

A similar plan was already considered in 2002. At that time, its main banks had decided to offer their financial assistance to Daiei. But facts did not materialize as Nakauchi took his responsibility when he resigned from his position and returned his retirement benefits of 2 billion yen.

## KOREA

### Food discount expansion.

Five Korean retailers including E-Mart, Lotte Mart, HomePlus, Carrefour and Wal-Mart plan to add up to 30 new discount outlets in 2005 which will bring the total count to 200 next year from 184 this year. They opened 20 in 2004 fewer than the 30 initially expected due to a decreasing domestic consumption.

**E-Mart**, Korea's largest retailer, plans to set up 12 new food stores next year after 12 in 2004. Consequently, it will operate 71 units by end of this year including 2 in China (Shanghai) and 1 in Andong (South Korea). It could earn US\$ 342 million on sales of US\$ 6.45 billion in 2004 from 5.7 billion in 2003. By 2007, E-Mart anticipates to operate 120 stores in South Korea and 10 overseas, mainly in China.

**Lotte Mart**, the discount branch of the Lotte Group, the nation's second largest retailer operating 35 stores, plans to add 8 new units next year compared to six in 2004.

**HomePlus**, a subsidiary of Samsung Group, has opened 3 units in 2004 and plans to open 7 to 10 more in 2005.

**Carrefour Korea** : it now operates 27 hypermarkets in the country and expects to add three outlets in the second half of 2005, investing \$ 254 million, and at least five in 2006 mainly in Seoul because of its potential. The retailer recently designated Korea and China as the most attractive investment destinations in Asia.

**Wal-Mart** has not unveiled any project. ■

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