

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

JANUARY 2005 - Volume VII - N°60

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a monthly publication (11 issues per year)

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Subscription:

France 500.00 € (VAT incl. 5.5%)

Foreign 510.00 €

Siret : B418 771 481 000 11

EUROPE

Retail investments in Continental Europe.

Volumes invested in shopping centers could exceed the € 6 billion record for the first time in 2004 according to CB Richard Ellis. In the first three quarters of 2004, volumes of 4.3 billion were already reached compared with 5.8 billion for the whole year 2003.

A part of this volume increase is fueled by the activity in Central Europe. Thus, Poland will culminate this year with € 1 billion from 100 million in 2003. This is partly due to the acquisition of the Polish MI hypermarket chain by Apollo Real Estate Advisor. The creation of funds also stimulated volumes of property firms such as Sonae Immobiliaria.

It is the second year that volumes invested in Continental Europe will exceed volumes invested in United Kingdom : in 2003, they reached 3.7 billion compared with 3.4 billion in U-K.

Investors attracted by large shopping centers.

Investors are ready to pay a premium price for shopping centers exceeding 75,000 sq.m whose net average yield was 5.4% in 2003 compared with 7.6% for smaller centers of 2,000 sq.m or less according to the European Shopping Center Digest launched recently by CB Richard Ellis. This Digest shows data from more than 1,000 shopping centers in 11 European countries whose total capital value reached € 52 billion at the end of 2003.

Shopping centers were the best performing property sector across Europe last year : Ireland had the best total returns at 24.1% followed by United Kingdom at 15.5% and Norway 13%. The lowest returns were to be found in Sweden and in Switzerland with respectively 6.7% and 7.8%.

Rodamco Europe acquired its 11th shopping center in Sweden.

The property investment and management company in the retail sector in Europe has bought Väsby Centrum in the northern suburbs of Stockholm from Doughty Hanson & Co European Real Estate Fund for € 70 million. It also took over its management from December.

This 40,000 sq.m complex of total leasable area has a net initial yield of 6.9%. It includes a 20,000 sq.m shopping center with 60 shops (H&M, Intersport...), a post office, banks, a pharmacy and a travel agency. It includes also 6,000 sq.m of office premises, 5,000 sq.m of senior citizens' residences and a health center of 6,000 sq.m. The occupancy rate is 98% and there are 3.5 million visitors a year.

Bouwfonds has acquired all shares in Mab Group.

Bouwfonds and Hofima, the former owner of Mab, reached agreement on the takeover of Mab. This merger creates the largest developer in the Netherlands in the field of commercial property and integrated urban projects. It creates also the largest provider of residential property in this country.

As for the development operations in which Mab and Bouwfonds were already co-developers such as Ode in Amsterdam, Hoch Vier in Frankfurt and Domus in Rosny-sous-Bois (France), Bouwfonds Property Development will acquire the stake held by Bouwfonds Property Finance.

FRANCE

Manufacturers and retailers did not agree on the 2005 price negotiations.

Second part of the June 17th agreement, under the French Finance

Minister Nicolas Sarkozy, failed mid-December. Retailers had accepted to support a 1% reduction of national brand prices from January 1st, 2005 in exchange of "a commitment by manufacturers to moderate tariffs" following a 2% decrease divided between retailers and manufacturers last September.

In fact, retailers were asking for a price freeze while manufacturers promised "a tariff increase below inflation in spite of the exceptional price increase of certain raw materials." Large retailers, members of FCD, proposed a proportional reduction of their "back margins" for every price increase between 0% and 1%. Representatives of manufacturers estimated that it was not sufficient.

Henceforth, retailers hope to negotiate with manufacturers who are ready to enforce the price decrease. However all participants admit that the price decrease had no impact on volumes and all claim a reform of the retail law.

Galerias Lafayette : Banque Fédérative du Crédit Mutuel (BFCM) has bought a 15.64% stake in the capital of the department store Group.

The bank that owns also 10.01% of the voting rights declared it has the possibility to grow to 20% of the capital. It does not "want to take the control but to build a partnership". Its decision was motivated by "its trust in the Group's strategy and development". The bank would like to have two seats at the supervisory board during the next annual general meeting in May 2005.

Galerias Lafayette qualify the manner in which BFCM has purchased its stake as "totally unusual and hostile". Moreover, the Group has wished to ask the Market authorities to "check and analyze the situation."

The family-owned group controls 61% of the capital and 76% of the voting rights. Both Meyer and Moulin families are at parity and both branches succeeded one another at the Group's head. When

Georges Meyer died in 1998, the position was divided into two heads, Philippe Houzé, Monoprix's CEO, and Philippe Lemoine, Cofinoga's CEO.

Cofinoga, consumer credit subsidiary of the group, might have motivated BFCM's strategy as it has € 10 billion in outstanding discounted bills compared to 1.09 billion only for the bank in 2003, far away from its bank competitors.

Recently, the French department store group has announced that in 2007 it will open a new urban unit in Lille occupying 15,500 sq.m and 4 levels. In addition, it tries to acquire the Rinascente department store and Upim variety store branches of the Italian Group and has offered € 800 million in partnership with Redevco Real Estate.

GERMANY

Shopping centers : their number increased by 15 new units bringing the total count to 352 on January 1st, 2004.

year on 01/01	shopping center count	total area in sq.m	average area per center in sq.m
1965	2	68,000	34,000
1970	14	458,800	32,800
1975	50	1 545,000	30,900
1980	65	1 956,500	30,100
1985	81	2 413,800	29,800
1990	93	2 780,700	29,900
1995	179	6 019,500	33,600
1998	249	8 453,500	34,000
2000	279	9 212,200	33,000
2001	300	9 712,000	32,400
2002	318	10 121,300	31,800
2003	338	10 670,740	31,600
2004	352	11 101,400	31,550

Source : EHI/stores+shops

After the reunification, activity was very intense during the 1990-2000 decade as the shopping center number grew from 93 to 300. Since the new millennium, this number has still increased by 15 to 20 new units a year : 18 in 2001, 20 in 2002 and 15 in 2003. On January 1st, 2004 there were 352 centers in operation in the whole federal republic. However, the average area is regularly decreasing from 34,000 sq.m in 1998 to 31,550 sq.m currently. It is probably because new centers settle again in inner cities : so, in the 15 centers opened in 2003,

7 were urban centers. 5 were located in Bavaria and 3 in Berlin. According to statistics published by the federal state, the North Rhine-Westphalia region is the leader not only by the number but also by the area. Saxony and Bavaria are coming next. In all, these fifteen new centers have added 388,000 sq.m bringing the total to the current 11.1 million sq.m.

As for 2004, 12 were planned before the end of the year. Another 25 are expected for 2005. In the end, approximately 70 centers over 2.2 million sq.m should be created by 2007. 15 will be located in the North Rhine-Westphalia, in Berlin and in Bade-Württemberg, ten more are in the pipeline. Meanwhile the expansion rate in the new States has sharply decreased. Thus, over the next years, seven new centers only are expected to be opened in Eastern Germany.

Of the 352 centers opened on January 1st 2004, 190 were operated by the 14 largest management companies. They accounted for an excess of 5.3 million sq.m, and 59.3% of the total area of all centers. In the Top Two ranks, ECE with 61 large shopping centers, almost 1.7 million sq.m of rental area and a market share of 18.9% and MRE (Metro Real Estate) with 32 centers occupying 995,000 sq.m and a market share of 11.1%.

Aldi will introduce a debit card this spring 2005.

From April 1st, customers of Aldi North will be able to pay for their purchases by debit card instead of cash. Aldi South will follow "soon after". This strategy was chosen as it is expected to regain sales and as customers have been asking for it for a long time.

Card specialists think it is unli- →

kely that this new payment system will be introduced in all Aldi hard discount stores of Germany the same day. The operation should be done region by region just as Lidl did.

Observers believe that receipts will increase sharply with this new system as payments by card are generally much higher than those of cash.

Aldi North and Aldi South will use the Chip & Pin system, called EC-Cash in Germany, while most food retailers prefer the debit system with signature. The bank handling fee is as high as 0.3% of the registered turnover.

ITALY

The Mills Corporation will build a shopping and leisure center in the heart of Rome in the former premises of Mercati Generali.

This 77,110 sq.m scheme is located in the vicinity of the Forum and Coliseum, two kilometers outside the perimeter of the ancient Rome. It will be the first re-use of a historical site in the Italian capital. For this second scheme in Europe, whose construction is to start in late 2005, The Mills is working with five local partners.

This former food market will feature three distinct zones including "Large Mediatheque" with a bookstore, a public research center and a library, the "City of Tastes" with restaurants and markets; "Modern Baths" will be the entertainment area with health clubs and water sports.

The Mills beat several other candidates including the French Altea and Ségécé and Realty Partners from Italy. Its first European scheme, Xanadu, opened in Spain (Madrid) in May 2003, is a 130,000 sq.m shopping and entertainment complex.

The Mills international division seeks to purchase assets and to speed its expansion rate in Europe, mainly in France, Germany and Eastern Europe, which might

include working with partners or exchanging assets.

U.S real estate investment trust The Mills (US\$ 4 billion market value) has become a retail pillar with 29 centers (3 million sq.m), which generate US\$ 6 billion of gross annual sales.

PORTUGAL

Retail investment program.

Food retailer **Jeronimo Martins** expects to invest € 270 million to continue renovating its hypermarkets and add 50 new stores over 2007 including 25 Pingo Doce supermarkets and 25 Feira Nova mall-based hypermarkets. It already announced it will invest another € 50 million to expand its Biedronka hard discount network in Poland : between 60 and 80 new units should be opened and 50 to 60 existing locations renovated.

The French Groupement des **Centres Leclerc**, which operates 12 supermarkets in Portugal, will invest € 250 million to expand to 36 units by 2008 and the other French independent group, **ITM** (Groupement des Mousquetaires), € 90 million to add 43 new supermarkets late 2005. **Carrefour**, Portugal's third largest food retailer, with 8 hypermarkets and 361 MiniPreço hard discounts, will invest 100 million in two new stores. Carrefour sold its 22.37% stake in Modelo Continente to the Portuguese Sonae mid November.

RUSSIA

Franchise can be a risky business in this country.

To open a franchise license costs \$ 6,000 but the average price falls to 50,000 and 100,000. However, a few foreign entrepreneurs only have become franchisors in Russia even if they have the same rights as Russians. The lack of clear legal basis to regulate the developing business may be one of the reasons, which prevents them to take risks. "There is a commercial concession law that governs franchising in Russia but there are no regulations that clarify how various agencies and organizations can apply this law. The tax authorities and banks

do not know how to treat franchisees and royalties are not defined" said a Russian representative of the Subway fast food chain. In addition, the lack of reliable statistics makes profit projections difficult.

American chains such as Subway fast foods or Baskin Robbins ice cream giant and other franchisors are already working in Russia with more than 3,000 franchisees. One of the world's largest cleaning franchisors, Jani-King, supplies a two week's training and other benefits in exchange of its royalty payments of 10% of the franchisee's monthly gross sales.

As a failure can have a huge negative impact on the whole brand, franchisors are cautious in granting a franchise license. They check all potential franchisees to put the maximum of risks away. In this type of activity, experience is necessary to open some franchise locations. Access to real estate is also important. So that franchisors in Russia study the context of potential franchisees in order to be sure that they will be able to manage such a business in a legal manner

Source : *The Moscow Times*

Ikea : Mega Mall II was opened in Khimki, on the northern limit of Moscow, on December 15 instead of December 2, for "security reasons"! New project in St.Petersburg.

Russian local authorities declared that Ikea had violated the law for technical reasons as the Swedish furniture giant did not remove a gas pipeline located under the mall parking lot. Ikea declared that it was a "sabotage."

In the end, Ikea accepted to better protect the gas pipeline in question and build a new off-ramp and bridge over the congested Shosse on which the complex is located. In addition, Ikea promised to donate US\$ 1 million to improve sports facilities in Khimki.

This 230,000 sq.m complex represents an investment of \$ 300 million. It includes 250 tenants among which a Finland's Stockmann →

department store (10,000 sq.m), Turkey's Boyner and a 12-screen multiplex. Sales are expected to hit \$ 3 million per day and soar to \$ 10 million over the Christmas period. The first Mega Mall, opened in late 2002, has more than 40 million customers per year and its sales is estimated at approximately \$ 500 million.

The Swedish retailer announced it will invest \$ 330 million (€ 250 million) to build a new Mega Mall in St.Petersburg around Ikea's furniture existing store. Currently, Ikea has 4 stores in Russia : 2 in Moscow, 1 in St.Petersburg and 1 in Kazan. A Mega Mall is being built in Kazan and should be completed in late 2005. Projects include a total of 5 to 6 stores in Moscow, 2 to 3 in St.Petersburg and 1 in every city with a population of more than one million inhabitants.

As Ingvar Kamprad, the founding president of Ikea, is highly appreciating the quality of the Russian raw materials (wood, plastic, textile), he plans to invest more than € 2 billion in this country to make it its main production pole.

Source : *The Moscow Times*

Bosco or the Russian luxury.

Mikhail Kusnirovich, ceo and president of Bosco di Ciliegi, who operates luxury stores, perfume shops, chic and trendy cafés and restaurants, bought a 50.25% stake in the famous Gum shopping center. Gum is in the Red Square of Moscow, next to the Kremlin. It was built in 1893 in 80,000 sq.m of space. The amount of the transaction paid by Kusnirovich was not disclosed but he acquired it from Perekryostok, the food chain of the Alfa Group conglomerate, which owned 70/75% of the capital since 2002.

For ten years, Kusnirovich rented space for Louis Vuitton and Moschino boutiques in Gum. Starting with 540 sq.m, it currently occupies 5,000 sq.m. The rent was so high that he decided to buy a controlling stake in Gum. In 2005, international brands such as Sonia Rykiel, Zara and Dior will open shops there. A high-end Gum supermarket and a

Gum toy store will also be opened, their development being limited to the shopping center.

Kusnirovich owns and operates 56 boutiques in Moscow, St.Petersburg, Samara and Novosibirsk under the Max Mara, Moschino, Etro, La Perla, Kenzo, Bosco and Bosco Sport brands... He has annual revenues of € 250 million and three million customers visit its stores a year. Average rents of Moscow prime space are about € 3,230 per sq.m and his stores do more than 5,900 to cover them.

By buying Gum, Bosco became owner of 24 retail buildings, totalizing 160,000 sq.m and valued at € 200 million. He expects to sell part of them and to rent the others. He knows how to build a luxury image through advertising and marketing in Russian newspapers and billboards, which he uses with talent. As a proof, he sponsored and outfitted the Russian Olympic team with the Bosco logos for the games in Salt Lake City and Athens. He will also sponsor future Russian Olympic teams.

According to government statistics, Russian consumer spending grew to € 146 billion in 2003 from 121 billion in 2002 and Moscow has become the target of the luxury market customers. For the past years, luxury mega firms appeared, including Bosco di Ciliegi, and luxury centers were built.

Kusnirovich started his company in 1993 with a few college friends. "In Soviet Russia, we had a dream. Maybe most of us don't want to remember anymore. But we had a dream about blue jeans, sneakers and lipstick..."

Source : *Women's Wear Daily*

UNITED KINGDOM

Retail sector interesting for mergers.

Sainsbury supermarkets, electronics retailer Dixons Group as well as the discount apparel chain Matalan are potential takeover targets according to investment bankers. Other retailers were also approached, but without success,

such as Marks & Spencer and the bookseller W.H. Smith. To a large extent, the phenomenon is driven by easy money from banks. According to analysts at Lehman, loans granted for takeover bids were above € 35 billion in the first half 2004, or up more than a third compared to the same period one year earlier. Deutsche Bank maintains that there were more buyout approaches in U.K in the past two years than in ten years combined.

However, many retailers, currently considered as potential targets, meet difficulties. It is partly due to the fact they lease rather than own. It is the case of Boots Group, often mentioned but put aside as it leases a great part of its stores.

Pension funds are also presenting growing difficulties. In the beginning of 2004, Permira gave up its buyout of W.H. Smith as pension fund representatives insisted that it pours £ 150 million (€ 218 million) in the company to cover benefits promised to the company's retirees. Philip Green was in the same situation as he approached Marks & Spencer and was driven away for the second time.

Source : *The Wall Street Journal*

NORTH AMERICA

UNITED STATES

Average size of new supermarkets shrinks.

Average size decreased below 3,600 sq.m in 2003 for the first time in ten years according to the Food Marketing Institute because of a strong increase in the supermarket number that targets specific markets such as organic, ethic and gourmet foods.

New supermarket construction fell for the fourth year in a row : 3.1% of all supermarkets were built in 2003. 2.7% of them closed compared to 2.5% in 2002. 4.9% were renovated down from 7% in 2002.

These figures were drawn from a survey by FMI mailed to its members. 710 companies answered →

GLOBAL RETAIL SECTOR

Implications and challenges.

Global leading retailers excel in choosing the right merchandise adapted to consumers needs, operating right locations and managing stores efficiently. Less good retailers concentrate their time and energy on their restructuring to position themselves often at high cost and repeatedly. The first category know how to adapt rapidly to changing conditions, trends and tastes of the market.

United States dominates this ranking of global retailers in 2003. However challenges emerge there such as interest rate growth, job creation slowdown and gas price rise. Most of the retailers in these countries now realize that part of their future expansion will be done outside the American continent.

Top 30 global retailers in 2003

rank	company	sales (US\$ million)	country
1	Wal-Mart	258 681,0	USA
2	Carrefour	79 653,0	France
3	The Home Depot	64 816,0	USA
4	Royal Ahold	63 359,7	Netherlands
5	Metro AG	60 565,1	Germany
6	Kroger Co	53 791,0	USA
7	Tesco PLC	50 342,8	U-K
8	Target Corp	48 163,0	USA
9	Rewe Group	44 275,4	Germany
10	ITM (Spar incl.)	43 394,0	France
11	Costco Wholesale Corp	42 546,0	USA
12	Sears, Roebuck and Co	41 124,0	USA
13	Aldi Group*	36 000,0	Germany
14	Safeway Inc	35 552,7	USA
15	Albertson's Inc	35 436,0	USA
16	Ito Yokado (7-Eleven incl)	33 854,1	Japan
17	Walgreen Co	32 505,4	USA
18	Auchan	32 439,3	France
19	Lowe's Cos	30 838,0	USA
20	E.Leclerc	30 737,4	France
21	Aeon Co	30 602,8	Japan
22	Tengelmann (Great A&P incl)	30 282,4	Germany
23	Schwarz Group (Lidl & Schwarz incl)*	29 000,0	Germany
24	J.Sainsbury PLC	28 004,4	U-K
25	PPR	27 529,0	France
26	Foncière Euris (Rallye, Laurus incl)	26 964,2	France
27	CVS Corp	26 588,0	USA
28	Best Buy Co	24 547,0	USA
29	Kmart Holding Corp	23 253,0	USA
30	Delhaize Group	21 628,1	Belgium

Source : Ernst & Young research and reported figures, * estimations

The leading performers.

Many retailers in expansion emerge in this 2003 ranking. For example, the U.S.-based Nordstrom is capitalizing on technology to improve its inventory and generate higher margins and profitability. While its

focus has always been on customer service, it embarked on technology in order to better manage its inventories and understand the market trends. These systems can determine the size and color popularity of different items and determine markdown forecasts to maintain merchandise in shelves and ease replenishment.

Meanwhile, Tesco evolved from a traditional supermarket chain into a more rapidly growing retailer. In addition to a 35% stake in Groceryworks.com of Safeway, it now operates various formats including convenience stores, small gas shops (Tesco Express), small urban stores (Tesco Metro) and hypermarkets (Tesco Extra).

Tesco's international empire breakdown.

country	store count	sales excl. VAT £ (m)
U.K (*)	1 909	12,079
South Korea	30	751
Ireland Rep. (*)	85	569
Thailand	84	473
Hungary	62	400
Poland	70	297
Czech Rep.	22	164
Slovakia	26	137
Japan	77	116
Turkey	5	62
Taiwan	4	55
Malaysia	5	40
China	50% of 25 store joint venture	

*six months to August 14, all other international sales data six months to June 30

The composition of the Top Ten performing retailers has not changed much for the past five years (1998-2003). However, rankings have changed with acquisitions, divestitures, organic growth and operating challenges. As in 1998, Wal-Mart is still the world's largest retailer. Carrefour rose from the fifth rank in 1998 to the second through its worldwide expansion and merger with Promodès. The Home Depot grew from 8th to 3rd place thanks to its program of new store openings, store modernization, use of information technology while operating a great current trend, DIY and home-improvement. However, Sears was down from third to 12th position.

The less performing retailers.

Size is not a guarantee of success. In the first ranks of the Top 100 global retailers, Kmart is to be found. His importance has been decreasing as store closures and difficulties in attracting customers have eroded its sales. Sears, on the verge to merge with Kmart, is making sales again in 2004 since it sold its credit card business. Its new concept, Sears Grand, is promising but a large part of its turnaround depends of this strategy implementation.

Accounting problems of Royal Ahold have hampered its performance and the retailer continues its divestiture program hence a decline in the future 2005 ranking for it gave up its non-core strategic operations such as Spain (*read the enclosed article*). Karstadt is in a similar position while divesting 77 department stores to increase its sales.

Worldwide macroeconomic factors.

In spite of a modest rate, *inflation* has become one concern. A low demand and a strong competition make the price growth difficult without risking a loss of market share.

Foreign exchange rates can impact sales also. In 2003, the U.S dollar continued decreasing compared to the strong currencies such as euro and yen. Its weakness was a positive factor for American retailers who operate stores abroad but it was the contrary for those, present in the American continent, who had to bring their dollars into Europe or Japan. Most among them protected themselves against currency fluctuations, which help them to control variations of stock costs. However, evolution towards a global supply chain can raise new concerns such as the collapse of weak economies as in Argentina and Brazil.

SARS, Mad Cow disease, hurricanes, wars and terrorism impact the retail sector also. They present risks to the supply chain but may also test its integrity and flexibility.

United States and European trends. In the first half 2004, retail sales were high but they could slowdown during the rest of the year due to the gas cost rise, low job creations and high consumer-debt level. Retailers control their inventories rightly and have good liquidity but a downturn in the consumer spending might force them to be more promotional.

The E.U, compared to the U.S. and Japan, enjoys a slow economic growth even if the rate varies from one region to another. The level of disposable revenues was also affected by a low job creation, high taxes and thin wage increases. Wise retailers have expanded beyond their domestic homes for a certain time, as they were conscious of a low birth rate in the mature countries.

(Russia) and in China will continue as economies of these regions and these nations are improving.

In Japan, improvement signs continue emerging after many deflation years. Banks have been reluctant to write off bad loans, which might push companies to go bankrupt. Daiei has been in a delicate situation for a recent period. Last October, the retailer was compelled to ask for the government's help while large creditor banks have already supplied it with a substantial financial help in 2001 and 2002.

The retail sector continues evolving.

In the United States, consolidation in department stores, supermarkets and discount stores was significant especially towards the end of the Nineties. In Australia, new retailers are entering the apparel market while two eminent chains of department stores still own more than 80% of it.

Similar situations exist in Switzerland and Netherlands. In Japan, however, the retail sector is still dominated by relatively small-sized stores but discount store chains are expanding as the archipelago consumers are more price and value conscious.

It is noticeable that limits between different sectors of the retail trade tend to disappear : competition in certain countries is so intense that some retailers try to enter new sectors in order to expand. The best example is to be found in the growth of store types selling food in the United States and Canada : in addition to traditional supermarkets, food is now sold in supercenters, membership warehouse stores, "Dollar" stores and drugstores.

In the U.S.A, most of the retailers focus on a single retail sector. J.C.Penney sold its Eckerd drugstore chain to The Jean Coutu Group and CVS in 2004. Target, third largest discount chain, sold Mervyn's and Marshall Field. Outside of the U.S.A, retailers are more diversified and operate many retail formats to expand in their home markets. This strategy can also contribute to globalization as these formats can be exported.

Global expansion. Through deregulation, some large retailers have been able to strengthen their expansion and many of them opened stores or bought assets in Japan. Global expansion is happening in emerging countries of Southeast Asia, in China and Latin America as in the industrialized nations of Europe and Japan. Expansion in industrialized nations is generally through acquisitions, which contributes to strengthen retail consolidation. Discount is the world's most popular formula. However to export a store concept can be a challenge as modifications are generally necessary to adapt it to the cultural and regional differences and time to do it. Consequently, substantial financial means are necessary.

Opportunities to develop in Eastern Europe

The real use of *technology* allows the best promise

for retailers but it is not sufficient to buy it. For example, retailers can have access to more consumer data as ever but they may spend many efforts to gather and manage them instead of using them to increase their customer loyalty and sales. Leading retailers really adapt their business processes to technological progress : it is the case of Wal-Mart and Metro, which adopt Radio-Frequency Identification. In fact, RFID impact on retailers' and manufacturers' supply chains will be huge as, while eliminating superfluous costs, they will be able to spend more to gain market share.

Technology will contribute also to cut staff needs in the retail sector which is critical considering the low birthrate in many countries. In the American supermarkets, automatic checkouts have become common and they help retailers whose margins are decreasing to lower their costs.

Challenges, trends and risks.

Today retailers want to manage a profitable growth. They not only accept to test new concepts but they can better control their operations and their profit objectives are more stringent mainly under the shareholders' pressure. In addition, they know how to identify rapidly and correct under-performing assets. Those who are successful manage their risks efficiently.

As innovation has many shapes, the goal consists in identifying the market niches and the new consumer needs. Smaller retailers often know how to develop and perfect new concepts and ideas that can be later transplanted at a broader scale. Let us consider the Coach firm, too small to be included in the above-chart. It is a leather-goods specialty retailer with \$ 1.3 billion in annual sales. It succeeded in developing and gaining market shares while using several means : department stores, its own stores, Internet and catalogs and, in addition, it cautiously licenses its brand. Other retailers capitalize on market niches insufficiently served such as apparel for women of the Baby Boom Generation. Gap is thinking about catering to this market and creates a new brand to fill this gap.

Innovation is not limited only to smaller retailers who enter less mature segments. Retailers experiment more and more smaller prototypes that can be more easily adapted to targeted markets. The Home Depot has developed an urban concept that allows it to expand in highly populated zones such as Manhattan. It focuses on a new merchandise assortment and adapts its customer service to better attract shoppers.

Expansion can also be purely organic : in Europe, Aldi and Lidl or Wal-Mart, through Asda in United Kingdom, meet a great success.

Home brands and national brands. Historically, Europeans are more relying on home brands while national brands dominate in the U.S market.

However, changes are emerging and Americans are now developing their home brands at the expense of the national brands. Thanks to a home brand, a retailer can differentiate from competition and develop its image. He can also eliminate the middleman and consequently generate higher gross margins. However, this position is not without potential risks.

Future retail trends.

Demography is a concern. Historically, retailers are focused on younger consumers, mainly those between 18 and 35. However, older consumers are becoming more and more important due to the slowing birth rate and a greater longevity. While some maintain that these older consumers will be more affluent, it may not always be the case. American baby boomers may not have sufficient incomes to retire early and medical insurance costs might increase exponentially. However, they will be healthier and able to work longer. In that case, retailers have to think not only how to answer their needs but also how to hire them as potential employees.

Younger consumers have currently more money to spend and they influence their parents. Thus, in the U.S, the Generation Y (born at the end of the Eighties and in the beginning of the Nineties) has \$ 115 billion in their own disposable income. In addition, they influence their parents' purchases further \$ 600 billion in toys, books, magazines, music and video games.

Age is not the only important element. Ethnic groups and obesity generate new needs. In short, to remain or become a performing retailer, it is necessary to :

- adapt to a changing and competitive environment,
- know how to discover consumer trends and lifestyle trends,
- adopt and use the new technologies,
- maintain a solid financial basis,
- implement an expansion program abroad that has been deeply thought,
- implement new strategies and concepts.

It is urgent to maintain a relatively conservative financial position with a significant liquidity. ■

Source : Chain Store Age Executive

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE,

a monthly newsletter, 11 issues a year,

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

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SPECIAL STUDIES

Global retail opportunities : the most interesting markets.

Asia, led by China, dominates the ranking of the 33 global largest retail markets. Europe lags : United Kingdom, Spain and Russia are exceptions among Western, Central and Eastern European countries. Low risks but better expansion prospects emerge in North America. In Latin America, Argentina, Mexico, Brazil and Chile are at the bottom of the ranking because of their poor expansion prospects compared with other countries.

Global retail opportunity ranking.

rank	country
1	China
2	United Kingdom
3	Thailand
4	Russia
5	Spain
6	Vietnam
7	U.S.A
8	Canada
9	Taiwan
10	Malaysia

Source : Retail Forward

The largest retail markets.

They always present interesting opportunities thanks to their size.

Retail sales by country excluding auto sales

rank	country	market size (US\$ bil) 2003
1	U.S.A	2,861
2	Japan	980
3	China	566
4	U.K	406
5	France	389
6	Germany	367
7	Italy	270
8	India	212
9	Russia	148
10	Spain	194
total Top Ten		6,394

In 2008, some changes will modify the retail landscape of these Top Ten markets :

- **China threatens Japan** : in 2008, China will sit behind Japan as the world's second largest retail market, almost doubling its current size and its retail sales will be in the US\$ 1 trillion in annual retail sales,

- **Russia is gaining strength** : the country is to appear among the Top Ten largest retail markets overtaking Spain to sit in the world's 9th rank and will double its size by 2008,

- **India is a fast developing market.** It is forecasted to approach Italy, a slow-growing retail market, by 2008 as India is liberalizing restrictions on foreign retail ownership,

- **other strong growth** outside China, Russia and India will occur in the large markets of the United States, United Kingdom and France that register variable expansion rates and will generate sizeable volume gains over the next five years.

The global retail market remains fragmented and unconsolidated as industry actors practice acquisitions, divestitures and restructurings to better classify themselves in face of an increasingly competitive and global retail environment. "Retailers everywhere must prepare themselves for a more acquisition-minded Wal-Mart" says Steve Spiwak, economist at Retail Forward. "Given the difficulty of organic growth around the world, Wal-Mart will need additional acquisitions in Europe and Asia to sustain its growth requirements. The continued expansion by Wal-Mart and other global retailers, such as the Carrefour Group, Tesco PLC and Metro AG and hard discounters, such as Aldi and Schwarz, will likely create more consolidation in retail markets around the world and force more retailers to look to global expansion for growth amid highly competitive domestic markets." ■

Source : Retail Forward, Inc

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(about one half of the respondents were independents), representing 12,212 stores or 46% of its total members.

Ahold agrees to sell Bi-Lo and Bruno's to Lone Star for \$ 660 million.

The transaction should be completed in the first quarter of 2005. It is still subject to antitrust approval and the final purchase price to customary price adjustments.

Bi-Lo and Bruno's are two supermarket chains in the Southeastern region of the United States with a combined store count of over 450 outlets and combined 2003 net sales of approximately € 4.7 billion.

"This divestment comes at the end of a year of transition for Ahold and marks a major milestone along our Road to Recovery" said Ahold President and CEO Anders Moberg. This strategy consists in optimizing its portfolio and strengthen its financial position by reducing its debt. In the U.S, focus will be on other prominent supermarket chains such as Stop & Shop, Giant-Landover and Giant Carlisle/Tops.

Lone Star Funds is a private investment company that manages more than \$ 13 billion in assets in North America, Europe and Asia.

As accounting irregularities appeared in its American Foodservice and Argentina Disco subsidiaries in the beginning of 2003, Ahold decided to sell its activities in Spain to Permira Funds and retire from Asia to cut its debt. In addition, it has just sold its Brazilian retail chain G.Barbosa (32 hypermarkets and supermarkets) to an affiliate of Acon Investments. It has sold 13 Polish hypermarkets to the French Carrefour and entered into an agreement to sell Disco to Chilean Cencosud, a momentarily stopped operation by the justice. In the third quarter, its loss still deepened to € 166 million.

Toys R Us : several investment funds and real estate specialists are interested in bidding for the global toy giant.

Last August, Toys R Us, that has

undertaken a restructuring plan for one year, announced the sale of some toy stores and 200 Babies R Us selling children's clothing and furniture, valued US\$ 3.5 billion compared to 4.3 for its mother-parent.

In fact, Toys R Us has been struggling for three years with the competitors Target and mainly Wal-Mart that has become the nation's largest toy retailer. Not only TRU toy market share decreased to 15% compared to 30% for both discount chains but its sales and profits were also down during the period. In the third quarter of the current exercise, sales were down 1.8% to \$ 2.21 billion including 1.15 for the toy branch alone. Anyhow, its loss was cut to 25 million from 46 million in the same period a year ago.

Recently, the European investment trust Permira has joined with its U.S rival Apollo to bid for the global Toys R Us operations. Kohlberg Kravis Roberts, Cerberus and Bain Capital, and US real estate specialists are also candidates. The investment CSFB Bank is about to bid for it after the crucial Christmas season.

Toys R US operates more than 1,260 stores worldwide including 680 in the U.S and more than 500 under license or franchise contracts in 29 other countries.

TRU is not the only toy chain to face the discount competition, KB Toys, Zany Brainy and FAO Schwarz are also victims.

FAO Schwarz in New York, an institution that dates back to 1862, is the world's most famous toy store. After a 10-month closure and under new ownership, the flagship reopened Thanksgiving Day. It recently unveiled its strategy of being more interactive, introducing attractions and an ice cream parlor and selling exclusive toys under its own brand or that cannot be found elsewhere such as a \$ 50,000 child-sized Ferrari or a 15,000 life-size elephant. It also decided to offer items with price tags that will not scare away the shopper, stressing the average

price at only \$ 20. This way, it can sell in the same time a Versace Barbie doll at \$ 130 and a Barbie Retro doll at 25.

According to Ernst & Young, the toy average price fell sharply by 21% in the past five years including 5 points in the twelve past months. It is not only the fact of the discount competition but it is also due to manufacturers that supply from Asia where production costs are less high.

Sears/Kmart merger: the operation should be finalized in March 2005.

As the Federal Trade Commission will have more time to examine the project of merger, candidates to bid for Sears might appear. Vornado Realty Trust, one of the large American real estate investment trusts, announced that it had bought a 4.3% stake in the capital of Sears early November. It could be joined by a new private trust or a retailer. If Vornado fails, another candidate could emerge. Another possibility is that Sears could offer Vornado real estate assets it wants in exchange for shares. In short, Vornado could obtain the best Sears locations if it gives up some or its entire ownership stake in Sears.

Steven Roth, at the head of Vornado Realty, won a reputation twenty-four years ago when he purchased the Two Guys discount stores. In the Fifties, the "Two Guys from Harrison" were the pioneers of discount. But, with years, mergers and restructuring plans, they no longer were real discounts and no longer profitable. In 1982, Roth closed the last units and turned them into a real estate company. He followed a similar strategy with Alexander's Inc. department store in New York. After he took control, he built a tower on the previous store site that houses condos, stores and Bloomberg News headquarters.

The Sears-Kmart deal is subject to critics from shareholders who argue that the operation is unfair and inequitable. Moreover, several Sears executives have already sold their shares, especially since the stock price has grown!

Nike, Reebok may face supply problems due to the tsunamis.

The devastating tsunamis that hit Southeast Asia could pose risks to sourcing for footwear and apparel companies : delays, product destruction, factory damage and workforce damage. In fact, Nike receives 43% of its footwear from Indonesia and Thailand and Reebok 36% from both countries.

Apparel sourcing is less vulnerable for it is less concentrated for both companies. Footwear is more concentrated as the top eight producer countries account for 90% of all global supplies. Apparel sourcing is very fragmented with less than 60% coming from the top ten producer countries worldwide.

Concentration continues among the shopping center developers : General Growth Properties celebrates its 50 years in business and acquires The Rouse Co.

This year, there were many consolidation operations, ranging from the acquisition by Simon's Property Group for \$ 4.8 billion of Chelsea Properties, the largest outlet shopping center developer, to Mills which spent more than 1 billion to buy a 50%-stake in nine shopping centers and to GGP \$ 766 million to buy Grand Canal Shoppes at the Venetian in Las Vegas.

The take-over transaction of Rouse brings GGP's portfolio to approximately 20 million of sq.m and to \$ 33 billion in equity and debt. This way, it is moving closer to Simon Properties, largest north-American developer with \$ 34 billion in debt and equity and as much sq.m.

While buying Rouse, GGP found a \$ 5.4 billion debt, 37 regional shopping centers and 6 mixed-use complexes of some 4 million sq.m. Tower Place in Chicago, Fashion Show Mall in Las Vegas, Faneuil Hall Marketplace in Boston are among its most prestigious properties...

Since 1993, GGP acquired for \$ 16 billion of assets and diversified its portfolio in urban centers, open-air projects and lifestyle centers -new

"downtown" centers occupying less than 20,000 sq.m and located in the suburbs. He then broke away from a 40-year's tradition and focus on traditional shopping centers. At a time, GGP had found a profitable formula while entering Middle America's small towns, which could afford one mall only and anchored by traditional department stores such as Penney and Sears. Henceforth, his future program includes the rapid development of "lifestyle" centers, the absorption of new employees and the reduction of its debt by assets divestment.

Currently, GGP has holdings in 21 of the 25 largest markets in 44 American States. He sees one part of his future in new retail formats launched by aggressive retailers such Abercrombie & Fitch and Gap and in the development of foreign chains, such as Zara and Mango, in the U.S. market.

Top three industry's actors are Simon, GGP and Westfield, all with about \$ 30 billion in total enterprise value, even though a third only of Westfield's activity is in the U.S.

Source : Women's Wear Daily

Walmart.com, Bestbuy.com and Target.com are excellent online retailers.

According to com.Score Networks data, which analyzes performance of the U.S Top twenty-five retailers, online consolidated spending grew by more than 50% in 2004 compared to the same period a year ago.

Four years after the Internet explosion, online retailing continues growing and 2004 should be a very good year : analysts at Forrester Research announce that sales will reach the record of \$ 145 billion or 7% of U.S. retail sales. However the rate has slowed, as it is a 26% gain compared with 38% and \$ 114 billion in 2003.

Changes are happening : at first, many big-box retailers have significantly improved their site those past years through a better visibility and a wider array of merchandise. They have also integrated all their channels, -the Internet, their stores, advertising,

marketing and catalogs and they also refined the product search on their sites making it more flexible for their customers. Sears Roebuck and Wal-Mart have seriously embraced the Net to find new markets, using their size to get better prices just as they do in their stores. Meanwhile, thousands of "niche" actors reach a national audience through Internet.

In fact, those past years, the growing sophistication of search methods and comparison-shopping sites have allowed online businesses to use cheap and efficient methods to market their products to millions of potential customers. Customers have only to type the product they are looking for into a search site and they immediately have the choice. But this means a wider network of suppliers.

For a long time, e- retailing has been dominated by a few online retailers such as Amazon, eBay and Lands'End. While they continue to register high growth rates, they face a new and stronger competition. They mainly are well-established retailers who lately came into the Net and are becoming increasingly clever. At Gap's Old Navy, they test plus-size women's underwear online, Wal-Mart uses its site to test the sale of merchandise different from those it is selling in its stores including such upscale categories as cashmere sweaters or plasma TV screens at \$ 6,000.

Smaller retailers are also enjoying the Internet manna. For several years, many among them have launched online stores under eBay. According to eBay, 430,000 Americans live totally or partly as eBay retailers from 150,000 in 2002.

Towards the end of the Nineties, pioneer online merchants spent millions of dollars on TV and radio advertising without success as they aimed the mass market. Today, advertising on search sites has changed everything so that online merchants pay Google or Yahoo! only when a customer clicks on this search advertising.

Thanks to Internet, online retailers can offer a wider array of →

merchandise than specialty retailers in their brick and mortar stores, as they do not have to keep it on their shelves. For example, eBags can present 12,000 bags online while 250 only are in stores.

It is too early to say how the Internet phenomenon will evolve as it promised a better choice, better prices and a greater customer satisfaction. The 24-hour availability, free-delivery popularity, in-store pick-ups, more realistic Web graphics and greater use of broadband connections should also contribute to fuel this expansion.

Source : Business Week

SOUTH AMERICA

ARGENTINA

Auchan will retire from Brazil.

The French Group Auchan has signed a preliminary agreement with the Spanish group San José, which includes negotiation exclusivity until January 31st, 2005 concerning the sale of 3 hypermarkets (€ 53 million in sales), 3 shopping galleries and other property assets. This operation could be finalized in the first quarter 2005.

Auchan opened its first hypermarket in Buenos Aires in December 1997. It had to freeze its development in this country due to the economic crisis in 2001. Its prospects being limited and the environment difficult, the Group cannot maintain a profitable presence in this market. Consequently, it will continue expanding, as already announced, in its preferred areas: South Europe including Morocco, Central and Eastern Europe and Asia. San José is a group specialized in building and real estate in Argentina.

ASIA

CHINA

Local and foreign retailers face the same problems in China.

According to a recent survey by ACNielsen, main concerns are the

following :

- an inefficient supply chain,
- high costs generated by staff turnover and other human resources issues,
- to know whether it is necessary to merge and/or acquire new business activities,
- the development of brand and customer loyalty.

The total number of modern stores in China had grown by 44% to 40,000 outlets at the end of 2003. They posted US\$ 16.2 billion in annual sales. These figures are based on a survey of the Chinese retailers excluding those in the rural zones, in Tibet and the autonomous regions of Xinjiang Uyger.

As the market size is huge, Chinese retail trade is very fragmented and diversified. Inefficient data systems, coupled with a skill lack in logistics management are huge obstacles to the development of a supply chain.

A high staff turnover rate, which is almost a universal concern, leads to a loss of know-how and high management and human resources costs.

Mergers and acquisitions have become more evident those past years. However, the question is about their efficiency as a growth vehicle. As, post-merger changes are not always positive for Chinese retailers according to this survey.

As domestic consumers are offered a greater choice of merchandise, they become more and more sophisticated. Now, develop, keep and make a brand grow is difficult taking into account the massive competition development on the store number level and available brands on retailers' shelves.

INDIA

The government is likely to open retail sector to Foreign Direct Investments.

End of November, the Minister for Commerce announced he expects to open some retail sectors except department stores to more interna-

tional large firms. This would be done in several phases.

In the long term, those FDI will contribute to improve some aspects of the retail trade such as product variety, cold chain network, food processing, production cycles, supply chain and distribution network. In fact, overall, their flow to India has already increased by 68% in six months, between April and September, to US\$ 2.38 billion. It might exceed \$ 5 billion for the year to next March.

Experts who attended the Indian Retail Summit have recently predicted a 250% growth of retail annual sales in 2005 compared to \$ 8.9 billion in 2003. According to the ICICI bank, which grants 60% of its loans to retailers, this also could be translated by a 40% growth of their financing in 2004 mainly through the economic boom, product availability, home-delivery improvement, good supply chain management...

Indian "organized" retail trade is also improving with shopping center development and higher consumer traffic. According to RPG Enterprises, the introduction of the VAT and equitable food laws could also contribute to boost the phenomenon.

Source : Retail Asia

Franchising has a great potential in this country.

While the formula is still in its infancy, international players are already well known such as fast foods chains Taco Bell, Subway, McDonald's, Pizza Corner, Domino's Pizza and Kentucky Fried Chicken (KFC) or hotels such as Le Méridien and Sheraton.

Franchise appeared recently in India where 1,800 domestic franchisors are currently in operation. Unlike trends in the USA and in Western Europe, franchising is dominated by the technology education sector, which accounts for 40% of the franchise activity, followed by technology services (14%) and business services (11%). Now, it seems that major firms are joining the trend : Reliance Industries, the

largest Indian conglomerate, is betting on franchising and so are the Tatas jewelers, the Aditya Birla (Madura Garments), Hindustan Lever (Lakme beauty salons), Essar Oil, Pepsi (Yum restaurants) and Café Coffee Day.

The country's franchising landscape has changed since global companies and brands followed the liberalization of the economy in the early Nineties. The footwear sector, dominated in the beginning by Bata and Liberty, offers global brands such as Nike, Reebok, Lee Cooper and Adidas.

However, the retail sector is dominated by mom and pop shops and evolution towards organized operations is slow. Now, changes in the lifestyles are pushing towards more supermarkets, department stores, convenience stores and other retail formats. The international franchise has three obstacles to overcome : the trademark protection, the legal structure and regulations concerning funds transfer. Without any brand legal protection and means to collect franchise fees and royalties, the global franchisors have been reluctant to invest in India even if recent improvements happened in the banking sector.

Language is not a problem. If English is the accepted language of power, influence, politics and business in the country, the major official language is Hindi, the primary tongue of 30% of its population.

Source : Retail Asia

JAPAN

IRCJ restructuring plan for Daiei is approved.

The Industrial Revitalization Corp. of Japan, a state-owned body mainly created to help struggling companies responsible for banks' non-performing loans, asked Daiei main creditor banks to waive Y 405 billion (€ 2.9 billion) in debt. UFJ Bank, Mizuho Corporate Bank and Sumitomo Mitsui Banking will write-off a further Y 192 billion (€ 1.4 billion) of preferred shares of Japan's third largest retailer.

On its side, IRCJ has also planned to supply Y 10 billion in cash and will take a 33.4% stake in the company through a 40 billion debt for equity swap. In addition, private investors whose names will be unveiled in March will inject Y 60 billion. Daiei's Ceo and management have resigned.

Several candidates are interested in taking a controlling stake in the capital of this former Japan's largest retailer under the pressure of a heavy debt of Y 1,000 billion (€ 7 billion), as it operates a nationwide network of 266 stores. IRCJ has selected 13 candidates including Ito-Yokado, Aeon, Japan's largest retailer by sales, Wal-Mart, the Marubeni trading-house, Kiacon, Cargill and the investment fund Advantage Partners.

VIETNAM

The country is on the verge of a retail revolution.

In this country, the retail sector is still dominated by pop and mom shops and family-owned operations. Large retailers begin to emerge, developing chains. Others choose to remain behind and look for concessions from foreign chains especially in cosmetics. Benetton and Mango are on the way to enter the country, Esprit and Giordano from Hong Kong will soon follow the same track. The country has a few department stores. One or two only are well managed but their light and decoration are poor.

A few international firms are concentrated along Dong Khoi, a street in Ho Chi Minh City's Saigon district, lined with boutiques, tourism agencies, hotels and restaurants. Its architecture is dating back to the French colonial period. Rents are around US\$ 120 per sq.m, equivalent to those in Chicago!! A Vietnamese consortium is working on Ho Chi Minh City's largest center, Saigon Five, a 10-minute motorcycle ride of 2 million inhabitants. It will include a multiplex, a fast food court, 400 apartments and a 2,000-seat wedding hall.

In Hanoi, a few streets in the

old mercantile quarters bear the comparison with Ho Chi Minh City. It appears that a project will be built in the former French Indochina administrative site whose streets are lined with elegant buildings and the restored Opera House, recreating a part of Paris on the Red River. Diamond Plaza, the first modern commercial and office complex, opened a few years ago, is catching the economic boom.

In Cholon, An Dong Plaza is a retail complex of 60,000 sq.m and 4 levels opened last November. It includes a five-star hotel with 18 floors. Most of the tenants are local. Developer Eric Chu is ready to build a still higher project in the former site of Dong Khoi in 2005 that will include two 43-floor towers, more than 90,000 sq.m of retail, apartments and a hotel. It will be Vietnam's tallest building.

If, for the present time, foreign retailers can only operate stores through local distributors, they are looking for sites for themselves in view of 2008 when trade deals with the U.S, the Asia-Pacific Economic Cooperation group and the World Trade Organization will open up the market.

The Vietnam government has already approved the projects from Malaysian retail group Parkson, which operates 36 department stores in China and plans to open three shopping centers in Ho Chi Minh City and Hanoi. The French supermarket chain Bourbon has also received approval to open units in the country in 2005. Metro, the first foreign company to open wholesale centers, has four.

Competition is difficult for the local supermarket chains as they have a limited experience only and are not financially solid enough to compete with large international players, all the more as those foreign companies receive many preferential incentives including land rental and bank loans. ■