

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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SPECIAL STUDIES :

- What limits to Wal-Mart international expansion? **1a**

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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INTERNATIONAL

Carrefour has sold 19 hypermarkets and 13 shopping galleries in Eastern Europe and Turkey.

World's second largest retailer signed with the Aerium investment funds a draft of sale and "sale and leaseback" agreement concerning 19 hypermarkets in Poland, the Czech Republic, Slovakia and Turkey. The transaction, whose amount is € 376 million, will be finalized in the first quarter 2005.

Cash will be allocated to the expansion financing in the region where the French Carrefour opened 68 new stores in 2004 and will accelerate its development. This operation is part of the Group's real estate strategy, which aims to sell shopping galleries and lead hypermarket leaseback deals in local currency in emerging markets in order to finance new stores.

EUROPE

BELGIUM

Delhaize Le Lion Group : preliminary 2004 sales fell 4.5% to € 18 billion.

Sales declined by 4.5% hit by the impact of a 9.1% weaker U.S dollar and an additional week of sales in the U.S in 2003. These figures were also hit by the closing of 34 Kash n'Karry stores in the first quarter of 2004 and the deconsolidation of Shop N Save in Singapore and of Food Lion Thailand from September 1, 2004. The Group ended 2004 with a network of 2,565 stores.

Organic sales growth accelerated from 2.4% in 2003 to 2.9% in

2004 supported by the business in Belgium, in which its market share grew from 25.5% to 25.7%, and by the dynamism of Food Lion, Kash n'Karry and Hannaford in the U.S.

In 2005, the Group expects to invest € 600 million including three quarters in America and to increase its store number to 2,635 units.

FRANCE

Carrefour's CEO Daniel Bernard resigned from the world's second largest retailer after the company's board lost confidence in his ability to turn around the French hypermarkets, which have slid in recent years.

He is succeeded as chief executive by José Luis Duran, his chief financial officer, and as chairman by Luc Vandeveld, the former CEO of Marks & Spencer who also represents some members of Carrefour's founding families on the board.

In these conditions, the group may leave Mexico (€ 500 million in sales), the Czech and Slovak republics (400 million), Thailand (420 million), Japan (325), Switzerland (500 million), even South Korea.

The previous days, Carrefour has decided to cut its prices by more than € 300 million in 2005 compared to 330 million in 2004 in order to boost sales in its 216 French hypermarkets. It also decided to invest 440 million to renovate and enlarge its stores by 60,000 sq.m. Costs reductions of 200 million have also been decided in logistics, advertising and headquarters to boost its operating margin. Since Carrefour merged with Promodès in 1999, its market

(in millions)	4th Q 04	4th Q 03	2004/2003	2004	2003	2004/2003
USA \$	3,994.6	4 201.9	-4.9%	15,846.1	15,545.9	+1.9%
Belgium €	1,018.3	979.5	+4.0	3,875.9	3,674.9	+5.5
Central/ Eastern Europe	333.6	322.2	+3.5	1,222.6	1,199.0	+2.0
€						
Asia €	29.4	42.4	-30.6	13.5.6	203.3	-33.3
Total €	4,449.0	4,884.0	-8.9	17,973.1	18,820.5	-4.5

Source : Delhaize le Lion

share has declined.

In the full year 2004, Carrefour has announced a 4.2% organic growth. Hypermarket sales posted € 20.9 billion, a 2.6% decrease compared to -0.2% in 2003. Champion supermarket sales grew by 6.9% in the 4th quarter to € 2.2 billion and by 4.3% to 8.3 billion in the whole year. In Ed hard discount stores, they grew by 10.8% mainly through 23 new units in the last quarter. Full year Carrefour France sales increased 0.2% to € 40 billion.

Outside France, sales rose in Europe 6.1% to € 30.1 billion for the year. In Asia, Carrefour operations showed the biggest jump in sales generating € 5.55 billion, up 19.1% on year. In Latin America, growth was 9.8% on year to 5.7 billion

Full-year 2004 sales of the Group rose 4.2% to € 81.4 billion broken as follows :

- France :	40 billion
- Europe excl.France	30.1
- Americas	5.7
- Asia	5.6

or 20.9 billion by hypermarkets, 8.3 billion by super-markets, 6.5 billion in various activities and 2.3 billion by hard discount stores. To December 31, it operated 11,080 units under its various banners, or 934 new stores last year covering 1,003,000 sq. m of new space.

In addition, Carrefour recently took a 50%-stake in the Hyparlo holding, its main franchisee, the remaining 50% belonging to the Arlaud family. In its turn, Hyparlo takes the full control of its Romanian subsidiary, previously held at parity by Carrefour and Hyparlo. In its turn, Hyparlo takes the full control of the Carrefour expansion in Romania. First, it will increase its hypermarket number from 4 today to 8 over 2006 and the country will account for more than 20% of Hyparlo's activity in 2005 and could reach 40% over the next two years.

Casino in 2004 : sales up 0.8% to € 23.16 billion. Organic growth up 3.8%.

In the fourth quarter, pre-tax consolidated sales grew by 2.4%

(organic growth was up 3.9%) to € 6.4 billion. It is « its best performance since the third quarter 2003 » states a company press release. In the whole year, growth was up 0.8% to € 23.16 billion.

In France, that accounts for 80% of the total, sales hit € 5.1 billion, a 2.7% increase. These good same-store sales were driven by the acceleration of the opening program in the second half (almost 83,000 sq.m compared to 66,000 sq.m in the first half).

Overseas, sales organic growth hit 9.0% in the 4th quarter and 12.5% in the whole year. In the United States, Smart & Final that accounts for more than one third of the Group's international sales grew by 8%. In Thailand, Big C grew by 13.4% and in Latin America by 25.4%.

In the whole year 2004, Casino opened almost 149,000 sq. m of total area focusing on the hard discount format (Franprix/Leader Price) and supérettes.

2004 pre-tax consolidated sales (€ bil)

	€ M	2004/3 variation
Total	23,163.8	+3.8
France :	18,59.5 :	
.Géant hypermarkets	7,204.2	
.convenience stores	6,752.0	+1.6%
.Franprix Leader Price	4,062.1	
.various	0.58	
International	4.57	+12.5%

Source : Casino

Pinault-Printemps-Redoute board changes. François-Henri Pinault, currently chairman of the Artemis holding company with a 42% stake in PPR, is taking over from Serge Weinberg as the Group's chief executive. PPR 2004 annual sales grew by 6% to € 24.21 billion on a comparable basis.

Weinberg will now set up an investment board supported in part by Artemis. Over the past ten years, he transformed PPR into a retail-and-luxury focused group.

In 2004, the retail division continued to post strong growth with a 5.0% rise in sales on a comparable basis to € 14.5 billion. Fnac (consumer electronics) sales grew by 7.2% and Conforama (furniture) by 4.7%. The luxury goods division accounted for approximately 16% of total sales with € 2.7 billion growing by 12.6%.

Ito Yokado to open shopping centers.

The Japanese retailer declared it will spend a large part of its capital of \$ 583.6 million to build six shopping centers including five in Tokyo suburbs in the year to February 2006. Thus, it will follow the same way as Aeon...

B&Q in Asia : after China that it entered in 1999, the British DIY arm of the Kingfisher Group intends to expand in Thailand and Malaysia. It will drive its expansion first in Thailand where it expects to open between 40 to 50 stores.

It presently intends to open 80 Chinese outlets over the next five years including 16 this very year...

Auchan in Russia : the French Group would open a new hypermarket in central Moscow covering 118,000 sq.m of space... It now operates 6 outlets in the capital including 5 in the suburbs...

Biedronka increasing its presence in Poland.

The Polish subsidiary of the Portuguese retailer Jeronimo Martins opened 55 hard discounts last year, the largest part in the last quarter 2004 and ended the year with 780 outlets covering 348,751 sq.m of space. Sales exceeded one € billion, a 17.5% growth in local currency and 9.5% on a like-for-like basis.

Jeronimo Martins consolidated sales amounted to € 3.5 billion in 2004, a 3.6% increase and Biedronka accounted for 30% of the Group's total sales...

Expansion of the foreign retail chains in the Czech Republic : the German discount chain Lidl, which entered the Czech Republic in 2003, has increased its store number to 100. Ahold expects to open 4 Hypernova hypermarkets and 7 Albert supermarkets. Delvita of the Belgian Delhaize le Lion Group will expand by 5 new outlets this year. Makro of the Metro Group (11 units) plans to add a new cash & carry in Bohemia, north of the country, Tesco at least 5 new stores, Carrefour (10 already in operation) a new hypermarket in Prague and Globus one more outlet.

H&M international expansion : the Swedish apparel chain expects to open between 144 and 155 stores in the fiscal year 2004/5 to November, 2005. Most of them will be located in UK, Germany, France, Spain, Italy and Poland. In addition, 15 to 25 other units will be in North America. Some are also planned in Ireland and Hungary...

For accounting reasons, the luxury goods sales was the reflect of a 14 month-period from November 1, 2003 to December 31, 2004. As Rexel was sold on December 10, 2004 it is therefore no longer consolidated in the Group's accounts with effect from December 10, 2004.

2004 sales on a comparable basis in terms of scope, exchange rates and number of days.

in € million	Q4 2004	Q3 2003	change	2004	2003	change
Retail	4,501.8	4,286.0	+5.0	14,542.1	13,814.7	+5.3%
Luxury goods	797.4 (*)	720.7 (*)	+10.6	2,721.4 **	2,416.6**	+12.6
« New PPR »	5,299.2	5,006.7	+5.8	17,263.5	16,231.3	+6.4
Rexel ***	1,479.7	1,367.9	+8.2	6,486.0	6,164.6	+5.2
(Inter-company sales)	(8.5)	(6.2)	ns	(27.6)	(24.7)	Ns
Total	6,770.4	6,368.4	+6.3	23,721.9	22,371.2	+6.0%

Source : PPR *October 1 to December 31 ** January 1 to December 3

***Q4 : October 1 to December 10

Distance selling sales, excluding the Sears business, were up 1.5% on a comparable basis showing the good performances from brands in France and a recovery by brands in the U.S and a sustained growth in e-commerce. Online sales stood at € 796.3 million (up 38.4%) accounting for 18.7% of sales compared to 14.0% in 2003.

In France, Redcats sales grew by 2.4% in the full year buoyed by performances of La Redoute and the Children's wear and Family Division. In Europe, France excluded, sales fell 1.9% in 2004 due to a very tough UK market. The US posted a solid 1.2% in the full year.

The French Galeries Lafayette Group posted a 1.9% increase of its consolidated sales in 2004 driven by the department stores and LaSer services.

To December 31, Group's pre-tax sales hit € 5.63 billion, a 1.9% increase. Same-store sales growth was 2.2%. In the full year, department stores grew by 3.2% and LaSer by 6.4% but BHV continued decreasing (-4.1%) as some units of the chain were renovated. Monoprix cumulated sales almost stagnated growing by 0.9% only.

As concern cumulated sales including tax, department stores grew by 4.4% always driven by the Parisian units of the Haussmann boulevard (up 6.8%) and two new formats "Lafayette Maison" and "VO". BHV sales fell 4.3% including 1.8% in the Rue de Rivoli unit. Monoprix sales almost stagnated and were up 0.5% only.

Service sales, which include the Cofinoga consumer credit branch, a common subsidiary of LaSer (56%) and Cetelem (44%), rose 6.3% and LaSer 4.7%. Non-credit activities (management and enhanced value of the customer portfolio) grew strongly by 7.7%.

In December, the Banque Fédérative du Crédit Mutuel took a 15.64% stake in the capital of the French department store Group.

Galeries Lafayette Group : 2004 sales :

€ bil.	2004 sales	2004/2003 growth
department stores	2.47	+1.14%
Monoprix variety stores	1.78	+0.9
services	1.13	+4.7%
various	0.25	+0.8%
total	5.63 billion	(+1.9%)

Source : Galeries Lafayette

Marionnaud controlled by the Chinese billionaire Li Ka-shing through its Hong-Kong subsidiary AS Watson.

Mid-January 2005, Li Ka-shing, at the head of the Hutchinson Whampoa conglomerate, bade € 900 million for the French Marionnaud including 550 million of debt. This operation, on a € 21.80 share basis, should be finalized in March. Marionnaud main shareholders include the founding family of Marcel Frydman (22%) and Crédit Agricole (9%). The Belgian businessman Albert Frère has been holding more than 5% of the capital since December.

If the operation is positive, Marionnaud (1,228 perfume shops including 566 in France, 172 in Spain, 158 in Eastern Europe, 136 in Italy and 102 in Switzerland) will be delisted. Next step will consist in making it the largest European firm of HBA over 2010.

Through this operation, AS Watson will increase its total sales by 17% exceeding US\$ 10 billion, including 62% in Europe and 38% in

Asia, and bring its total store count from 3,480 to 6,042 including 4,711 in Europe. First, it will spare \$ 35 million annually while gathering all its global purchases.

AS Watson operates hygiene and beauty product chains in Europe (United Kingdom, Germany and Central Europe) and perfume shops Ici Paris XL in Belgium, Netherlands and Luxembourg as well as drugstore chains in Asia and Europe. His other activities vary from harbors, retail trade, telecommunications, energy and real estate. Its two conglomerates Hutchinson Whampoa and Cheung Kong are valued at € 30 billion in the Hong Kong market.

Li Ka-shing was born in a very poor family. He began working as a salesman in a clockmaker shop with a \$25-salary in 1945. He doubled that figure while selling plastic flowers, which was completely new at the time. In 1950 he created his own firm of plastic flower manufacturing. In 1992, he controlled 15% of the Hong Kong real estate and invested in Shenzhen where he built hundreds of towers. He then bought ports to become the world's largest port operator.

Camaïeu controlled by Axa Private Equity.

The women's apparel chain, founded by the French Jean-Pierre Torck, has been taken over by a private equity fund and consequently will be delisted. Official authorities have still to authorize the operation.

AXA insurance firm acquires direct and non-direct interests of the Torck and Giraud-Verspieren families as well as of certain management members accounting for 39.6% of the capital and 54.7% of the voting rights. This first operation will be done through Financière Addax controlled by Axa. Then, Financière Addax will bid on the rights that are not yet held. The operation will value Camaïeu at € 515 million.

Camaïeu sales increased from € 259 million in 2000 to 375.8 million in 2004 and profit accounted for 10% of sales thanks to 30 to 40 new stores a year including half in France and →

the rest in foreign countries bringing the total to 442 (including 373 in France).

GERMANY

Metro, still successful outside the home field with sales up 9.6% in 2004.

Germany's largest retailer has reported that sales grew by 5.3% to € 56.4 billion in 2004 (up 5.5% at current currency exchange rate) but below expectations (6%). The slowing down of the price increase in Eastern Europe, which accounts for 15% of its business and is a brake in local currency, would explain it. Sales of its Real hypermarkets fell 5% in the third quarter and cash & carry declined also.

Last November, Metro unveiled the restructuring program of its Extra supermarkets : 149 units were sold to Rewe, 18 closed and transformed 12 into Real hypermarkets. 33 more had been previously sold in the first nine months of 2004. 280 Extra only remain in operation in Germany.

The troubled KarstadtQuelle (180 Karstadt department stores and 300 specialty stores) sales fell 7% to € 14.2 billion in 2004 and 9.5% in the 4th quarter. This decline is due to the negative effect of the public debate about its restructuring program which announced the sale of € 1.1 billion assets, including the main part of its logistics operations. Two activities are concerned, one includes department store internal logistics and the other bulk item delivery to customers of its Distance Selling subsidiaries, Quelle and Neckermann with annual sales of € 530 million.

In all, Metro remains very performing outside Germany as sales grew 9.6% to € 27.6 billion, excluding currency impact. International accounted for 48.9% of total sales compared to 47.2% in 2003 (€ 25.30 billion).

ITALY

French department stores Galeries Lafayette and Coop Italia agree to make a common offer bid on Upim division of Italian Rinascente.

Ifil of the Agnelli Group has

already sold the food activity of the Rinascente Group to the French Auchan at the end of 2004. Today, the non-food activity is put up for auction and its market value is between € 800 million and one billion.

Galerias Lafayette is interested in taking the management of the 16 Rinascente department stores (€ 307 million sales) over and Coop Italia, Italy's largest retailer, the 147 Upim variety stores (€ 570 million). Italian insurance company Unipol and Dutch property firm Redevco are also part of the operation. Five more candidates are bidding for Rinascente including Pirelli Real Estate-Deutsche Bank, the Beni Stabili (Luxottica) Group-BC Partners, Aedes property firm, which could be joined by the Kuwait-based Alsabab with Icade and Morgan Stanley-CVC.

NETHERLANDS

Royal Ahold : 2004 fourth quarter net sales declined 3.1%.

In the three month period, Group sales amounted to € 12.3 billion, a 3,1% decline compared to the same period a year ago as it was impacted by lower currency exchange rates and, in particular, that of the U.S dollar and by divestments. While excluding currency and divestments impact, net sales growth was 7.9% in the period. Consolidated sales in 2004 amounted to € 52 billion, a decline of 7.3%.

In the United States, net sales increased 10.2% to US\$ 6.9 billion in the three-month period and 1.6% in full year 2004 to \$ 27.4 billion.

In Europe, net sales amounted to € 3.3 billion, a 1.2% growth excluding currency impact. This figure was negatively impacted by the sale of the Spanish activities completed as of December. In Netherlands, Albert Heijn net sales increased by 9.9% to € 1.5 billion. In Central Europe, operations showed net sales growth excluding currency impact of 6.4%.

In total, in Europe 2004 net sales amounted to € 13 billion, a 0.5% growth excluding currency impact. At Albert Heijn, they grew by 3.2% to 5.8 billion and in Central Europe by 6.4%.

At Foodservice, in the 4th quarter, net sales in US dollars increased by 7.8% to \$ 4.5 billion and by 5.6% in the year to 18.8 billion, a rise primarily attributable to the effect of the 53rd week in 2004 and food price inflation.

In South America, sales amounted to € 122 million, a decline of 76.4% compared to the same period last year, mainly due to the divestment of Bompreço in Brazil in the first quarter of 2004, Santa Isabel in Chile, Paraguay and Peru in the second half of 2003 and the deconsolidation of Disco as of November 1, 2004.

In addition, the retailer has just completed the sale of its two American Bi-Lo and Bruno's chains for \$ 660 million to Lone Star. They combine a store count of over 450 supermarkets and 2003 net sales of approximately € 4.7 billion.

ROMANIA

Competition between foreign supermarket chains.

In 2005, the Plus supermarket division of the German Tengelmann (7,186 stores in 15 countries) will expand in Romania spending more than € 200 million to open 120 outlets through its new local firm, Plus Discount Romania, whose headquarters are located in Ploiesti. It will add 15 to 20 new units of 1,200 sq.m average sales space in Bucharest as well as in other main cities during this spring. Moreover, it has bought a 138,000 sq.m piece of land for Tengelmann local logistical center, an investment of € 17 million.

Rewe, which entered Bucharest in 1999, with a Billa supermarket, is focusing on low prices in its 13 outlets of 2,400 sq.m average space with over 200 parking spaces. The German retailer opened its first Selgros cash & carry in Brasov in 2001 and added 3 more in 2002 including 2 in the capital. Then it expanded to Constanta and Timisoara in 2003 and 2004 and now aims to operate 15 Selgros. In 2001 also, Rewe opened its first hard discount store under the XXL Mega banner and 4 are currently in operation. In 2005, it will introduce its Penny Markt units each covering 750 sq.m of space and offering 1,200 products.

The Belgian Delhaize Le Lion →

SPECIAL STUDIES

What limits to Wal-Mart international expansion?

- In 2010,
- Wal-Mart will top the US\$ 500 billion mark including a quarter from international operations,
 - 12% of all U.S. non-auto/non gasoline retail sales will go through Wal-Mart, up from 8% today,
 - Wal-Mart will continue exploring new formats, new categories and locations, interesting on business sectors outside retail to increase its market share.

Wal-Mart International

A fast expansion and its entry in new markets have been WM International winning cards since it opened its first stores in Mexico in 1991 and, more specifically, in the past five years. The division contributes highly to corporate sales and profits. In the exercise to January 31, WM estimates sales of approximately US\$ 55.9 billion, an 18% increase, from 47.5 billion a year earlier (and 22.7 billion in 1999). Operating profits should grow even faster to total nearly \$ 3 billion (+27%) or more than three times the 817 million in 1999. Operating margin would reach 5.4% from 5.0% last year.

In five years, WM International increased its network by more than 400 units to bring it to 2,000. In these conditions, it might double its power before the end of the decade through organic growth in the existing markets and continue leading acquisitions.

Wal-Mart International sales estimation.

US\$ bil.	2004	2005	2006	2007	2008
Total company	285.9	316.2	346.8	379.0	416.9
International div.	55.9	64.1	72.3	80.0	90.2

Source : analysts' estimates

As for 2005, the giant from Bentonville (Arkansas) has forecasted to spend \$ 14 billion to add 5.5 million of new sq.m space, mainly in supercenters in the home market and in 155 to 165 new stores overseas.

The British Asda, acquired by W-M in 1999, contributes largely to the tangible results : in the full-year exercise of its acquisition, its selling space grew by 14% to 2 million sq.m in 241 stores, sales per sq.m was \$ 8,000 and total sales \$ 14.5 billion. In 2003, sales per sq.m had increased 31% to \$ 10,800 and total sales 50% to 21.7 billion even if the store count had grown by 267 units only. To achieve this, Asda relied on W-M experience in the general merchandise field, expanded its assortment and created a specialty division to accelerate the development of jewelry, optical, pharmacy and photo departments.

Wal-Mart in Canada : the key to its success is in the George brand expansion.

Wal-Mart Canada operates discount stores and

Sam's warehouse-stores. It is the second largest operator behind Loblaw Companies with 8.5 billion in sales in 2003 from 6.3 billion in 2002. In order to expand in this country, it has put its George apparel brand that caters to every customer type in the middle of its plans. Unlike the USA where marketing is by life style (traditional, contemporary or junior), its goal across the country is to present George as Canada's most trendy brand. "It is not only to capture more existing Wal-Mart customers who don't necessarily buy apparel -and those who do buy apparel to get them to buy a little more apparel -but also to capture new customers who may not shop Wal-Mart today for their basic needs".

Facing the imminent supercenter arrival, Loblaw's, Canada's largest retailer, has widened its food assortment.

Top five retailers in Canada by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	Loblaw Companies	Canada	18,065	14,709
2	Wal-Mart Canada	USA	8,452	6,372
3	Sobey's	Canada	7,913	6,637
4	Canadian Tire (1)	Canada	5,634	4,614
5	Hudson's Bay	Canada	5,301	4,705

Source : DSN Retailing Today

notes : 1- includes petroleum store sales
* in US\$ millions

Wal-Mart in Mexico : success is based on small formats.

WM entered the Mexican market in 1991 that was then dominated by pop and mom shops and a handful of hypermarket chains. It opened its first stores under a joint-venture agreement with Cifra. Then, it took the full control of its partner in 1997 and today Walmex (Wal-Mart of Mexico) has become the largest local retailer with approximately \$ 10.6 billion in sales and net profit of \$ 500 million. Its has a 50% share of the formal retail market operating 674 stores including 86 supercenters, 60 Sam's warehouse-clubs, 156 small Bodega Aurrera discount stores, 47 Superama supermarkets, 50 small Suburbia department stores providing fashion apparel and accessories and 275 fast foods. A new format was launched under the Mi Bodega brand.

Top five retailers in Mexico by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	Walmex	Mexico	10,772	9,853
2	Soriana	Mexico	3,184	3,098
3	Comerci	Mexico	3,111	3,071
4	Gigante	Mexico	2,792	2,883
5	Chedrau	Mexico	1,220	1,200

Sources : company reports, analyst's estimates
* figures converted to US\$ millions

Bodega discount stores provide more food than the supercenters and they have one third to one half the size of a supercenter but their building costs are less high and they cater to traditional customers. The chain would have the intention to eventually enter each of the 180 cities with more than 50,000 inhabitants where it doesn't yet operate.

Some of Walmex competitors continue spending in the country but in a smaller scale : Soriana will invest \$ 300 million in 2005 to expand in the center of Canada and increase its total floor space by 14% from \$ 240 million in 2004 invested in 25 hypermarkets.

In Mexico, traditional stores and opened markets account for 45% of food sales and 80% of total retail sales are cash. According to Citibank, five million Mexicans earn between \$ 400 and 500 a month and 9 million more than \$ 500. In all, the average salary is \$ 460.

Wal-Mart in Puerto Rico targets the wealthy customers of the small isle.

Considering the proximity of the USA, many American retailers have entered Puerto Rico : Sears Roebuck since 1937, Kmart 1964 and J.C.Penney 1968. While none of these retailers ever reached WM's size, their stores in the isle are among the most profitable of their chains.

W-M is the market's leader and it doubled its annual sales bringing it to above \$ 1 billion while acquiring 33 Supermercados Amigos supermarkets at the end of 2002. As, for its expansion, it decided to grow through acquisition.

Puerto Rico was revealed as a particularly rich market for the giant. If its second-oldest international market was initially resistant in the beginning, WM succeeded in operating 54 stores in the region. It entered it in August 1992 and since that date it opened 9 units including 3 supercenters. If it is the unquestioned leader in Puerto Rico, it however faces some competition from the second largest retailer, Corderao Badillo and H.M.Montalvo.

Top five retailers in Puerto Rico by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	Wal-Mart	USA	1,200	590
2	Kmart	USA	414	406
3	A.Cordero Badillo	Puerto Rico	365	360
4	J.M.Montalvo Cash & carry	Puerto Rico	278	292
5	Almacenes Pitusa	Puerto Rico	265	251

Sources : company reports, DSN Retailing Today

* figures converted to US dollars in millions

Wal-Mart in United Kingdom. Local retail trade, characterized by a fierce competition and frequent mergers and acquisitions, is changing under Asda's development

While it continues rolling variations of its Asda food stores in U.K, WM tries to launch new formats. General merchandise is in the heart of its local plans. Its standing-alone units under the George banner will be its expansion vehicle : 5 are currently in operation, 10 are forecasted in 2005. However, it will be necessary to wait for more performance by the single Asda Living, whose assortment is composed of 50% the George line and 50% of other general merchandise, before deciding to roll it out.

Top five retailers in U.K by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	Tesco	U.K	44,951	35,199
2	Sainsbury's	U.K	29,259	26,424
3	Asda	U.S.A	21,700	18,100
4	Marks & Spencer	U-K	11,852	10,567
5	William Morrison (1)	U-K	8,184	6,451

Sources : company reports, DSN Retailing Today

*figures converted to US\$ in millions (1) excl. Safeway acquisition

W-M has opened a "general merchandise store" in the Midlands covering 3,845 sq.m of space in a retail park to sell toys, jewels, HBA, home accessories, electricals and George apparel, except food. It is also gaining also strength in non-food through the development of an upscale label home brand.

Standing-alone outlets are a good vehicle for Asda in a highly competitive retail market. Tesco is particularly fierce for the British subsidiary of the American giant, frustrated by the British government not to give it the green light at the time of the bid for Safeway by Morrison's in 2004.

Wal-Mart in Germany : times are difficult.

W-M estimates that its problems in this country are largely due to the local economy and to some government restrictions. Unions are very powerful, store opening hours limited and national economy is struggling to absorb East Germany and a growing flow of immigrants. Nonetheless, Germany is among the richest and the most technology advanced European countries with an excess of 84 million inhabitants and a GDP of nearly \$ 2,5 trillion in 2003. "The biggest challenge for Wal-Mart is that the economy has been very weak and retail sales have been negative for a couple of years in a row" said the president and ceo of WM International. "We are seeing some structural changes that are positive" as he had in mind the extension of store opening hours on Saturday allowing to close at 8 p.m instead of 4 p.m.

In addition, the government is now considering to authorize each of the States to determine their own opening hours, which should help WM to improve its performance. In 2004, its goal was to generate a positive operating return on investments and this will be achieved. In 2005 it will add no new store but some of the 92 units will be remodeled.

Top five retailers in Germany by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	Metro	Germany	36,453	30,290
2	Rewe	Germany	32,830	27,074
3	Edeka/ Ava	Germany	29,530	23,815
4	Aldi	Germany	31,811	23,742
5	Schwarz	Germany	27,573	16,222

Sources :company reports, DSN Retailing Today

* figures converted to US\$ in millions

Wal-Mart in China. Marketing and workforce strategies are determined by the fast market growth.

With a growing middle-class, the household

increasing revenues, consumer spending are likely to rise to 65% in 2010 and 71% in 2020 according to PricewaterhouseCoopers.

Top five retailers in China by market share.

rank	company	corporate headquarters	CA 2003 (*)	CA 2002 (*)
1	Shanghai Bailian	China	5,857	4,805
2	Dalian Dashang	China	2,198	1,545
3	Beijing Gome Electrical Appliances	China	2,149	1,316
4	Beijing Hualian	China	1,642	1,244
5	Carrefour	France	1,618	1,109

Sources :company reports, DSN Retailing Today

* figures converted to US\$ in millions

Today, three quarters of the global retailers are present in China including Aeon and Ito-Yokado from Japan. The market is now characterized by a really unique competition that pushes Chinese retailing to evolve rapidly. It is especially fierce in big cities where many foreign retailers have settled. Expansion to smaller cities of 2 to 3 million residents, without modern stores, will be next step. The market is also characterized by Chinese still unaccustomed to do their shopping in big stores and who adapt their attitude toward different retailers.

Currently, W-M operates 43 stores in 20 cities; 10 to 15 are in the pipeline, which is not very important for such a country. However, on a percentage basis, this growth is quite fast and the present goal is to make sure it is ready operationally (men and training) to support such an expansion. So, in 2005, 10,000 new employees will be hired in new stores.

Wal-Mart in Japan. The retailer reinvents itself and uses its best practices.

Wal-Mart has been Seiyu's major shareholder since 2002 and it meets a certain difficulty in this market characterized by real estate decline after the economic bubble burst and the abolishment of the Large-Scale Retail Stores Law. In addition, its supercenter format is not a very new format to the archipelago.

In fact, the local traditional supermarket, providing customers with the same categories as W-M, was opened by Daiei in 1957 and still dominates the Japanese retail trade. But the environment has somewhat changed as Aeon, Ito Yokado and Daiei operate superstores and are among the leading firms.

One part of W-M's problems in Japan lies in a relatively weak economy. In 2003, for example, consumer spending accounted for less than 60% of GDP. Japanese generally do their grocery shopping when they have in mind bargains advertised in circulars at particular stores so that they are not accustomed to everyday low prices, hence the difficulty for the giant. But while entering Japan, it knew that transition would take time.

Since it purchased a stake in the capital of Seiyu, the retailer introduced everyday low prices into its stores anticipating the first supercenter opened in April 2004, doubled promotions to 2,500 SKU with the participation of international brands such as Nestlé, l'Oréal... however, net sales continue lagging and recently a new net loss of € 3.8 billion in the 2004/5 exercise to February 28 as announced.

Before opening its pilot supercenter, Seiyu focused on the development and conversion of the American systems into a compatible Japanese system. First, it introduced a way to track consumer demands and adopt them in its stores. 104 are thus equipped and all of them will be before the end of 2005. It was thus able to improve its inventory practices and fixed as a goal a 0.6% shortage rate at all the stores. Then, Seiyu has gradually introduced an automatic replenishment system last year and will speed the introduction this year. It organized meetings with major suppliers and gathered data for "Retail Link" at some stores and began working with some suppliers...

Top five retailers in Japan by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	Seven-Eleven	Japan	20 245	17 706
2	Aeon	Japan	15 244	13 610
3	Daiei	Japan	12 908	12 461
4	Ito Yokado	Japan	12 357	12 222
5	Lawson	Japan	11 103	10 328

Sources : company reports, DSN Retailing Today

* figures converted to US\$ in millions

Wal-Mart in South Korea, a profitable and highly competitive market.

The fact that the Republic is a relatively small in terms of size but one the world's ten largest economies with a gross GDP of US\$ 857.8 billion in 2003 was among W-M's stimulates. In this country of 48 million of potential consumers with a high density of population per square mile, per capita GDP is approximately US\$ 10,000, which sits it behind Hong Kong, Taiwan, Singapore and Japan and ahead of other Asian countries. The market is characterized by well-established retailers whose approach is a two-way strategy, offering luxury merchandise and discount goods in the same time.

In 1997, restrictions in foreign retailers present in South Korea were lifted which convinced W-M to enter it in 1998 through the acquisition of 4 Makro stores. Then it rapidly opened 6 units under its own banner including 3 in Seoul and took a major stake in Makro Korea the same year. Currently, WM-owned stores cover on average 18,000 sq.m of space.

It introduced its George apparel assortment in 2003 expanding it to footwear in 2004. While its market share is relatively small compared to China, it is relying on consumers very technology oriented and not really opposed to American culture and retailers and hopes to sit rapidly among the country's leading firms.

Top five retailers in South Korea by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	LG Corp	South Korea	7,499	6,129
2	Shinsegae	South Korea	5,804	5,172
3	Lotte Shopping Co	South Korea	3,330	3,187
4	Samsung Tesco	South Korea	2,817	2,147
5	Samsung Cheil Ind.	South Korea	2,086	2,088

Sources : company reports, DSN Retailing Today * figures converted to US\$, in millions

The market leader is LG Corp with more than 1,600 stores gathered under four umbrellas : LG Supermarket,

LG25 convenience stores, LG Department stores and LG Marts (discount stores), all of them are highly price competitive. The second largest retailer is Shinsegae department store chain that focuses on upscale assortment and operates a discount chain. Samsung Tesco sells consumer electronics with food in its discount stores.

Wal-Mart reinforced its market share in Brazil through the Bompreço purchase.

W-M opened its first stores in this country in 1995 and recently acquired 118 Bompreço supermarkets from Ahold for \$ 300 million expanding its network from 25 units to almost 150. It is now sitting among the top 6 local retailers. This operation is a proof of its trust in a country in a slow but steady economic growth and partly buoyed by an IMF loan of \$ 41 billion in 1999.

Up until its acquisition of Bompreço, Wal-Mart was sitting in the shadow of Carrefour with 14 supercenters, 10 Sam's and 2 small Todo Dia pilot stores. Bompreço operates Hiper Bompreço supercenters of 13,000 sq.m of space, supermarkets that average 3,000 sq.m and mini markets, which serve small communities. With 145 stores, W-M is now among the leading retailers in Brazil but still far from the two giants. First, Companhia Brasileira de Distribuicao that controls almost 15% of the food market with more than 500 stores. Then, Carrefour, which has 13% of the market with 79 hypermarkets, 108 Champion supermarkets and 69 hard discount stores.

Wal-Mart tries to acquire other regional chains to grow its store number and is interesting in Atacadao Distribuicao, a Panama-based firm with 26 units in the south region of Brazil. In all, the Brazilian retail market would be ready for a consolidation period as it has many small regional chains with a limited number of 20 to 30 stores and several of them are on sale. In addition, a recent survey of the resident habits reveals that they are more and more accustomed to low prices offered by large retailers and they shop at large modern stores. The survey reveals also that the average customer spent \$ 28 in a grocery store compared to \$ 44 in 1998, Brazilians with higher incomes are more interested in prices and forget the pleasure of impulse purchases.

Top five retailers in Brazil by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	CBD	Brazil	4,373	3,654
2	Carrefour	France	3,613	3,468
3	Sonae	Portugal	1,311	1,142
4	Bompreço	Netherlands	954	972
5	SHV Makro	Netherlands	911	863

Sources : company reports, DSN Retailing Today

* figures converted to US\$ in millions

Wal-Mart in Argentina has adopted a more prudent attitude considering the economic context.

Since its arrival in 1995, Wal-Mart opened 11 supercenters only due to the instability context that has been reigning since 1999. The 2002 crisis generated the currency devaluation by 270% in a few months and a two-digit inflation. Hence the consumer spending slump. Today, the country is recovering but it will need more time before trust comes back while 51% of the population still live below the poverty level and the unemployment hits 15%.

In such a fragile context, Ahold caused a great economic damage, as it was the largest retailer until it sold its 236 Disco supermarkets to Chilean Cencosud retailer for \$ 315 million and retreated from the country a few months ago. Ahold also sold its Brazilian assets to Wal-Mart. Cencosud's acquisition made it move immediately in the second rank of Argentina's largest retailers and it added the chain to its network of 13 Jumbo hypermarkets, 24 East DIY discount stores and 12 shopping centers. Carrefour is the largest retailer with more than 400 stores, followed by Coto with 100 (9 hypermarkets and 91 supermarkets), which held its expansion down in 2004.

As the country is showing mixed signs of recovery, WM will still remain uncertain one more year.

Top five retailers in Argentina by market share.

rank	company	corporate headquarters	2003 (*) sales	2002 (*) sales
1	Carrefour	France	1,696	1,615
2	Coto	Argentina	817	770
3	Ahold	Netherlands	722	694
4	Cencosud	Chile	493	474
5	La Anonina	Argentina	348	347

Sources : company reports, DSN Retailing Today

Will India and Russia be the next destinations?

Source : DSN Today



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opened its first supermarket in 1995 and currently operates 16 units including 14 in Bucharest. He expects to launch a new format of 600 sq.m selling fresh products and to expand to 30-35 units in a short term. Last year, it grew its stake from 70 to 100% in Mega Image.

This year, competition will still gain strength : in the beginning of 2004 the new Romanian **miniMAX** company announced it had the intention to open "discount" stores in Bucharest as well as in the south of the country, a decision postponed to 2005. Each unit of 1,000 sq.m with 100 parking spaces is an investment worth € 750,000. **miniMAX** is a Romanian joint-venture born from the partnership between local and foreign investment groups.

The German Group **Lidl & Schwarz** also unveiled its intention to enter the country this year while opening two Kaufland supermarkets in Timisoara. The British **Tesco** would also be interested in Romania, according to the Financial Times.

RUSSIA

A better consumer protection by new laws.

Businesses today are not taking the habit to announce prices in euros rather in weak dollars. Many upscale restaurants, boutiques and services are now used to set their prices in hard currency so that Russian consumers have become accustomed to mental arithmetic.

From January 9, a new amendment to the "Law on the Protection of Consumers' Rights" came into effect. While businesses can still set their prices in hard currency or in conditional units they are required to indicate the equivalent price in rubles in order not to lure consumers. At the origin of this amendment, the Russian Union of Consumers, backed by a Russian deputy

In addition, other amendments are being prepared and will come into force later this year. Businesses will meet inevitable difficulties to be in line with them. They will be obliged to provide information of imported merchandise origin, which will help customers to identify the importer in case of damaged

goods. The previous law required information on the producer and vendor but, in case the vendor disappeared or went bankrupt, the consumer did not know where to complain.

These amendments also aim to put some order to online sales and provide a regulation precisating that merchandise bought on the web can be returned within one week of their receipt.

Moscow's real estate prospects.

Moscow shows the second best real estate development prospects in Europe. But, while considering risks, it is the last city of the ranking according to the survey "Emerging Trends in Real Estate : Europe 2005, by Urban Land Institute and PricewaterhouseCoopers.

This survey has been prepared and is based on responses from 250 real estate agents who selected 27 European cities by their attractiveness as real estate markets. In the previous survey, Moscow like Prague, Budapest or Warsaw were leading the pack by returns and investment opportunities. This year, the change is completely new because of the use of a new methodology.

Consequently, Moscow which stood in the first position for return and development prospects fell to the 21st (ahead of Athens, Berlin and Amsterdam), Prague slipped from the second in 2004 to the 15th, Budapest from the 4th to the 19th and Warsaw from the 6th to the 20th. As each city's property return takes henceforth the risk factor into account it means that less risky and also often less profitable markets such as Paris, Milan or London are now leading the list.

As concern investments, Moscow, which was first in 2004, is now 10th behind Budapest and Istanbul but ahead of Vienna, Madrid and London with 45% of the responses recommending to buy and 32% to sell real estate in the capital.

Again, if Moscow's returns remain high according to Western standards, the survey estimates that property investments are limited as there are very few interesting products. However, Moscow that

stood in the 27th position by risks in 2004 was second best for total returns, rent and capital growth and was surpassed by Istanbul only .

Under equipped in all sectors, Moscow presents the lowest office vacancy of all surveyed cities with a strong demand for residential and hotel property. "Investors do understand that high returns and high risks often go together" said analysts at Ernst & Young.

Paveletskaya, a new underground shopping center project in central Moscow.

Moscow's City Hall approved the construction by Tekhinvest of an 115,000 sq.m and 4 level shopping center below ground, in a trapezoid-shape, located under the Paveletskaya Square. A fountain and a park will be built on the area and the tramlines will be moved closer to the metro station.

It will include a 2,000 to 3,000 sq.m supermarket, restaurants, a ten-screen multiplex and a five-level underground parking lot. It will be connected to the Paveletskaya train station by an underground passage. Construction by Tekhinvest, which already built a 75-storey office tower, an investment of up to \$ 250 million in the capital, will start in the second quarter this year and take two years to be completed. This operation will cost between 150 and 200 million. Paveletskaya environment, a previously an unattractive area dating back to the old communist period, has been recently turned into a booming business district.

The center's main competitor will be another downtown mall, Atrium, located next to Kursky Station. Moscow's first underground shopping mall, Okhotny Ryad, was built in 1997. It covers 62,000 sq.m and is located at 100 meters from the Kremlin wall. Two other underground shopping center projects are in the pipeline in urban Moscow : one is Turkey's MNG which will be built this year in a 96,500 sq.m of space under the Pushkin Square. The other by Israeli billionaire Lev Leviev's Africa Israel Investments will be an investment of \$ 200 million through its Russian construction firm Stroiinkom-K and will be located under the Belorussky →

Station. Construction should be completed in 2008.

Utkonos, a new convenience store chain offering lower prices to busy shoppers who want to save time.

Customers, who do not want to spend more than five minutes in stores, can buy their basic goods on the spot. They can also use special computers to choose goods they need and do not find there. Fewer employees and opening hours maintained to the minimum contribute to maintain low costs.

The Novy Impuls holding management gives a free card to its frequent customers that allows them to get access to an in-store computer terminal or to any other computer with Internet access to fill a virtual shopping basket. "The card automatically memorizes the items each shopper normally gets, creating a "favorites' list". Orders can be placed via the telephone or Internet. Prices are 15% to 20% lower than the average retail prices in the area thanks to staff and real estate costs savings.

By buying online or using the automated system, the customer enjoys an extra 2% rebate off his total bill. In-store purchased goods do not keep room and contribute this way to cut real estate costs; goods purchased online or by the automated system are delivered to the store by the warehouse and can be picked up and paid for the day after the order. For the time being, home delivery is not yet organized.

Two stores of this type are already operating in Moscow's suburbs, 20 will be added within the next six months and an excess of 300 over the next two to three years in order to cover all the city's districts. As for its expansion, the company's management is relying on the current Internet penetration of about 15% to 20% of households, which means that over one million persons have web access.

Utkonos will compete with **Shagmag**, another convenience store chain that plans to expand in the south area of Moscow by 2005. While it does not offer customers to fill a virtual basket, it provides however "one stop shopping" of groceries

and services such as shoe repair and a dentist.

Sedmoi Kontinent supermarkets offered the possibility to purchase online in 2002 and explains that online purchased goods can be profitable even if they are not associated with discounted food products. "Internet sales return grew from 25% in 2003 to 33% in 2004 and gross receipts increased from \$ 3.9 million in 2003 to 6 million in 2004. The company receives around 300 orders a day via the Internet and telephone". However, it offers the free home delivery.

UNITED KINGDOM

Tesco is poised to become world's third largest food retailer by the end of the decade according to a report from IGD.

Tesco is currently in fifth position behind Wal-Mart, Carrefour, Ahold and Metro. Its market value exceeds Marks & Spencer, Sainsbury's, Morrison's (owner of Safeway), Next and Dixon's combined. Its food market share in 2004 was 28.5% and should likely grow to 29-30% this year (chart below). Thanks to its move into apparel and other non-food categories, it calculates that it now accounts for £ 1 (€ 1.4) in every £ 8 (€ 12) spent in UK stores. Its annual profits are set to pass £ 2 billion (€ 2.8 billion) for the first time in the history of a British retailer. Sales account for 2.6% of GDP last year.

According to the IGD report, its expansion will be mainly led in Asia and Central Europe over the next years. It anticipates that its global sales will increase from € 44.6 billion to 85.4 billion in 2010 growing at the annual rate of 9.6%. At that time, they will be broken as follows : 71% in UK, 17% in Asia and 12% in Europe. As international sales have more than quadrupled from € 1.9 to 8.8 billion in the past five years, experts expect 25 billion by the end of this decade.

Outside UK, Tesco knows how to adapt to local conditions with its multi formats : while hypermarkets are dominating its portfolio, it builds compact hypermarkets in Central Europe, compact supermarkets and

convenience stores in Thailand, South Korea and Japan, through acquisitions in this last country. A good example of its wise approach is its entry into the Chinese market. It studied it for three years before signing a partnership agreement with Ting Hsin, owner of Ting Cao hypermarkets.

In all, Tesco expects to grow to 2,475 stores by the end of fiscal 2004/5, excluding acquisitions. There will be 82 new stores, including 17 hypermarkets, in U.K, 37 in the rest of Europe and 65 in Asia. Over the past seven years, it has more than doubled its foreign markets growing from 6 to 13. This year, it will open 10 hypermarkets in China and seems to be interested in Turkey, Japan and Malaysia. Russia, Indonesia, Vietnam and Eastern Europe markets, including Romania, are possible destinations in the next six to ten years. In the longer term, India. It is not present in the United States, France and Germany but does not exclude to enter these countries through acquisitions.

Tesco just unveiled that it will test a new non-food format later this year in the home market. After a move in apparel, consumer electronics, DVDs, CDs and books, it will be in direct competition with high-street retailers such as Dixons and WH Smith.

Market share battle.

	Tesco	Asda	Sainsbury
1995	19.3%	9.8%	18.0%
2005*	29.0%	17.1%	15.9%

Source : TNS

Marks & Spencer downgrades its objectives for the full year 2004/5 as profits will be below forecasts in the current exercise.

Disappointing figures during the six weeks of the Christmas season to January 3, 2005 have pushed the retailer to massive end-of-season markdowns. Like-for-like sales decreased by 5.6% in the six weeks to 1 January 2005 with apparel sales plummeting 4.9% and homecare 23.3%. Food sales decreased by 1.7% only. Consequently, the company downgrades its pre-tax profits and exceptional items to £ 600-625 million (€ 857-900 million) →

in the exercise to March 2005. In such a context, competition is gaining strength in the apparel and home sectors led by Tesco, which has made a positive foray into both sectors.

NORTH AMERICA

UNITED STATES

Home Depot is taking care of its senior customers.

World's largest DIY and home-improvement chain is teaming up with AARP in order to indicate products that senior members of this association have designated as safer and easier to use. This operation should start later in the year.

AARP will mark Home Depot products in stores with a special seal for customers of 50 and over. Criteria and product types are being determined, bathroom and electrical fixtures could be considered as well as some DIY goods.

Home Depot expects that this program will help it to cater to a growing category of aging customers, those who are DIY oriented with significant revenues. The retailer will also organize workshops in order to show them how to use their skills in these fields as "They don't want to go into nursing homes. They don't want to go live with their children. They want to live at home."

AARP is a non-profit association which gathers seniors aged 50 and over. It provides its members with services such as insurance, experts in the fields of finance, consumer protection... and gives them rebates on airline fares, etc.

In 2005, Home Depot (1,866 stores in the U.S, Canada and Mexico) expects to open 175 units and will try to expand overseas, mainly in China, without unveiling any precision on its projects. In the fiscal year to January 2005, 31 it expects sales growth of 12.5% to \$ 72.9 billion. It expects sales growth this year of 9% to 12% and earnings per share growth of 10% to 14%. Comparable store sales at stores open at least a year will increase 4% to 7%.

Can Toys R Us stay in the game and still compete against Wal-Mart after a disappointing year's end?

In the nine weeks to January 1, same-store sales at struggling Toys R Us declined 2.2% with traditional toys off 5% and electronic games about the same. However, at Babies R Us units, which sell baby furniture, clothes and accessories, they grew by 1.6% and net sales by almost 8% from \$ 274 to 295 million. Dynamic promotions left departments empty in the last two weeks of December and inventories 20% lower than a year earlier. Hence the pressure on margins. For the present time, it is unknown how Toys R Us will separate from Babies R Us. But, henceforth, some 100 under performing units will likely be shuttered.

Private equity firms Permira and Apollo would like to team up with Toys R Us former chairman, Michael Goldstein, to launch a new bid for Toys R Us. KKR remains a candidate, Bain Capital, present in the first round of auction, did not confirm its presence in the second round. It might join Vornado Realty Trust (cf.LLDDI January 2005) for the operation.

Best Buy, largest American consumer electronics chain, is trying to rid of its bad customers.

Best Buy best customers are those who buy high-definition TVs, portable electronics, newly released DVDs, etc without waiting for markdowns or rebates. Worst customers, 100 million out of 500 million, who visit Best Buy stores every year, claim for rebates, buy goods sold at loss, return merchandise to repurchase it at discount prices...

With US\$ 24.5 billion in revenues in 2003/4, Best Buy is the largest American consumer electronics retailer. Its big stores and wide inventory have contributed to make it earn market shares. In 2003/4 profits amounted to 705 million from 99 million in 2003 (a difficult year because of a bad acquisition), and

much higher than the 570 million in 2002.

But Best Buy is facing competition from Wal-Mart and Dell, the largest PC manufacturer which rapidly introduced the sale of high-definition TVs and portable computers, two of Best Buy most profitable sectors into their stores. Both are N°2 and N°4 in the consumer electronics market and together stronger than BB and more profitable thanks to weaker overheads.

In 2004, BB launched a new strategy in 100 of its 670 stores. It studies record sales and demographic data and tracks them in order to identify good and bad customers. In order to attract high-spending customers, it is stocking more merchandise and offers them a better service. To deter the others, it reduces promotions and sales and cancels them from its marketing lists.

Its best customers are broken into five categories : upper-income men, suburban family-mothers, small-businesses owners, young family men and technology enthusiasts. In order to permanently eliminate undesirable customers, Best Buy enforces a 15% replenishment fee of the purchase price on returned merchandise. To deter them to bring merchandise back with the intention to repurchase it at discount prices, it tries to sell it online so that items don't reappear in the store where they were purchased. In addition, employees are trained to identify good customers according to their buying preferences and attitude.

Source : The Wall Street Journal

Best Buy, largest consumer electronics chains by sales. Competitors are gaining strength.

1997 estim. consumer electronics sales (€ bil)		2003 estim. consumer electronics sales (€ bil)	
Best Buy	5.9	Best Buy	15.3
Circuit City	5.3	Wal-Mart	12.2
CompUSA	4.0	Circuit City	7.6
Radio Shack	2.5	Dell	4.9
Sears Roebuck	2.5	Target Stores	3.9

Source : Retail Forward

ASIA

CHINA

Foreign chains could take more of China's market.

From December 11, the Chinese

government lifted restrictions on shareholding, locations and store numbers, limiting all foreign-funded companies in the commercial sector to large cities.

China had imposed these conditions to give its own firms a chance to copy the Western models. As a result, the four largest Chinese retailers are all operated by the State or local entrepreneurs led by Shanghai Bailian. Foreign chains are coming next and could take more of China's market as the barriers have been lifted. Thus, Carrefour, an unquestioned leader in China, runs 240 stores and expects to add 150 in 2005. It is far ahead of its American rival, Wal-Mart with 43 in 20 cities and 10 to 15 in projects. Metro is the N°3 with 24 units opened and 40 in projects over the next five years.

According to statistics from the Minister of Commerce, 108 commercial firms have been approved in China. They have invested US\$ 840 million and opened 3,361 stores covering 6 million of sq.m of space. But this investment accounts only for 0.15% of Foreign Direct Investment accumulated in this country.

For the past twenty years, Chinese retail sales have jumped nearly 15% a year to \$ 628 billion in 2004 making it the world's third-largest market. Consumer spending has increased even faster. A few years ago, most

worked and was trained at foreign-owned stores and got marketing experience. In order to make its customers loyal, CRE gives rebates its frequent customers and launched more than 60 private-label products. As for 2005, it will add 4 stores, offering an upscale assortment, and twenty more will be added over the next three years.

Shanghai Bailian, which operates almost 5,000 stores with \$ 5,86 billion in sales in 2003, was authorized to take over four competitors. In the same time, CRE increased its stake to 85% in the tenth Chinese retailer, Sugu Supermarket, last December.

In fact, Beijing's government final target is to create at least a dozen of big Chinese retailers to compete with the multinationals at home and even expand on foreign markets. In reality, local enterprises are lacking experience in the various fields of management and finance and foreigners need Chinese expertise to navigate on their huge retail market. It is one of the reasons why Wal-Mart will not seek to set up a solely owned company at this stage. Thus, it will team up with Citic Pacific while holding 65% of the venture in order to open hundreds of stores in China over the next five years in Shanghai and Beijing as well as in the Eastern cities. Citic has interest in toll roads, power plants and in Cathay Pacific Airways.

Largest Chinese and foreign countries in China.

China firm	Foreign 2003* sales	rank	firm	2003* sales	rank
Shanghai Bailian	\$ 5,860	1	Carrefour	1,623	5
Dalian Dashang	2,196	2	Wal-Mart	707	16
Gome	2,149	3	Metro	679	18

*millions of US dollars source : Minister of Commerce (China)

of the Chinese were satisfied when buying a few products in State-owned stores or outdoor markets. Today mom and pop shops and State-owned shops have been replaced by local and multinational chains in the urban districts of Beijing, Shanghai and Guangzhou. As restrictions on geographical limitations have been lifted for foreign chains, the battle for dominance will henceforth expand towards second-tier cities.

As Chinese feel they are attacked by foreigners they fight such as China Resources Enterprise Ltd (CRE), which runs more than 1,700 supermarkets and hypermarkets. Half of its management team has

rapidly growing consumer class.

According to a report from the National Council for Applied Economic Research, half of the 10.7 million of households with annual revenues of US\$ 23,000 is to be found in smaller cities. In addition, there is a high rise in the number of rich households, with incomes varying from \$ 23,000 to 115,000 in the smaller cities of Vadodara, Nagpur, Ahmedabad and Vijayawada. While in 1995 just 2.8% of the middle class included incomes up to \$ 23,000, this percentage should grow to 12.8% towards 2009.

Among foreign firms interested in those second-tier cities, the sporting-shoe manufacturers Reebok and Adidas as well as the cell phone maker Nokia are to be found. Yum Brands, Kentucky Fried Chicken's parent from U.S, which entered the sub-continent in 1995 and settled in Bangalore, has now 100 fast foods units under the KFC and Pizza Hut brands, including 30 added in 2004. Its goal is to have 1,000 by 2014.

JAPAN

Wal-Mart eliminated from the list of possible candidates to Daiei takeover.

The Industrial Revitalization Corporation of Japan, created by the government to help struggling companies, refined its list of companies bidding to become the leading investor in the rehabilitation of Daiei. It includes Aeon, Japan's largest retailer, the trading company Marubeni, Kiaco and a private equity fund. Wal-Mart and the second largest local retailer Ito Yokado, Cargill, the US grain trader and investment fund Ripplewood have been eliminated.

These firms can however appeal the decision or join the three remaining consortia.

According to the restructuring plan developed by IRCJ, common shareholders will suffer from a 99.6% equity write-down. The decision will be official in March this year.

Henceforth, 53 Daiei stores will be closed including 47 general merchandise supermarkets, 3 discount stores and 3 food supermarkets. It will retreat from foreign markets including Hawaii and China. ■

INDIA

The economic boom hits smaller cities of the country.

In spite of the tsunami, which devastated the coastal villages in the southeastern part of India on December 26, the galloping boom should not slow down. In fact, the smaller cities of the country, approximately 35 with a younger population of over one million inhabitants demanding for Western products, are now touched by the spending frenzy. Hence the rapid development of shopping centers (cf.LLDI October 2004) catering to a