

# LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

MARCH 2005 - Volume VII - N°62

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## SPECIAL STUDIES :

- In a booming India, modern retailing is expanding and its new malls attract young and affluent consumers **1a**
- Home Depot looking to Asia, or the international expansion of the world's largest home improvement and DIY chain. **3a**

## INTERNATIONAL

### American developers expand overseas.

The Mills has announced its acquisition of St Enoch, located in Glasgow (Scotland). This center, opened in 1989, covers 71,000 sq. m of retail space and is 98.6% occupied. It has the possibility to be expanded by 5,000 more sq.m. In 2003, The Mills opened the major center Xanadu in the suburbs of Madrid (Spain) with 135,000 sq.m and, in partnership with Ivanhoe Cambridge, Vaughan Mills from Toronto (Canada). In addition, it renovates the historical site of Mercati Generali in the center of Rome (Italy).

In this quarter, **Developers Diversified** expects to close the acquisition of 15 shopping centers in Puerto Rico totalizing almost 500,000 sq.m and 97% occupied. Among the tenants, Wal-Mart, Sam's Club, Kmart, Gap...

In December, **Chelsea Property Group**, a wholly-owned branch of Simon Property Group, opened its first factory outlet center, Premium Outlets Punta Norte, in the northwest region of Mexico City. First phase includes 23,000 sq.m, the total project covering more than 39,000 sq.m.

In 2003, it signed a joint-venture agreement with Italian La Rinascente Group, Gallerie Commerciali Italia whose portfolio includes 38 shopping centers.

**Taubman** has signed an interest letter to build a shopping center in New Songdo City, South Korea. It will be a mixed-use complex along the waterfront that is expected to cover more than 1 million sq.m with stores, offices, hotels, apartments and medical facilities.

### Europe increasingly concerned by REITs or Real Estate Investment Trusts.

For years, these trusts were in favor of American investors (*cf.LLDI December 2004*), eager for strong and steady dividend yields. Now, with the prospect of interest rates up again in the United States, profits could be hampered. The situation is not quite the same in Europe.

In Europe, the structures of publicly listed real estate investment trusts owning shopping centers, hotels or office buildings exist in the Netherlands, Belgium and France only. U.K and Germany are currently pushing REITs →

### Performance of European real estate investment trusts or REITs.

asset (country)	performance		gross dividend yield	
	2004	5 years	2004	2005 (*)
Unibail (France)	46.5%	139.9%	3.2%	4.1%
Klépierre (France)	31.7	93.5	3.4	3.5
Silic (France)	29.6	75.0	4.1	4.3
Rodamco Europe (Netherlands)	25.9	83.2	5.0	5.1
Corio (Netherlands)	25.1	59.8	5.4	5.3
Wereldhave (Belgium)	23.5	72.7	6.1	5.9
Gecina (France)	20.6	37.1	3.4	3.7
Eurocommercial Props.(Netherlands)	19.6	50.6	6.1	6.4
Vastned Retail (Netherlands)	16.1	37.1	7.0	7.0
Nieuwe Steen Inv. (Netherlands)	15.7	60.7	8.3	8.2
Cofinimmo (Belgium)	11.2	40.8	6.0	5.9
Vastned Offices Ind. (Netherlands)	11.1	7.9	9.3	8.2
Befimmo (Belgium)	11.0	36.0	5.9	5.9

Sources : UBS, European Public Real Estate Association, Onvista, Kempen/Wall Street Journal

\* estimation

## LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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

**In short...**

**Belgian Delhaize Group sells its Slovak supermarkets to Rewe.**

Delhaize Group, which entered the Slovak Republic in 1998, has sold its 11 stores to the German Rewe retailer for € 7.7 million...

**The Swedish apparel chain H&M has reported a drop of its sales to 5% in January over the 12% increase in December** for calendar reasons and New Year holiday closure. In 2005, it will open 155 stores including 3 in Ireland and 1 in Hungary, two new markets and close 12...

**Aldi will settle in Portugal**, without precising any date, under the Aldi discount supermercados Lda, a company with € 10 million capital. The first hard discount store will be opened in the southern Algarve region. Main competitors in the local market include Lidl, Plus, Minipreço/Dia and Netto...

**Dixons (1,400 UK electrical stores) is considering a Russian entrance.**

After successes in Hungary since 2002 and in the Czech republic the same year, Dixons is looking to the Federation. This market, without real foreign competition, is dominated by Eldorado Group (€ 1 billion in sales). Dixons stores would be more like M Video, Technosila or Mir, three competitors of Eldorado...

**Carrefour in Turkey. World's second largest retailer recently opened its 12th hypermarket** covering 10,200 sq.m of retail space in Maltepe, near Istanbul, in partnership with the local conglomerate Sabanci Holding. It expects to open the largest European shopping center in Istanbul's district of Merter in 2007. So far, it has invested € 597.3 million in the country. In 2004, its 11 hypermarkets, 7 Champion supermarkets and 250 food discount stores posted € 767 million in sales. It expects to expand to Ankara, Izmir...

legislation that would authorize tax advantages. In Germany, it could be set up next January and in U-K later next year. Finland, Sweden, Italy and Spain would join the trend and stimulate the market.

Compared to the 143 American REITs with a total market value of \$ 250 billion (€ 194 billion), the European market is a small size according to Morgan Stanley. If it includes a dozen of publicly listed REITs only with a total value of \$ 70 billion (€ 54 billion), its popularity is growing.

In 2004, European REITs outperformed their American counterparts : in fact, according to the European index, EPRA, they generated a total return of 41.73% calculated in euros, compared to 24.19%.

On average, the gross dividend yield for European REITs is expected to grow to 4.7% in 2006 from 4.5% this year according to UBS. In America, it is expected to fall to 4.0% from 4.7% this year.

So far, European banks and institutional investors were interested in REITs but other organizations could join the party : "As a consequence of our aging society, people focus more on real estate. They provide a sufficient level of liquidity for the smaller investors" they say at UBS.

## EUROPE

**Shopping center deals in continental Europe hit € 7.44 billion in 2004 after 5.8 billion in 2003.**

In United Kingdom, the total volume of shopping center transactions amounted to € 6.9 billion, an increase over 2003. But the continental European market grew more rapidly according to CB Richard Ellis (CBRE). Central Europe had the lion's share with a deal number growing tenfold over 2003. Beyond UK, Poland was the most active market with € 1.2 billion value of transactions. Netherlands came next with 1.1 billion.

Italy and Spain, very dynamic in 2003, saw a sharp decline of their operations, following France where most shopping centers are now long-term ownerships of specialized

investors.

December and January were very busy with more than € 1.2 billion of assets that changed hands. Among the deals, there were the acquisition for € 388 million of St Enoch in Scotland by the American REIT The Mills from Deka and the commitment by Fortis Vastgoed to buy five centers under construction in the Netherlands for 450 million from Bouwfonds.

Source : Europroperty

**International investors aim to invest in Benelux retail market in spite of a lack of assets.**

Traditionally, Benelux was the preserve land of local investors. Today, international private and institutional investors are highly interested in the commercial property of the region. According to Cushman & Wakefield, yields range from 5.25% to 6% in the four main Dutch cities and from 5.5% to 6.25% in the main Belgium cities. They are still higher in the provincial cities.

Investors seek retail property not only for yields but also because it generates security through a tenant diversity, stable rental incomes and a weak vacancy rate.

However, economy is lagging in the Netherlands and people spare and do not spend. While it is among the countries with the highest commercial space per inhabitant, consumers have traditionally shopped at high-street shops. Buildings here are too small assets for investors.

Planning restrictions have also prevented the construction of large shopping centers even if this is changing. For example, Dutch investor Fortis has accepted to buy five centers from Bouwfonds for € 460 million. In spite of such deals, there is a lack of assets as it is confirmed by ING : "We haven't met our investment targets, we wanted to invest € 110 million in 2004 and only managed to spend 65."

Belgium had a better environment in 2004 thanks to a fiscal amnesty allowing inhabitants to bring back money from the black market for a small fine. If retail sales fell in the third quarter, commercial assets were hardly affected.

In spite of this situation, a few international investors bought →

commercial assets in Benelux. Deka and Difa were among the first actors : Deka bought Plein Westermaat Retail Park covering 25,000 sq.m of space in the East area of Netherlands for € 40.9 million and Difa bought Les Grands Prés in Mons (Belgium) covering 17,900 sq.m with a Carrefour hypermarket as anchor. Pillar Fund bought the Hydriion center in Arlon for 35 million offering a 7.3% yield.

It is clear that a stronger demand in retail property is pushing a pressure on yields. At ING, they say that investors pay approximately 30% more for downtown sites than five years ago. "The price used to be 14 to 15 times the annual rent; now retail assets in the big cities go for 18 to 20 times the rent." It is the reason why ING began investing in secondary sites.

Source : Europroperty

## FRANCE

### Go Sport net loss hit € 9.9 million in 2004, " a year of transition".

France's third largest sporting goods chain behind Decathlon and Intersport announced a 9.9 million loss compared to a profit of € 14.6 million a year before. Pre-tax consolidated sales amounted to € 658.5 million, an increase of 3.2%. This figure was impacted by € 7.5 million of non recurrent charges tied to Courir stock streamlining, a new commercial program, the structure reinforcement and higher occupation costs.

Jean-Paul Giraud, new CEO since April 2004, has launched a three-year plan and will invest € 35 million in 2005 compared to 15 in 2004 in order to fill the gap between its competitors. From 2005 to 2007, Go Sport will add approximately twenty new stores. Outside France, sales grew by 28.3% to 46.2 million thanks mainly to 11 new units in Poland. Totally, Go Sport runs 360 stores including 4 in franchise in

Saudi Arabia.

Prospects for the new year include more national and emerging brands at Courir and a new concept focusing on the sporting practice.

## GERMANY

### Rewe will open organic supermarkets.

Germany's second largest retailer (approximately € 40 billion revenues) will open a chain of stores selling organic products exclusively. First unit will be opened in May in Düsseldorf covering 700 sq.m of retail space. In addition to regular private brand products and its own Füllhorn brand, it will carry regional products. "We want to bring across to consumers that healthy food isn't automatically expensive," said a project spokesman.

This way Rewe will be the first classic food retailer to open its own chain of organic stores, a booming trend. It will add 20 outlets over the next few years. The brand is not yet unveiled, as the company has still to be registered.

Rewe operates more than 7,000 stores including 4,800 HL miniMALL and Rewe supermarkets, 2,000 Penny Market hard discount stores and 170 Toom hypermarkets.

In Germany, 250 stores selling organic food are in operation.

### Wal-Mart maintains its strategy as it is in spite of improved performance.

Record figures of the 2004/5 year that the American Wal-Mart recently published do not change anything to its existing strategy in Germany. It has not planned to open new stores or acquisitions but only to refurbish 6 of its twenty-five to thirty-year old supercenters in a total of 92, without the financial help of its mother-company in Bentonville (Arkansas, USA).

Lee Scott, Wal-Mart president, considers that the retail environment in Germany remains difficult and pushed like-for-like sales down to

one-digit level in the 4<sup>th</sup> quarter and in the full exercise. He added that "Turnover was below the targets, the operating loss for the quarter was "higher than expected, but much lower than the same period last year." A good use of its assets allowed Wal-Mart Germany "to generate a positive capital return last year for the first time since the acquisition."

While it improved its logistics in 2004, focus in 2005 will be on home-label products and several "store in store" concepts will be developed. It is unlikely that WM Germany achieves record performance this year. It will rather try to significantly improve its profitability for future expansion.

## RUSSIA

### Giga Mall will be Ikea's next project in the southeast region of Moscow.

Two months after the opening of Russia's largest Ikea in Khimki, the Swedish retailer will invest \$ 400 million (compared to 300 million in Khimki) in Kotelniki Giga Mall, a 240,000 sq.m project. The operation will be led in partnership with the Russian agricultural producer Belaya Datcha, owner of the land and supplier of most of the Russian supermarkets, McDonalds and the Kremlin.

Belaya Datcha (\$ 50 million turnover) formed a previous partnership with a foreign firm last year. In August 2004, it signed an agreement with the French construction giant Bouygues to build the "Logopark" warehouse complex with 320,000 sq.m near Moscow on land Belaya Datcha owns.

Giga Mall first phase started its construction in 2004 and will be anchored by an Ikea outlet of 30,000 sq.m in the MKAD, the Moscow Ring Road. It is due to open in September this year. The construction of the center itself will start during summer to be completed in the fall of 2006.

Third phase, slated to open in 2007, will include a leisure park, a motel and an office building. The total project covers 240,000 sq. including 160,000 to 170,000 for the center itself.

Ikea has two stores in Moscow →

Store count	12/31/2004	12/31/2003	Variation
Go Sport	148	143	+5
Courir	201	193	+8*
Moviesport	11	10	+1
<b>Total Go Sport Group</b>	<b>360</b>	<b>346</b>	<b>+14**</b>

Source : Go Sport \* including 4 in franchise

\*\* including 15 new stores and one closing

anchoring its Mega Malls and two in Kazan and St Petersburg. So far, it invested \$ 1 billion in the Federation and it expects to open Mega Malls of 110,000 sq. m with Ikea in all large regional cities of one million inhabitants in the next few years.

**McDonalds to open 105 new fast foods over 2008.**

American fast food chain, that entered Russia in 1990, currently operates a network of 127 outlets in 37 cities of the Federation. With 105 new units, it would nearly double its presence within the next three years.

This year, McDonald's expects to roll its network worldwide while opening a total of 350 fast foods including 25 in the Federation, more precisely in Moscow, St Petersburg, Ufa, Kazan and several other cities. This decision was taken as Russian sales growth was 18% (\$ 310 million) last year compared to 24% in 2003. Now, Russia is its most profitable European market and one of the top four growth markets after United Kingdom, France, Germany and Spain.

Today, after fifteen years of presence and more than one billion Russians served, McDonald's greatest challenge is consumers growing health concern.

Source : The Moscow Times

**UNITED KINGDOM**

**Harvey Nichols: the London department store aims a global expansion.**

Harvey Nichols will open units in Dublin, Dubai and Hong Kong this fall, as it wants to become an international chain of 10 to 12 outlets. Thus, the fashion retailer takes a leap in a way, which few department stores have succeeded : in the U.S, Saks Fifth Avenue, an outlet of Saks Inc, and Barney's, recently acquired by

Jones Apparel Group, are both present outside home but they are small sized brands. Harrods, the eminent rival of Harvey Nichols in London, limits its presence overseas to a few airport boutiques and to corners inside Asian department stores.

In fact, department stores fear to open stores overseas as it is a risky adventure for many of them : the French Galeries Lafayette, which had opened an 4,000 sq.m outlet in New York in September 1991, in the famous Trump tower, had to close it in 1994 after three year of losses. Their Berlin unit is not yet profitable after seven years of operation. Barney's had difficulties in Japan due to problems with its licensee Isetan. Sogo and Takashimaya shut their London stores. Takashimaya keeps only one in operation in New York, and, like Sogo, focuses on Asian countries.

International expansion is a real challenge for department stores as they sell many different brands, hence the difficulty to offer the right product mix. It is difficult also for specialty stores : Gap had to close all its German units in 2004 because its price-conscious customers preferred H&M. On its side, H&M had a difficult start in the U.S.

Harvey Nichols, Saks and another British department store chain Debenhams chose to open shops in Middle East because consumers are more affluent and know their brands as they frequently travel in foreign countries. Saks is present in Riyadh and Dubai and could be in Bahrain, Kuwait and Qatar.

American department stores Nordstrom follow a different way. The chain bought the French Façonnable brand in 2000, after having sold it in its stores during several years, and is now present in 36 shops worldwide including 5 in the U.S.

Harvey Nichols was sold by the

Burton Group to Dickson Concepts from Hong Kong in 1991. The new owner soon realized that expansion would be limited with one outlet only. 4 units were added in U-K and the first outside U-K in 2000 in Riyadh. Currently, the chain aims the emerging markets including China and Turkey because operating costs are cheaper than in London or New York.

Opening outlets overseas almost never go it alone. Harvey Nichols, Saks and Barney's all license their brands to local retailers. According to the system, it is without financial risk as there is no investment, and, according to agreements, they have a tight control over those who operate and manage their stores.

**British Asda announced it will open at least 15 new stores in 2005,**

including superstores covering 10,000 sq.m of retail space, and smaller units of 1,500 sq.m. This way, it will add 92,900 sq.m of space. 6,000 persons will be hired in stores. 20 supermarkets will be refurbished and 15 extended. It is a total investment of US\$ 1.1 billion. In addition, it will roll out its new non-food format Asda Living and five stores will be opened in the first half of this year. Totally, the firm, owned by Wal-Mart, operates 266 supermarkets and 10 hypermarkets, 1 Living and 6 George apparel stores in United Kingdom...

Asda bade recently for the family-owned Littlewoods and its 186 variety stores for £ 500 million (\$ 944 million). Next, New Look and Arcadia chains are also interested in acquiring them....

**NORTH AMERICA**

**UNITED STATES**

**More sales at malls in 2004 according to ICSC.**

Last year, sales per sq.m of U.S. shopping centers were up 4.2%, the greatest jump in 11 years according to a study by the International Council of Shopping Centers. Centers in the west part of the country were particularly performing with a 7.1% increase in sales per sq.m from 2003. These figures reflect sales →

**International expansion of eminent department store chains.**

stores	country of origin	foreign presence
Harvey Nichols	U-K	Saudi Arabia
Saks Fifth Avenue	U.S.A	United Arab Emirates
Barney's New York	U.S.A	Japan
Galleries Lafayette	France	Germany
Lane Crawford	Hong Kong	China, Macao, Taiwan
Takashimaya	Japan	U.S.A, France, Singapore
Mitsukoshi	Japan	12 countries including USA, Europe and Asia

Source : WSJ Research, The Wall Street Journal

# In a booming India, modern retailing is expanding and its new malls attract young and affluent consumers

## New rich consumers are growing at the same rate as economy.

According to Merrill Lynch and its World's Wealth Report, there are 61,000 millionaires in India compared to 84,000 in Russia and 236,000 in China. The number of persons with one million US dollars should grow from 11,000 in 2003 to 18,000 in 2004.

These rich Indians have boosted urban consumption by 12% in 2002 and 16% in 2003 or three-quarters of the country's total growth. KSA estimates that the 12% to 15% urban spending in 2004 will be maintained at the same level in 2005. Now, young consumers with steady growing high disposable incomes have a greater propensity to consume than other segments of the population.

The Central Statistical Organization recently published that private final consumption expenditure rose by 8.24% in 2003/4 from a year before. It indicates also the great change in the consumers' preferences away from food to other sectors. In fact, food spending has been constantly sliding for years : in 1971/72, it accounted for 56.36% of Private Final Consumption Expenditure (PFCE) and declined to 39.3% in 2003/4. This decline has been close to 6% since 1999/2000. In food, hotels and restaurants have been indicating a rising trend increasing from 0.71% in 1971/2 to 1.6% in 2003/4 and revealing the disposable income growth.

More precisely, the share of refrigerators, cooking and washing machines purchases has grown from 0.11% to 0.42% of the total expenditures in the past three decades showing an average growth rate of 8.6%.

**Retailing is one of the sectors in which the Indian government pushes to raise foreign investments** according to the annual economy-policy survey recently released.

In case this initiative is implemented, it would be a great opportunity for global retailers like Wal-Mart, Carrefour, Tesco, etc... As for now, foreign

companies are not allowed to own stakes in retail firms and, if McDonald's, Nike and Tommy Hilfiger are already present in India, it is through franchise agreements only.

This survey pushes to the liberalization of the rigid labor laws, another delicate subject, as it is currently necessary to ask for the government's authorization to fire workers. The liberalization would help the country to better compete with China, Brazil and Mexico in sectors such as the textile production. It seeks also to sharply reduce India's strong fiscal deficit in order to reach the 8% annual growth targeted by New Delhi.

The survey also pushes to the complete opening of the Indian retail trade mainly dominated by small traditional operations while international operators arrival could threaten them. According to governmental statistics, 7% of India's workforce is employed by the retail trade, which accounts for 14% of the GDP. Anyhow, the Finance Ministry estimates that these foreign retailers will create «greater outlets for sourcing and marketing of Indian products» and that «organized retail formats will contribute to improve their quality, create efficient supply chains and generate a greater employment.»

## Key figures of the Indian retail sector.

Market size	US\$ 286 billion
Estim. Growth 2003/2008	8.3% annually
Employees	About 7% of population
Contribution to GDP	Roughly 14%
Store number	12 million
Anticipated sales growth	24% to 29% for large outlets

Source : *The Wall Street Journal*

## The Malling of India : up to 600 malls are likely to be opened or are in the pipeline by end of 2009 from 20 in operation in 2004.

Shopping centers have been multiplying in this country at a frantic pace and consumer credit has tripled in five years. Luxury products such as Gucci and Mercedes are rushing into the country, plasma screen TVs sales have more than trebled since 2003.... Vuitton luggage open shops in most of the country's main cities. "These people aren't just

rich; they're super-rich" says Louis Vuitton India's general manager.

Retailing enters a new phase and 2005 is a promising year. "The Indian middle class is showing all the signs of a nouveau riche society... It has an unabashed desire to own everything that the upper classes have..." But this wealth has not only increased the number of shopping centers visits but shoplifting also. Now, security measures met a limited success as thieves are very rich "kids" who steal just for fun and not because they do not have the money for that.

A Jones Lang LaSalle statistic is somewhat disturbing as it announces a mismatch between mall retail space demand and supply by end of 2004 in most of the main cities of the country. In Mumbai, for example, demand is running about 180,000 sq.m while the supply is as much as 320,000 sq.m. A similar survey by Knight Frank says that no less than 2.5 million sq.m of modern retail space will be available in this country by end of 2005. It indicates that 23 malls will be opened in New Delhi, a similar number in Mumbai, 8 in Bangalore and as much in Pune.

Consequently, future large shopping centers seem to be in a delicate position. Experts have already begun ringing the alarm bell and questioned cities to know whether they can sustain so many malls considering high costs of real estate and the relatively low level of household spending throughout the country.

A mall construction costs range approximately

from US\$ 485 to 540 per sq.m. To reach the break-even point in this type of investment, the mall must register at least 4,000 visitors per day with 50% of them actually making purchases. This mall over-supply is risky as it may bore Indians hence the growing difficulty to attract them. In the past few years, some of them have felt the danger and closed. Several developers have tried to operate by themselves and failed by lack of experience. Others react and have started fixing a minimum rental rate with a percentage indexed on turnover.

**Mall retail space in various Indian metropolitan cities and mini-metros at end 2004.**

city	mall retail space (sq.m)		
	supply	demand	mismatch
Ahmedabad	30,000	30,000	-
Bangalore	175,000	90,000	85,000
Baroda	9,000	25,000	(16,000)
Chennai	50,000	150,000	(100,000)
New Delhi	220,000	180,000	40,000
Hyderabad	5,000	80,000	(75,000)
Jaipur	15,000	25,000	(10,000)
Kanpur	20,000	25,000	(5,000)
Kolkata	120,000	90,000	30,000
Mumbai	320,000	180,000	140,000
Pune	7,500	25,000	(17,500)
<b>Total</b>	<b>971,500</b>	<b>900,000</b>	<b>71 500</b>

Source : Jones Lang LaSalle

**ICSC 2005 Real Estate World Summit will be held in Istanbul (Turkey)  
20-22 April 2005**

ICSC will examine the way in which the industry can serve as a catalyst for socio-economic development around the world.

It will be the 30th Annual European Conference, the 13th Asia-Pacific Conference, the 9th Turkish Council and the 11th Middle East Council.

This year, the Congress will be specially brilliant with the presence of Lee Scott, Wal-Mart's president and CEO, as a lecturer on April 22.

For registration, contact :  
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1221 Avenue of the Americas, New York (NY) 10020-1099, USA  
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# Home Depot looking to Asia, or the international expansion of the world's largest home improvement and DIY chain.

Bob Nardelli, chairman, president and CEO of Home Depot, is looking towards the future, studying demographic changes and commercial environment while catering to a more diversified and aging population. "Over the next 25 years, The Home Depot will continue to innovate in how it merchandises, operates, locates and formats its stores... It will be a much broader player in a \$ 900 billion market versus the traditional DIY market. We will have a portfolio of businesses from foundation to finish with a broadening customer base, while continuing to focus on our core business."

Since 2001, The Home Depot has invested \$ 17 billion in 760 new stores, rehabilitation and technology in addition to employee training programs. Between 2005 and 2007, all its 1,853 outlets will be modernized. By end of the current year, approximately one thousand will be equipped with self-automatic checkout aisles. Totally, \$ 760 million will be spent on store modernization and 615 on new technology.

## **China, Home Depot's next market.**

Strongly present in the U.S, Canada and Mexico, The Home Depot looks to enlarge its horizon. Since 2004, rumors have been circulating about its possible arrival in Australia through acquisition of Westfarmers and in Europe, mainly in United Kingdom, through B&Q. But nothing materialized. Today, it is looking to Asia and its epicenter, China, as according to the current trends of GDP, the country might overtake United States in 2014! As for now, Home Depot's presence is still limited to two sourcing offices, one in Shenzhen and the other in Shanghai. No precise date has been unveiled yet, even if the firm obtained the green light from Beijing's authorities and a long-term lease was signed for its future Shanghai headquarters. It will likely enter the country through a firm acquisition.

The Chinese middle-class is steadily growing at the same pace as disposable revenues. Due to changes in fiscal policy, Chinese are now allowed to finance the value of a house to nearly 70% according

to Bill Patterson, Home Depot's Asia president.

While people spare almost 40% of their revenues according to estimates, the country is a huge market as the home ownership generates high investments in lumber and building materials. Demand for floor covering should increase 7% a year over 2008 to 2.5 billion sq.m according to Freedonia Group. Measured in yuan, the Chinese currency, annual growth will be close to 10% due to the growth in average materials price. Laminates demand will increase 16%.

However, China is a mainly urban market considering the many high apartment buildings. Hence necessary changes in Home Depot's strategy as it cannot offer the same merchandise mix, for example lawn and gardening products, in Chicago and in China.

Whatever the model, the market is huge and "As home-improvement chains are actively expanding in this market, we cannot afford to wait any longer" declared Home Depot's Asia president.

Global retail sales culminated to US\$ 240 billion last year in China, a market mainly dominated by local firms. Among international specialized retailers, we find the recent presence of the French Leroy Merlin in Beijing and the German Obi in Shenzhen. British B&Q operates 20 stores in 11 cities and expects to add 80 by 2009. Its parent company, Kingfisher, recently bought 5 PriceSmart from Costco with the aim to convert them to the B&Q format. It may be in anticipation of Home Depot's imminent arrival in this market!

China's presence could be a springboard for a Home Depot expansion in Southeast Asia, an area where many economies are gaining strength and financial operations begin taking off. According to Visa International, there are currently 4.2 million of credit cards in Thailand or 1 per 4.4 households.

## **Mexico, a land of expansion.**

Home Depot's largest challenge was its acqui-

sition in June 2004 of Home Mart. It was its single competitor of big-box stores in this country. While including 2 stores in the pipeline, there were 44 Home Depot by end of 2004, which makes it Mexico's largest retailer. It entered the country in 2000 only and its expansion is still in its infancy in this market of \$ 15 billion, highly fragmented with many specialty small and middle-sized firms. There are many expansion opportunities in Mexico City, Guadalajara and Monterrey where it has a presence. They are also important where it is absent, in Aguas Calientes and Vera Cruz.

Mexico is a land in total contradiction with its north continental neighbors. Family disposable revenues are more limited with a GDP of \$ 6,000 per capita. Thanks to a 4% growth in 2004 its economy is far from China (9.1% according to OECD). But, while it is still an emerging country by GDP, there are positive factors for home-improvement retailers. In fact, Mexico's president declared that the housing sector is one of its highest priorities and he specially focuses on a greater access to mortgages and loans. In addition, consumers, men like women, have shown a strong affinity for improving their homes.

### Home Depot to become the largest Canadian retailer?

As for expansion, 2005 will be very important for Home Depot Canada (116 stores), which has planned to add 25 outlets or a 33%-growth from the previous years. It seems it is on the way to become Canada's largest retailer and to overtake Wal-Mart Canada and Loblaw with a 14% share of the market, followed by Canadian Tire and Rona with 12% each.

It has to solve a challenge in logistics to expand in Canada as the geographic market is important but it is much more smaller than the U.S by size. To

reach its goal, Home Depot bets on 5,500 to 6,000 sq.m units for smaller markets. It is based on the fact that Canadians are not reluctant to drive during three or four hours to reach the nearest store.

In the fiscal 2004/5 to February 22, The Home Depot is expecting a 12.5% sales increase to \$ 73 billion, a 20% growth of profit per share and 5% of its same-store sales. This way, it has achieved its best annual performance since 1999.

As for 2005, it forecasts sales growing between 9% and 12% to nearly \$ 80 billion, profit per share growing by 10 to 14% and same stores sales by 4 to 7% thanks to 175 new stores this year compared to 159 in 2003 including 19 in Canada and 10 in Mexico. It hopes that sales in Mexico will grow to \$ 1 billion by end of 2005 and to 70 outlets by end of 2006. ■

Source : Home Channel News

## LA LETTRE DE LA DISTRIBUTION INTERNATIONALE,

a monthly newsletter, 11 issues a year,

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per sq.m and do not include tenant turnover. This growth could be the signal of a trend inversion those past years as conscious-price consumers rushed into discount stores.

Between 2002 and 2003, sales per sq.m of the 450 malls surveyed by ICSC grew by 0.8%. The previous biggest record was hit between 1997 and 1998 at 2.8%.

It seems that a new tenant mix, new decor and design attract customers again. The highest sales growth was registered at videos and DVDs stores with a 11% increase, followed by children's shoes (6%) and apparel and accessories - which account for more than half of mall space- (4.8%) while sales at stationary, bookstores and novelty stores experienced a slight decline.

**Federated has bought May for US\$ 11 billion (€ 8.30 billion). The merger produces the second largest U.S department store group ahead of J.C.Penney and behind Sears with \$ 30 billion in sales and combining a thousand units throughout the United States. Consolidation within the department store sector pushes developers to include discount stores as new anchors in their shopping centers.**

The operation was successful this time after three previous merger talks in the late Eighties that failed due to May price. The new group will have a greater buying clout and multiple cost-saving opportunities of roughly \$ 450 million by 2007 following the consolidation of headquarters, back office and buying operations. In addition, Federated has now a presence in 15 new markets including Texas and covers a total of 49 States.

The acquisition is still subject to shareholder and government approval. It will generate massive layoffs and the disappearance of retail nameplates considering Federated's aim of concentrating on Bloomingdale and Macy's. Both enterprise cultures are very different: May is more centralized while Federated is more regional with a single brand accounting for 25% of its total business. May is also more price promotional. It owns 70% of its real estate while Federated owns 50%. 460 of May's

485 stores are mall-based units and 435 of Federated's 459. There are 101 shopping centers with both May and Federated department stores as anchors.

**Both group figures.**

US \$	Federated (1929)	May (1910)
Revenues	15.61 bil.	14.4 bil.
Profit margin	4.54%	4.39%
Operating margin	8.93%	6.96%
Total cash*	212 million	94 million
Total debt*	3.88 bil.	6.86 bil.

Federated stores	May stores
423 Macy's	54 Lord & Taylor
6 Bloomingdale's	102 Filene's, Kaufmann's
	75 Robinsons-May, Meier & Frank
	81 Hecht's, Strawbridge's
	70 Foley's
	43 Famous-Barr, L.S.Ayres, The Jones Store
	62 Marshall Field
	425 David's Bridal

\* Figures for most recent quarter source : WWD

This deal is a good example of difficulties met by department stores whose global revenues slid 11.1% of total retail sales in 1994 to 6.6% in 2004, excluding autos. Meanwhile discount stores and supercenters, including Wal-Mart, jumped from 3.2% to 7.9%. For the past two decades, their market share steadily declined in almost every sector : in men's wear, it fell from 70% in 1982 to 38% in 2004, in women's casual wear from 75% to 35% and children's wear from 64% to 36%.

Before suburban shopping centers proliferate in the early Sixties, standing-alone department stores dominated retailing. Today, shoppers rush into Wal-Mart and Target stores where they find everything under the same roof at low prices. Occasionally, they shop at a specialty store or a luxury department store.

The department store cannot offer everything to everybody any longer. It is squeezed on one side between shops and luxury retailers such as Neiman Marcus or Saks Fifth Avenue and discount chains such as Wal-Mart and Target on the other.

The consolidation of the sector will leave in operation a few independent chains only, some regional names, and a few more prominent labels like Saks Fifth Avenue, Neiman Marcus and Dillard's.

Shopping center developers and owners faced the department store consolidation before when Lord & Taylor, Mervyn's and Montgomery Ward closed stores. Some like Westfield Group and Irvine Spectrum have already put Target and Wal-Mart with Neiman Marcus and Nordstrom as anchors in their centers...

**Sears to open a new off-mall store format under the "Essentials" brand.**

This new type of store will cover 9,000 to 10,000 sq.m of retail space on one level and feature Sears' products focusing on home and family life : various appliances, lawn and garden, electronics, apparel even some food items. The first 25 Sears Essentials will be opened from April.

Sears has already tested the off-mall formula under the Sears Grand banner : big-box standing-alone stores offer a wide assortment of products to compete with discount retailers such as Target and Wal-Mart. But the formula is still in its infancy.

While Sears hopes to boost its activity with this new format, it is still struggling with its 870 full-line department stores. The chain is being acquired by Kmart as it integrates its operations with those of Kmart Holdings Corp. In fact, the merger, that was announced last November, should be closed in March unless Vornado, which owns 4.3% of Sears capital, bids for it in a last minute offer. →

**Top five U.S department store chains.**

brands	sales (\$ bil.)
Sears, Roebuck & Co./Kmart Holding Corp.	55 *
Federated Dept. Stores/May Dept. Stores	30 *
J.C. Penney Corp	18.4
Kohl's Corp.	11.7
Dillard's Inc.	7.5

\* estim.

**The numbers on Sears.**

Entreprise value	\$ 11.6 billion
Store number	870 full-line department stores 1,100 specialty stores
2004 sales	\$ 36.1 billion
Cash on hand	\$ 4.2 billion

Source : *The wall Street Journal*

**Wal-Mart: 2004 annual net profit hit a record of \$ 10.3 billion, a gain of 13.39%, boosted by the international division.**

In the whole year 2004, domestic same-store sales grew by 3.3%. The Wal-Mart Stores division (discount stores, supercenters and Neighborhood Markets) was up 2.9% and Sam's Clubs 5.8%. The international division increased 18.3% to \$ 56.28 billion. Total revenues amounted to \$ 285.2 billion.

In the 4<sup>th</sup> quarter to January 31, the giant's net profit jumped 16.2% over the year up to 3.16 billion from 2.72 billion thanks to fewer markdowns at U.S. stores and a strong contribution of the international division to offset the impact of a fierce competition between discounts stores in the home market. Profit margins were under the pressure of costs for labor, health insurance and utilities. Net sales grew by 10% to \$ 82.2 billion from 74.5 billion a year earlier.

Same-store sales rose 1.5% only : the Sam's Clubs posted a 2% gain while the Wal-Mart Stores were up 1.4%.

International division sales were particularly strong as the weak Asia was more than offset by good results in Mexico. Operating profit jumped by 13.5% to \$ 978 million and sales climbed 17.4% to 16.78 billion driven in part by good figures in Latin America.

Wal-Mart Stores division posted operating profit of \$ 4.24 billion, up 9.3% and sales rose 9.5% to 55.45 billion in part driven by strong food sales at its supercenters.

In spite of growing profits, the quarter's figures were rather mixed. Sales growth slowed with lower-income consumers who continue feeling the higher utility bills and gas price. Growth main part came from revenues of other divisions such as the financial services.

As for 2005, WM president "expects even better results", a better merchandising, gas price

stabilization and an improving economic recovery. The Bentonville giant is looking at shopping centers as a potential growth. Centers owners and developers, avid of opportunities, are satisfied as they are currently facing the department store consolidation and looking for new anchors such as Wal-Mart and Target.

Wal-Mart has already opened a few stores in shopping centers : the first one in October 2004 in California and others in the former premises of department stores in New York area. Expanding this way into key markets with many high-income consumers, is a good strategy, as growth is imperative for it, which is more difficult the larger it becomes.

**About Wal-Mart facts.**

2004 revenues	\$ 285.2 bil. equal to :	The 2002 GDP of Austria
Total sq.m	Roughly 70 million	167 Malls of America
expects to open :	480 supercenters, discounts, neighborhood stores, Sam's Clubs and international units	Slightly more than one new store opening each day for one year
Sales associates	1.6 million equal to :	The population of Warsaw (Poland's capital)
Total customer visits per week	138 million	-
2005 expected capital expenditure	\$ 12 billion	The 2002 GDP of Cameroon or Lebanon

Source : *The Wall Street Journal*

**Toys R Us : the decision to split Babies R Us and Toys R Us is imminent.**

Since August 2004 when the toy giant announced the decision to spin off Babies R Us, nothing happened. In January, president John Eyler declared that he hoped to close its estimation of the restructuring means by July. The Board will then decide of the measures.

Meanwhile, names of potential buyers have emerged (*cf.LLDDI January and February 2005*) including those of Vornado Realty Trust and funds. Another bidder involves a group that includes former Toys R Us chairman and CEO, Michael Goldstein, who is now chairman of the Toys R Us Children Fund.

Even before the decision to split, TRU had undertaken its "remodeling" while closing 182 Toys R Us and Imaginarium early 2004 and cutting 3,800 jobs in the U.S. A year before, it had consolidated 5 warehouses into one.

Babies R Us, which sells furniture, clothing and accessories for babies, is the successful branch of Toys R Us (685 toy stores in the U.S and 603 overseas) as it accounted for three quarters of the mother-company's operating profits and just 15% of its \$ 11.6 billion revenues in the fiscal year 2003/4. During this exercise, Babies R Us same-store sales grew by 2.8% while Toys R Us slid 3.6%.

In spite of the uncertain situation, no consumer or investor left Toys R Us, a publicly traded company since 1978. Since last August, the share course has grown and while Christmas holiday sales declined compared to the year before, its market share has increased.

Toys R Us has taken measures to keep its top management, dangling bonuses of up to twice their salaries

if they stay aboard during the restructuring.

**Changes in household spending priority over 50 years.**

While spending has grown in the past 50 years according to the Bureau of Labor Statistics and its analysis of the American demography, priorities have changed. More than half is now invested in the home and car at the expense of food and alcohol. It is almost five times more than education and entertainment.

In 2004, the home improvement sector grew by two digits, mainly driven by the steady aggressive housing market. If it is expected to slowdown in 2005, the improving economy will generate higher spending in products and services of the sector. The home improvement channel is to grow at an average annual rate of 5.3% over the next five years according to Retail Forward. "To compete effectively, retailers must pursue at least →

one of the following strategies : enhance efficiency, differentiate merchandise, provide solutions and focus on customer service." On their side, suppliers have to improve their position on markets through diversifying and/or focusing on merchandise innovation.

the public recommendations but unless food industry feels really concerned, it will continue making Americans fat : 31% of the adult population is obese or a 13% growth from 1962.

Source : Business Week

It includes :  
- 540,000 sq.m of retail space,  
- an excess of 1,000 specialty stores under Chinese and English brands,  
- a Thai-style health spa, a luxury cinema with massage chairs,  
- 100 restaurants, karaoke bars, a café with mahjong tables,  
- 10,000 parking spaces,  
- developers : New Yansha Group who aims to attract 100,000 shoppers a day, a target still not reached. In fact, it claims to be drawing 30,000 to 50,000 visitors on weekdays (even far less according to analysts) as Chinese are more accustomed to department stores or supermarkets and not malls. Besides, nearly half of the Beijing people weren't aware of its opening.

**Average U.S. household spending allocation (% of total unadjusted for inflation).**

	1950	1960	1972	1984	1993	2003
Total annual spending	\$ 3,295	5,431	8,601	21,975	30,692	40,817
Housing	25.8%	29.3%	29.4%	30.4%	31.4%	32.9%
Transportation	13.8	15.1	24.0	19.6	17.8	19.1
Food / alcohol	32.65	26.0	22.6	16.2	15.2	14.0
Health	5.1	6.6	4.7	4.8	5.8	5.9
Entertainment/reading	5.4	4.9	5.2	5.4	5.8	5.4
Apparel	11.5	10.3	8.4	6.0	5.5	4.0
Education	0.4	1.1	1.1	1.4	1.5	1.9
Other	5.5%	6.8%	4.6%	16.3%	17.1%	16.8%

Source : Bureau of Labor Statistics Data

**The secret to better health is to count calories and exercise! It is what the federal government says in its new dietary guideline.**

Government's guidelines are unlikely to change that trend. Food makers are not feeling very much concerned, as suggestions are too vague. Moreover, the food activity makes most of its sales while selling products with fat or sugar, even both, so why would it change anything if consumers do not claim for it.

However, some among the industry admit that it is profitable to sell better products for people even if food sales grow only by a few percentage points a year, about as fast as the population. To improve sales, it needs better-than-ordinary products and no category is currently more spectacular than health foods. For example, organic sales have been growing by almost 20% a year since 1997 to \$ 12.25 billion in 2004. Even if the performance is spectacular, it is clear that it is only a very small part of the total market.

However, most of the industry's initiatives seem factice. While McDonald's is addressing to diet-conscious women, its fast food outlets still make fries full of fat in spite of its promise in 2002 to propose healthier substitutes. Kraft Foods won points while announcing it would stop its TV advertising on snacks to kids under twelve.

In fact, the government can give

**ASIA**

**Big spenders and affluent consumers.**

In Asia, the monthly credit card bill totals US\$ 2.2 billion and translates the strong growth of consumption according to a study by Nielsen in 2003. If it fell 20% to \$ 711 in Singapore compared to three years ago, in Taipei it was reduced from 1,940 to 744.

This survey tracks the consumption habits, lifestyles and socio-economic characteristics of persons with high disposable incomes in 7 Asian capitals. It shows that spending in travels and luxury products remain strong among affluent consumers, with high incomes, high education and professional level, businessmen, CEOs or CFOs, or middle managers in Bangkok, Hong Kong, Jakarta, Kuala Lumpur, Manila, Singapore and Taipei.

Average personal incomes of affluent consumers in Asia stand at US\$ 27,000 per year. Those who live in Hong Kong are the richest with US\$ 65,000 or three times the regional average. Singapore comes next with 41,000.

Source : Retail Asia

**CHINA**

**Is Golden Resources, opened in 2004 in Beijing, the world's largest shopping mall ?**

Until recently, shopping centers were almost unknown to this country. Today, more than 500 have been built all those past five years.

Golden Resources claims to be world's largest mall surpassing West Edmonton Mall in Edmonton (Alberta, Canada), opened in 1981, that covers 493,000 sq.m of retail space and has more than 800 stores, 110 restaurants and 20,000 parking spaces.

**Merger of Shanghai Brilliance with Dashang.**

After two years of negotiation, both Chinese giants have decided to join their activities. Shanghai Brilliance (US\$ 13.87 billion revenues in 2004) will team up with Dashang Group, China's second largest retailer (2.79 billion). Both partners are establishing strategic bonds in the fields of management, marketing, engineering, personnel, logistics and investments in order to better face foreign competition. They decided to streamline their business networks and to open up to other markets. In these conditions, they will be able to cut their costs and to refine their competitive tools.

By end of 2004, Shanghai Brilliance had opened roughly 500 stores and Dashang operated more than 120 in the north and northeast region of China.

According to their agreement, a new entity was established under the name of Dashang International whose main activity is automobile sales and services, drugstores and e- →

commerce. It will target the north and northeast China with the ambition to become a large and modern firm with US\$ 6 billion revenues over the next five years.

### Appliance chain expansion in smaller markets.

Domestic appliance chains, in rapid expansion in the largest cities of China, will enter small and middle-sized markets and meet a local competition.

**Gome Appliance**, established in 1987, and **Sung Hoe Appliance Chain** in 1996, have evolved from the trade of small electronics to become Chinese leading brands. They are respectively ranked second and third among a list of the top thirty Chinese retailers behind Shanghai Bailian Group with US\$ 1.79 and 1.27 billion in sales in 2004. Their annual expansion is in excess of 60%!

Their great success is lying mainly on their presence in large cities such as Beijing, Shanghai and Guangzhou. In Beijing alone, there are 12 Suning shops, 13 Gome and 50 Dazhong home appliance shops that cut prices. Their sales account for 60-80% of the city's total home appliance market. But competition has become so fierce that it led to shrinking profit margins. Consequently, they changed their strategy and decided to expand to smaller cities where department stores are still dominant in this type of activity.

**Gome Appliance** has planned to open 200 stores in China mainly in the second-tier markets located in the north region of the country. Its plan is ambitious as it aims to add more than 1,000 units and US\$ 14.5 billion in sales by 2008. By end of 2004, it had opened more than 160 stores in 42 large cities and it would have sold for US\$ 3.6 billion worth of merchandise last year. In order to better reach these smaller markets, it is restructuring its management teams and tries to divide them into eight regions.

For the time being, **Suning** (130 home appliance shops) is present in major cities only and has also the ambition to expand to smaller markets. Both companies will face local players such as Dazhong, Yongle and Sanlian, which have all

succeeded in the rural markets of their respective regions.

### KFC is very successful in China.

While its sales are struggling in the United States, KFC dominates its eternal competitor, McDonald's, in China with 1,200 fast foods and operating profits exceeding US\$ 200 million in 2004 or more than half of the company's international division profits. Sales amounted to \$ 1 billion from 261 million in 1998.

Last year, 275 outlets were opened and the same number is expected to be opened this year. So that Yum's local operation's president, KFC parent company, thinks to operate more fast foods in this country than in U.S (5,463 KFC and 1,277 under various brands). While its success is based on chicken in China, KFC has adapted some dishes to Chinese tastes. According to consumers needs, seasonal vegetables can be added, from bamboo shoots to lotus roots and to rice porridge and winter soup.

Other Yum's brands are present in China, including 146 Pizza Hut (39 were opened in 2004); Taco Bell is testing a "casual dinner" formula but KFC is clearly in its expansion core. More than 100 KFC fast foods have appeared in Beijing and Shanghai and the chain expands to each province and region of China except Tibet or 280 towns from 20 in 2000. Most of them belong to the parent company or are operated in joint ventures.

In the United States, KFC has faced a very saturated market with burger chains that have added chicken to their menus. Same-store sales have trended downward the past two years. In China, KFC has outpaced McDonalds (600 restaurants), which expects to add one hundred units in 2005 and operate one thousand by 2008.

## JAPAN

### Seiyu posts its third straight yearly loss. Other groups suffer in the archipelago.

In 2004, Seiyu registered a net loss of \$ 117.3 million compared to 75.4 million a year earlier, or more than triple its earlier estimations, on net sales to 9.8 billion, a 3.7% decrease.

Worse, this decline seems to be accelerating as sales fell 5.7% in the second half and 3.5% in the first. The retailer, struggling to put Wal-Mart's policy of low prices into practice, estimates that sales will still slip by 2% this year and does not expect profits before 2006.

The Japanese retailer, 37% owned by Wal-Mart, is struggling not only under the pressure of its heavy debt but, like all large supermarket chains, it is losing ground to specialty stores. It is also suffering of poor sales in November and December, having postponed to expand attractive merchandise at competitive prices such as clothing and furniture. A restructuring program, high costs and changes in sales policy following reforms, led by Wal-Mart, precisely the set-up of new technologies and selling techniques added to its problems.

Japanese consumers are not merchandise price-conscious as they associate them with a poor quality. Beyond, they buy more fresh produce than shoppers elsewhere. It makes difficult to cut prices as most of the Japanese farmers and fishers are family-run operations offering generally better prices on small orders than on larger ones.

It is true to say that **Wal-Mart** is not the only one retailer having a concern in Japan. While convenience and specialty stores are prosperous, big-box stores continue suffering. **Aeon**, Japan's largest retailer, invested more than \$ 300 million in new computer systems those past two years and has tried to use its size to bypass middlemen. **Carrefour** has just announced it has reached an agreement with Aeon concerning the sale of its 8 hypermarkets. While the hypermarket formula is profitable, its market share (0.1%) was too small to increase sales....

As concern **Daiei**, another icon of the local retail, its fate lies in the government's hands, which apparently has chosen Marubeni for its rehab.

Wal-Mart, which owns 37% of the capital of Seiyu, has an option to grow to 50.1% before the end of this year, unless local problems oblige it to leave the market... ■