

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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Publisher : Patrice de Chabot

e-mail : pdechabot@chabot-associates.com

Chief editor : Brigitte Guillot

e-mail : bguillot@chabot-associates.com

7, rue Fould, 78600 Le Mesnil-le-Roi - France

Tel/Fax : 33 (0)1 39 12 17 93

Web site : www.chabot-associates.com

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INTERNATIONAL

Global brands suffer, private labels take off in Europe.

Sales of Nestlé food products slid 0.4% in 2004 and sales of bottled waters such as Perrier and Vittel fell 8.4%. Danone and L'Oréal are also facing the same trend. If the weak economic condition explains the slowdown, global brands suffer also from the fact that retailers give more shelf space to their own labels. As retailers turned to private-label producers it explains why share of global bottled waters slipped in Europe from 53% in 1997 to 40% in 2004. The wave is now reaching cosmetics and baby products, sectors where customers used to be more reliable on trusted brands, and it is another concern for global brands.

Until recently, global brands did not lose much ground over private labels. In fact, for years, grocery house-brand products were often manufactured by companies such as Nestlé, Cadbury Schweppes and H.J. Heinz whose own brands, more expensive, were sitting on nearby shelves.

In the U.S, the share of private labels market has stabilized at approximately 16%. In Europe, home-brand labels are now taking off as they are buoyed by the fast growth of hard discount stores such as Aldi or Leader Price whose assortment is almost composed of home-brands labels that are 20% to 40% cheaper than global brands.

Famous retail chains such as the French Carrefour have reacted introducing a line of home-brand products at low prices in 2003, which now generates \$ 1.6 billion in annual sales. Ahold and eight other European retailers have established an "alliance" with private-label manufacturers in order to negotiate purchases of hundreds of products sold under the name of Euroshopper. If customers are satisfied, retailers are also satisfied as these manufacturers generally have much lower margins

than global manufacturers.

Private-label manufacturers range from small regional makers of dairies to large-scale manufacturers such as Germany-based Freiberger, Europe's largest producer of frozen pizzas. The British McBride, which began selling bottled bleach to convenience stores at the end of World War II, is now supplying big retailers such as Tesco with almost everything, from shampoo to dishwasher soap in containers similar to those of competitors such as L'Oréal or Procter & Gamble!

Some big manufacturers are not concerned by the wave such as Coca-Cola and Mars that keep their customer loyalty. Some decided to join it : Nestlé already signed an agreement with Lidl to sell Vittel bottled water in its stores.

But the threat exists and global brands may face the competition from private-label brands in emerging markets from Poland to the Philippines.

Source : Business Week

EUROPE

BELGIUM

Delhaize le Lion has reported net earnings up 23.5% in full year 2004.

Net earnings of the Belgian food retailer increased significantly by 23.5% to € 211.5 million. Sales decreased by 4.5% to € 17.9 billion including US\$ 15.8 billion in the United States due to the weakening of the American dollar by 9.1% and 52 sales weeks in the U.S. versus 52 in 2003. Adjusted for both items, sales would have grown by 3.9%. Net profit increased strongly due to higher margins and lower exceptional expenses and in spite of a weak dollar.

The Delhaize Group has reached an agreement to acquire Cash Fresh →

In short...

The Chinese billionaire Li Ka-shing has decided to open 15 perfume shops in Turkey through his Hong-Kong subsidiary AS Watson.

The first shop was opened in March under the "Watsons, Your Personal Store" banner. Totally, one hundred chain stores is planned in various cities including Istanbul, Bursa, Izmir and Ankara over the next five years in partnership with Turkish Cosmo Shop (6 stores in Istanbul and 1 in Bursa).

Cosmetics and beauty products have become an attractive market in Turkey with annual sales of 1.5 billion and 2 billion expected in 2006. It is a sector, which attracts the young population.

AS Watson bade € 900 million in January for the French Marionnaud...

Conforama, the furniture retail division of the French Pinault-Printemps-Redoute (PPR), opened its tenth store in Switzerland on March 2nd in Emmen near Lucerne.

This new store of 4,800 sq.m selling area is located inside a shopping center.

Conforama has been active in Switzerland since 1976 and operates 10 stores including 4 in the French-speaking Switzerland, 5 in the German and 1 in the Italian-speaking part. Last year, its posted sales of € 229 million...

An Edeka supermarket in the southwest of Germany has introduced the fingerprint check-out. After customers have registered their identity card and bank, they can shop immediately. The scanner compares the customer's fingerprints with those in its database along with account details. The risk that two persons have the same fingerprint is about one in 220 million...

Auchan might open a hypermarket in Saint Petersburg in 2006. The French retailer is now negotiating the purchase of a land from the local administration...

Ikea plans a \$ 130 million complex in Urals, in Iekaterinbourg, the country's fifth largest town...

for € 113 million. In 2004, the small chain posted € 209 million in sales. This operation reinforces Delhaize as the second largest Belgian food retailer by adding 43 supermarkets. It will bring its count to 820 stores in Belgium, the Grand Duchy of Luxembourg and Germany by end of 2005 and to approximately 2,680 totally.

FRANCE

Système U plans € 15 billion sales in 2005.

France's third largest independent group has set as a target to :

- generate € 15 billion in sales,
- grow its food market share to 8.5% versus 8.1% in 2004,
- operate 860 stores under three banners : Hyper U, Super U and Marché U growing by 85,000 sq.m to reach 1,619.000 sq.m. One third will be through organic growth.

From 2006, Système U expects to open 100 stores in five years and launch the new concept of urban superettes in tourist cities and in Paris.

In 2004, sales including VAT were up 6.53% to € 14.686 billion including gas. Gross margin decreased by 0.1% and staff costs, which account between 8 and 10% of sales, increased as well as amortization and financial expenses due to new store openings. Net profit was between 2 and 2.25% of sales.

Key figures by Group's brands in 2004.

	Hyper U	Super U	Marché U
Store count	43	659	147
Sales incl.VAT and petrol (€ bil)	2.22	11.55	0.74
Part of Group's sales	15.12%	78.65%	5.04%
Variation	+6%	+7.6%	-

Source : Système U

Système U has the intention to set up a European platform which would gather other European independent groups including the French Centres Leclerc and Conad from Italy. This platform would help to negotiate massive purchases of "First-price" products and know-how exchange with global brands. Currently, Système U expects to increase its private brands from 40% to 50% of its total sales volume within the next three years.

Leclerc opens sporting goods units.

The Group of independent retailers has opened its first Sport & Loisirs store in the north part of Paris. Through this 9th diversification in the sporting goods sector, it aims to gain 5% of a market estimated at € 9 billion (up 3% in 2004) and controlled by Decathlon (32% market share), Intersport (10%) and Go Sport (7.7%). Four units were opened end of March covering 800 to 2,200 sq.m of retail space. Over a year and half, 23 will be in operation and one hundred by 2010.

The Group's other diversifications accounted for 8% of its total sales, excluding gas, in 2004 and grow at a 10% average annually. They are : para-pharmacies (7% of the market, 80 stores), jewellery stores (6%, 241), travel shops (11%, 139), cultural product shops (12%, 75), auto accessories (7%, 80), DIY/garden centers (65 stores), perfume shops (22) and gas stations (476). The Group expects to open 200 stores or "specialty spaces" over end of 2006 bringing their total count to 680. Group's sales grew by 4.6% in 2004 to € 28.37 billion.

Carrefour exits Mexico and pulls back in Japan.

Overall, revenue rose 3.1% in 2004 to € 72.7 billion and EBITDA 0.9% to 4.9 billion despite the cost of price investment in France (€ 400 million). But EBIT declined 0.5% to 3.234 billion.

At Carrefour French stores, sales slid 8.3%. EBIT

decreased by 8.3% to € 1.97 billion, a figure that was not offset by the international performance (EBITDA declined by 0.5%). Financial costs were cut by 8.5% and net debt was down 14% by 1.1 billion. Net profit fell 14.9% to € 1.4 billion due to the decrease in store value in Korea, Poland and Taiwan. It included a € 90 million charge to sell its stores in Japan.

In 2005, José Luis Duran, appointed the chief executive officer as Daniel Bernard resigned, wants to improve the



non-food performance of French hypermarkets. He announced that they all are number one or number two locally versus 30% early 2004. Investments will be maintained to continue cutting prices and to spur private label items and low price products. He expects a ROCE growth between 19% and 20% and, for the next three years, a 5% to 10% growth of annual sales at constant exchange rates versus 4% in 2004 through improvement of like-for-like sales, acquisitions and new openings. In addition, he expects to add at least one million new sq.m : 70 hypermarkets including 22 in France, 15 in China, 7 in Brazil, 6 in Columbia, 5 in Indonesia and 3 in Poland, plus 140 supermarkets, 620 discount stores and 275 convenience units.

2004 Carrefour key figures.

(€ million)	2004	2003	2004/2003 change
Sales excl.VAT	76,668	70,486	+3.1%
EBIT	3,234	3,251	-0.5%
Recurring net profit group share after GW	1,662	1,620	+2.6%
Net profit, group share	1,387	1,629	-14.9%

Source : Carrefour

The sale of Carrefour Mexico and Japan is part of a program to sell € 1 billion (\$1.2 billion) in assets, divesting non-strategic or under performing activities. It was reached in six months instead of 15 months as previously stated. It began in November 2004 with the sale of its stake in Modelo Continente in Portugal for € 345 million. Then world's second largest retailer after Wal-Mart in sales sold its 8 hypermarkets (1.4% market share) to the Japanese Aeon, first local retailer with 650 supermarkets and 460 various stores for an amount representing 20% of net sales or € 326 million. The agreement involves the use of the Carrefour brand in Japan, the collaboration on selected commercial concepts and the sale of Carrefour private label products in Carrefour Japan stores.

The Japanese adventure, limited to 8 stores only compared to 15 previously planned for the end of 2003, would have cost € 250 million. In fact, Carrefour misunderstood the Japanese consumer habits and faced a difficult and costly real estate market.

In Mexico, where the retailer has been operating for ten years, its market share was too small (2.7% only) with 29 hypermarkets (2 in pipeline in 2005) to continue. Carrefour Mexico was sold to Chedraui (64 food stores in the south part of the country) for the equivalent of 82% of its pre-tax sales in 2004 (€ 519 million).

In Italy, Carrefour expects to become the country's second largest retailer. It signed an agreement with the Italian Finiper (24 hypermarkets, pre-tax sales of € 1.6 billion in 2004) in which it owns a 20% stake. There will be a call option for Carrefour over 31% of Finiper and a put option for Brunelli, the major shareholder, over 80% of the shares of Finiper.

Casino : operating income of the international division improved significantly to € 101.6 million in 2004, up 76.5%.

The Group has reported an increase of 0.8% of consolidated net sales to € 23.1 billion. Organic growth was up 3.8%. Operating income rose 4.7% to 1.2 billion including 1 billion in France (+ 0.6%).

In France, sales grew by 1.7% to 18.6 billion as the Group added 148,600 new sq.m. 70% of the new openings concerned Franprix/Leader Price hard discount stores and convenience stores. Operating margin was at 5.5% in spite of price cuts. EBIT of Franprix/Leader Price jumped 7.6% to 336.8 million. Costs reduction in Géant hypermarkets helped to maintain their operating margin at 4.1% of sales (€ 291.9 million).

International markets accounted for 20% of Group's sales or 4.5 billion, 16% of EBITDA and 9% of EBIT. Operating margin grew from 1.2% to 2.2% and EBIT was up 76.5% jumping from 57.5 to 101.6 million. Organic growth was up 12.5%. They confirmed their role as growth drivers. Most notably, the US, Poland

and Thailand saw sustained sales growth up 13%, 6.7% and 12% respectively. There was a clear sales recovery in Latin America (+29.2% at constant exchange rates). Poland was profitable again in the second half (€ 1.3 million). Laurus, 45% owned by Casino, posted an operating loss of € 111 million, which had a negative impact of 34.8 million on Casino's accounts. The Dutch company recorded a net loss of 128 million for 2004, versus a 9 million profit the year before.

In 2005, Jean-Charles Naouri, Casino's previous chairman of the Board and recently appointed CEO, wants to speed up development in US (17 new stores), in Latin America (Brazil and Venezuela) and in Thailand, improve profitability in Poland (42 new stores including 2 hypermarkets in Poznan and Lodz) and in Taiwan. He also expects to improve Laurus results. In addition, 160,000 new sq.m of retail space will be added of which nearly two-thirds for discount and superette stores. Tests of Géant Discount, new smaller hypermarkets of 6,000 sq.m average area, and of Discount Casino (1,500 sq.m, 5,000 items) will be accelerated.

PPR : 2005 will be the year of organic growth, international markets will be given first priority.

The Group, now headed by François-Henri Pinault, has reported a net profit of € 940 million in 2004, an increase of 46% buoyed mainly by the sales-gain of Rexel and the last part of Finaref financial services (€ 677.6 million). Sales decreased 0.6% to 24.2 billion. Net debt was cut from 7.9 billion to 4.5. In the full year, Gucci was consolidated on the basis of 14 months from November 1, 2003 to December 31, 2004 and Rexel was no longer consolidated in the Group's accounts with effect from December 2004.

Pro forma, the Luxury Goods and Retail divisions reported EBIT growing by 19.4% to 1.08 billion on sales of 17.2 billion, up 6.4%. Operating margin was 6.3% versus 5.6% a year before. In the Retail Division (84% of sales and 73% of retail profit) operating margin slid from 5.4% to 5.3% following tax →

increases of € 11 million in France.

By end of February 2005, sales of the Luxury Goods division grew by 15.1% and the Retail division by 3.6% only. Sales slowed down due to the late sale period compared to one year earlier. As concern 2005, the Group bets on organic growth with priority to international, the strengthening of its two complimentary divisions while continuing the streamlining of purchases.

Key figures of PPR Group in 2004.

(€ million)	Pro forma luxury goods (*) and retail	
	2004	2003
sales	17,209.9 (-0.6%)	16,174.2
gross margin	7,441.2	6,949.5
EBIT	1,079.9 (+19.4%)	904.5
profit/sales	6.3% (+0.7 point)	5.6%

Source : PPR * consolidated on the basis of 14 months from November 1, 2003 to December 31, 2004

Galleries Lafayette SA : consolidation of family control of the Group with the support of BNP Paribas.

Historically the founding Moulin and Meyer families have been the controlling shareholders of the Galleries Lafayette Group until recently. The Meyer family has decided to dispose of its interest in the group and BNP has acquired the Meyer family's 29.5% interest to further support the Moulin family. Semad, a Moulin family holding company owning 61.1% of the capital, filed a public tender offer for the outstanding share capital of the department store group whose financing will be provided by BNP Paribas. The offer values the retailer at € 3.15 billion.

This operation allows BNP Paribas to increase its interest in Cofinoga, the store's credit arm, to 50.0 percent from 49.0 percent. Until now Galleries Lafayette owned 51.0 percent of this subsidiary. Cofinoga, which is also the third-biggest French consumer credit lender, is to develop a close association with Cetelem, the consumer credit arm of BNP Paribas.

French mutual bank, Crédit Mutuel that acquired a 15.84% stake in Galleries Lafayette in December, seems now to be a little isolated.

In 2004, operating margin improvement for the third following year at 5.67% of sales versus 5.15% a year before.

The Galleries Lafayette operating

income rose 12.1% to € 319.1 million and full year revenue was up 1.9% only to 5.6 billion. Net retail profit climbed 16.5% to 133.9 million.

Last year, operating profit of the department store division grew by 37% to € 52.6 million on annual sales up 3.5% to 1.9 billion.

The home-improvement chain, BHV, had a € 8.3 million loss compared with a € 2.5 million profit a year earlier. It was impacted by refurbishment in 9 stores in 15. BHV's revenue dropped sharply from 598.4 million to 578.4 million.

LaSer/ Cofinoga, the services division, posted a 14.2% increase (€ 175.8 million) in operating profit and Monoprix variety store division 3.3%. (€ 108.5 million).

Key consolidated figures of Galleries Lafayette Group (in € million)

	2004	2003	growth
Revenue excl.VAT	5,632.5	5,530.1	+1.9%
Operating profit	319.1	284.6	+12.1%
Net profit group share	133.9	115.0	+16.5%
Net debt/equity	11.7%	17.5%	-

Source : Galleries Lafayette

GERMANY

Metro Group : net earnings buoyed by investments in Eastern Europe and Asia and the growth of its cash & carry, Media Saturn (consumer electronics) and Praktiker (DIY) retail divisions.

In 2004, Group's net profit was up 10.7% to US\$ 1.16 billion (€ 933 million) and sales up 5.3% to \$ 69.94 billion (€ 56.4 billion) including \$ 35.71 billion in Germany (€ 28.8 billion, up 1.7%). Earnings before interest, taxes, depreciation and amortization (EBITDA) gained 13.8% to \$ 2.24 billion (€ 1.81 billion).

Giant Metro, the world's fifth-largest retail group, felt the weak consumer conditions in Germany. As it was also under the pressure of the hard discount stores, sales at its Real hypermarkets, Extra supermarkets and Kaufhof department stores declined. Kaufhof continued to fall 1.3% to \$ 4.71 billion (3.8 billion). However, its 15 Inno department

stores in Belgium grew sales by 3.2% to \$ 318.2 million (256.6 million).

Metro Group is active in 30 markets and its foreign sales accounted for 49% of its 2004 sales versus 47.2% in 2003. It opened a Real hypermarket in Saint Petersburg (Russian Federation) last March and will add a new one in Moscow.

Aldi suffered from the weak consumer demand in Germany in 2004. Lidl remained on the expansive way.

Last year, total turnover of Germany's discount leader amounted to € 22 billion. But, for the first time, Aldi Nord's sales fell 3.1% and Aldi Süd by 2.8% while they opened approximately one hundred new stores during the exercise.

Lidl on the other hand increased its turnover by 4.3% to € 12 billion with only new 43 stores bringing its total to 2,500/3,000 units (the precise count is unknown).

It invested massively in advertising and reacted faster to market trends than Aldi. But the gap between both chains is still wide, Aldi being far ahead.

Like its competitors, Aldi is concentrating on its core business, food, and has decided to revise its dairy, cheese and hot drinks departments as their sales have significantly fallen last year.

Both chains are well positioned for the future with modern store networks and an excellent logistics base.

ITALY

La Rinascente taken over by Pirelli Real Estate for € 888 million.

A group of private investors led by Pirelli Real Estate has taken over Italy's largest department store chain, La Rinascente. It beat the French department store chain Galleries Lafayette, which teamed up with the Dutch Redevco. For this operation, Pirelli had joined forces with Deutsche Bank Real Estate Global Opportunities, private funds Investitori Associati SGR and →

Investors are venturing to Eastern Europe. Is ERBD's role on the downward curb in these markets?

ERBD, or European Bank for Reconstruction and Development, that expands its activity to Eastern Europe has recently declared : "Our strategy is to expand in Russia, Ukraine, Romania, Bulgaria and Serbia." In 2004, the bank accepted to supply more than € 200 million to support real estate projects. In 2005, it wants to re balance its portfolio in order that Russia, Romania and the Baltic States account for 60% to 70% of its new activity.

As a lender, ERBD mainly acts on development projects but its active presence in these markets located at the ends of Central and Eastern Europe is a useful indicator of the maturity of the banking system in this regional property. Thus, it often leads a group of commercial lenders. As foreign banks are more and more present in these markets and accept to lend on property projects, they appreciate ERBD's presence considering the higher risks of these countries. Generally, the bank's lends are for a period of ten years. This way it fills the gap between local banks, which tend to limit them to three to five-year terms, and needs for longer-term projects.

But German and Austrian banks, which seem to have currently outperformed ERBD's role in Poland, Hungary and the Czech Republic, are interesting in Eastern Europe's markets, stimulated by investment customers eager for higher returns. Rapid and unexpected compression of investment returns in Central Europe's markets has also cut profit margins for the less conservative banks. "A significant number of investors that took positions in Poland, the Czech Republic and Hungary in the late 1990s are now exiting these markets. Now there's a second generation of more conservative investors coming to central Europe, happy to buy at yields of 8% and the more opportunity-driven investors are looking for short to medium-term investment positions in new markets" declared head of Hypo Real Estate in Germany. The bank's strategy consists in following its international customers into these new markets including Romania, the Baltic States and Moscow while remaining careful.

Eurohypo is one among three German banks having declared its presence in this region. It is highly interested in Russia, Romania and Bulgaria and is on the verge doing transactions there. In Russia, it is not only attracted by Moscow and St Petersburg but also by secondary cities such as Nizhny Novgorod, Kazan, Samara and Perm.

New markets, new business cultures.

Enter new markets involves adopting a different

attitude in business. "The Russians have strong opinions about how they do business; the attitude is "We can manage by ourselves."

Aareal Bank from Germany is in advance in this market. It has already financed the debt on two different deals in Moscow and acts as the representative of a bank group to refinance the \$ 43 million of the new Gostiny Dvor II center that covers 40,000 sq.m in the capital. It is clear that "Positive economic signals and the increasing opening of the Russian market are stimulating the appetites of foreign investors" they say at the bank's head.

Estonia-based bank Hansabank, which is 60% owned by the Swedish bank Swedbank, has already consolidated its position in the property financing in Estonia, Latvia and Lithuania, mainly in the retail and hotel markets. It has also completed four to five refinancing deals for Russian developers and wants "to actively build up its banking presence in Moscow and St Petersburg". Within the next year, it plans to finance real estate deals to a large extent.

Among other foreign actors who try also to expand their presence in the real estate market, the Germany-based Raiffeisen, which is already owner of a \$ 330 million portfolio of mortgages in Russian residential and commercial sectors, Bank of Austria and Moscow Narodny, a Anglo-Russian hybrid banking unit.

According to Hypo Real Estate, the market prices offered by foreign banks have stabilized at 4%-5% above Libor index for senior lending compared to 1.4% to 1.5% in Prague, Warsaw or Budapest. Libor (London Inter-Bank Offered Rate) is based on rates that contributor banks in London offer each other for inter-bank deposits in Euroland. In effect, it is a rate at which a fellow London bank can borrow money from other banks. It is the reflect of a liquidity lack in the financial market and also an attempt to evaluate the legal risks related to the commercial ownership.

Banks high margins are in part the sign of the immaturity of the Russian banking system. Currently, there are more or less 1,600 banks while the market can really support 200 to 300 only. Their lending capacity is extremely limited, as they do not have access to a qualified, specialized and trained staff in property financing. Consequently, they are interested in short-term deals and lend for just two or three-year terms at 15% interest rates.

The Russian banks specialized in this sector and also the most active are Alfa and MDM. Their interest rates are around 12%-14% and amortization does not exceed five years. But they will have to change their methods under the pressure of the foreign competition, mainly from their Austro-German competitors.

Lack of assets in the Baltic States.

Investors are likely more frustrated by lack of products to finance than by lack of finance, they say at Invesco. "A portfolio in these countries is difficult to handle from an asset management point of view. But I don't think it would be a problem to get a loan, albeit with higher conditions than in central Europe's established markets." At Hypo, they think: "There's no reason for borrowing in the Baltic States to be priced differently from in the Czech Republic or Poland. They are part of the European Union and most of the office and retail schemes have western tenants. However, they suffer from being small when investors are looking for a minimum lot sizes of € 20-30 million". The bank is handling two deals in this region and already financed two projects in the Baltics.

Romania, Bulgaria and Croatia hope to become

EU members by 2007. "There is a higher level of harmonization with the EU than in Russia; we feel the same confidence operating there as in Central Europe" estimates the person responsible for Central and Eastern Europe at Eurohypo, who already succeeded in a deal in Bulgaria and is working on another one in Romania.

Romania seems to have a bright future ahead in the property sector. "Romania is the next big thing" confirm people at EBRD. "The people looking for high returns have now moved on to Romania". All big usual banks have already settled there. EBRD has particularly contributed to transactions leading to investments in the logistics sector of this country and holds a 25%-stake in the € 300 million Europolis E2 fund, the remainder being in the hands of the Austrian Investkredit Bank. This Europolis fund tries to organize a portfolio of 15 to 20 assets in Russia, Ukraine, Bulgaria, Romania, Croatia and in the former states of Yugoslavia. The goal is to find bank finance and to grow the total value of the portfolio to approximately € 1 billion. Considering the permanent evolution of the region's banking market, the chance to reach its goal seems to be reasonable. ■

Source : Europroperty

SPECIAL STUDIES

FRANCHISE, An expanding business in the global retail market.

Franchise is a still very recent formula. On the limits of Europe, it has become a dominant model with master franchise companies that mushroom in important, very profitable and respected activities. "Emerging markets, and Central and Eastern Europe in particular, are becoming fertile ground for retailers looking to expand into new markets" says an analyst at Verdict Research. "Franchising is seen as a fast route to expansion, which moreover removes some of the risk associated with international expansion as the retailer gains a partner with local knowledge." Costs and control of the formula vary but typically the retailer sells its licence to a local operator to use his name, brand and products during a specified period.

Famous brands use the formula.

Its growing popularity can be seen in the famous brands that use it, mainly in the fashion sector, which has been signing franchise agreements since the beginning of the decade: Zara, Mango, Debenhams, Topshop, French Connection and even Marks & Spencer. Targeted countries range from Greece to the Baltic States and Russia and Kazakhstan. Master franchise companies are mushrooming enjoying a profitable expansion. "They now make up a large percentage of the Greek retail market," explains

someone at Lamda Development, which is now building the country's first two shopping centers in Athens and Thessaloniki.

"Ten years ago, we had small shops selling a range of international and home-grown brands. But the trend has moved towards monobrand, with a polarization between Greek manufacturer-turned-retailers, on the one hand, and well-known international brands operating through franchises on the other. When letting our centers, we need to strike a balance between these two types of retailers -which means that invariably we need to develop a relationship with franchise groups."

Greece is a particularly good example of this evolution between retailers and franchise groups. Some master franchises control franchises of more than 30 international brands, from Kookai, French Connection and Max Mara (Notos Com) to Marlboro Classics and Harley Davidson (Elmec Sport), Nautica and Timberland (Ridenco). As they are listed on the Athens stock, their financial positions are transparent.

Marinopoulos, local partner of the French Carrefour in Greece, illustrates quite well the manner in which these companies evolve. In fact, this Group operates

franchises for Sephora, Starbucks, Grand Optical, Fnac and Marks&Spencer. It has now to introduce the Starbucks franchise into Switzerland and Austria and works with Marks & Spencer to develop the concept in the Baltic States.

Another good example is to be found in Turkey where Marks & Spencer's partner, Fiba Group, a subsidiary of the Turkish-listed Finansbank, would be in negotiation with the British retailer to operate franchise stores in Russia.

The Finnish department store Group Stockmann is establishing a franchise store chain for the Spanish Inditex in Finland and Russia. Stockmann and Fiba lightly differ from Greek master franchise groups. In fact, to be successful, they prefer to continue operating as diversified retailers instead of relying on a large number of franchised brands, with Stockmann focusing on its department store expansion and Fiba developing its Gima supermarket and Endi hard discount store chains.

Marks & Spencer sales accounted for just 10% of Fiba's sales according to recent figures and Gima the main part.

Franchise in the Russian Federation is adopting a wise attitude.

The formula appeared in the Nineties through international brands such as Baskin Robins, Nike, Reebok, Grillmaster, etc... Today, according to estimates there would be 200 networks of Russian origin in approximately fifteen regions in the retail, services and restaurant sectors. If difficulties pushed signs such as Tati, Pizza Hut and Uniland to failure, new Russian sectors interesting in the formula are real estate agencies, Ekonika footwear, Putiovok travels, Star and Galaxy leisure centers, hotels (Radisson, Holiday Inn...) and even the air travel company Aeroflot seems studying the formula.

In Russia, when franchise is used correctly, it is a very lucrative business : "Master franchise groups try to build up a portfolio of brands which would be seen in Europe as competitors and there is competition to get new brands which will increase franchisee profits." estimates Natali Oreshina at Cushman & Wakefield Russia.

Zara in Moscow would be one of the best stores of the Spanish fashion retailer and Mango, operated in master franchise by a Russian firm, has generated more sales per sq.m during a few months in 2004 than its London's Oxford Street unit. "The Russian market is still undersupplied with good brands and there remains huge potential for growth. Many of these companies are highly profitable and growing the number of brands in a portfolio is as important as growing store numbers because it allows them to develop concepts alongside each other rather than pursue one single brand to saturation point."

Master franchise expansion.

Under many aspects, the Russian model is similar to the Greek model with master franchise groups that control and build brand portfolios. Thus, Croceus International owns more than 50 brands including Sergio Rossi, Jennifer Lopez and Iceberg; Jamilko has the licences for Hermès, Christian Dior, Cerruti and Chevignon and East West Group operates the Max Mara and La Perla franchises. Competition between these Russian groups may be fierce but they are helped in their expansion by the fact that a relatively small number of international brands are ready to open wholly-owned stores in the Federation.

Western retailers, who are more and more interested in Eastern European countries, envy Russian franchisee groups. "Many franchise groups would love to take on more brands, more quickly. But they don't have access to cheap debt in order to expand quickly and secondly there is a big issue with personnel, we have a dearth of well-qualified personnel and experienced retail professionals in this country." Oreshina adds.

In Scandinavia, the Baugur Group obtained the quasi-monopole of the new incoming fashion retailers. He already holds Oasis, Coast, Karen Millen and Whistles brands through Mosaic Group in United Kingdom and expects to develop the four concepts in Scandinavia and the Baltic States and Oasis is opening also concessions in the Chinese department stores. Meanwhile, its Hagar subsidiary, whose main business is food retail in Iceland, holds the franchise rights to TopShop, Debenhams and Zara in Scandinavia.

How to open a franchise in the Middle Kingdom or the success of a small American firm after many difficulties.

American fast food chain Subway, which operates more units in the United States than McDonald's, is expanding very slowly in the People's Republic. For ten years, the firm has succeeded in opening 19 units in Beijing while signs such as A&W, Chili's Grill & Bar, Dunkin'Donuts and Rainforest Café have all closed their doors and came back home to U.S.

Today Subway or Sai Bei Wei (in Mandarin "It has a better taste than elsewhere") has become China's third largest American fast food chain behind McDonald's and KFC and all its units are profitable after many difficulties to make the franchise known in this country.

Jim Bryant settled in China by the end of the Seventies and opened a shoe factory in Datong, the coal capital in the north part of the country. Then, as he was interested in exports, he teamed up with an American seafood company that sold crab substitutes to Subway for \$ 20 million a year. Thus, he became the representative of Subway in China in 1994. According to his agreement, he had to recruit local entrepreneurs, train them to become franchisees and connect them with the mother-company. In exchange he earned

half of their initial fees of \$ 10,000 and a third of the 8% royalties. He was also allowed to open his own Subway restaurants.

At the time, all foreign firms had to team with Chinese partners. He used his local relationships to find the manager of his first restaurant. But he immediately met difficulties in his project for corruption reasons. The second restaurant was also a failure for the same reasons and he learnt that he had not to sign a lease with individual personalities because of corruption...

Once he was able to have his own restaurant and to manage it himself, he was immediately popular with the American expatriates. Chinese remained skeptic and stayed during several days outside of it and finally they entered to buy a sandwich. They did not understand that tuna salad was composed of a fish as they could not see neither head nor tail and ate their sandwich like a banana. Now, most of these Chinese customers did not want sandwiches. With time and patience, tuna salad became the most popular meal.

The franchise concept took time also. The word exists today and brands such as Athlete's Foot and Century 21 are expanding through the formula. In 2003, McDonald's granted its first franchise and the first local retail laws have been recently adopted.

Large franchisors.

Marks & Spencer, which closed all its wholly-owned stores in foreign countries in 2001, still operates more than 155 franchised units in approximately 30 countries. Their sales grew by 9% to £ 426 million (€ 623 million) in 2003/4 and they are profitable posting a 20% growth of their income while its British wholly-owned units are registering high losses.

Mango succeeded in its international expansion through franchise. It now has a presence in more than 70 countries with 750 stores. Its activity in Moscow is particularly successful while British franchised brands

complain about high start-up costs and low sales per sq.m.

Inditex prefers operating wholly-owned stores or sign agreements with affiliated companies. The Spanish retailer's international development is also successful. Its franchisees may complain about the rigidity management from Spain but agreements tend to be rather profitable.

Among other groups, there are Bhs, C&A, Debenhams, French Connection, Jennifer, Kookai, Morgan, Next Pro Mod, Sephora, Starbucks, Top Shop...

(From the editor, this article follows former articles on franchise in Russia, Italy, China, India...)

Sources :Plaza/Lettre de Veille Internationale

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Publisher : Patrice de Chabot,
e-mail : pdechabot@chabot-associates.com

Chief editor : Brigitte Guillot,
e-mail : bguillot@chabot-associates.com

LLDI - 7 rue Fould, 78600 Le Mesnil le Roi, France
Tel/fax 33 (0) 1 39 12 17 93
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Milan's Borletti family, owner of La Rinascente until selling it to the Agnellis in the Seventies.

Among other bidders of the Italian chain, which includes 148 Upim variety stores, there were private-equity firm BC Partners, which teamed up with Italian property and asset-management firm Beni Stabili and private-equity group CVC, which joined Morgan Stanley. Investors were very interested by the upscale commercial assets such as a space off of Milan's main cathedral and Rome's central Via del Corso.

Eurofind, a joint venture between the French retailer Auchan and Ifil, a holding firm of the Agnelli family, finalized the deal mid March. This operation will allow Ifil, which is also the largest shareholder of Fiat, to book a gain of € 500 million. It already sold non-food assets to Auchan last year for € 1 billion.

In 2004, La Rinascente posted a € 9 million of consolidated net income on sales of 925 million.

Sonae Sierra reinforces its presence in Italy and develops two new shopping centers.

The Portuguese developer is building two shopping and leisure centers in this country. The first one, scheduled to open in the second half of 2007, will be located in Biella between Milan and Turin. It is the result of a partnership with NovaCoop (Consorzio Nazionale Coop Italia) that operates 9 hypermarkets and 51 supermarkets in the north of the country. It represents an investment of € 72 million. The project will cover 34,675 sq.m GLA and include a NovaCoop hypermarket of 13,500 sq.m.

The second center will be built in Caselle, next Turin's airport and will be 100% owned by Sonae Sierra. It will cover 85,705 sq.m with a hypermarket (15,300 sq.m) and an entertainment center including a multiplex. It will be an investment of € 248 million.

Sonae is already being building Freccia Rossa in the city of Brescia, a project of 29,000 sq.m due to be completed by end of 2007. It represents an investment of € 114 million together with AIG (40%) and

Coimpreedit (10%), Sonae owning 50%.

Beyond, Sonae has another three shopping and leisure centers under management in this country including Oriocenter, opened in Lombardy in 1998, Italy's largest center and owned by German CGI. The other two, 45°N and Bicocca Village, belong to Pirelli Group and are respectively located in Turin and Milan.

NETHERLANDS

Ahold : 2004, a year of transition : net profit was multiplied by 8 in the 4th quarter boosted by higher margins at its U.S retail units and cost cuts.

Netherlands-based retailer, which derives around 70% of its revenue from the U.S, is now half way through its restructuring program following the accounting scandal at its U.S stores in 2003

In the 4th quarter, net income jumped to € 96 million from 12 million in the same period one year earlier. Revenue unveiled in January slid 3.1% to 12.4 billion as it was impacted by lower currency exchange rates, in particular, that of the U.S dollar and by divestments. In such a context, Ahold reiterated its target of operating margin and annual sales growth of 5% by end of 2005.

In the United States, operating income grew by 27% to € 258 million versus 203 in 2003. In the first three quarters, stores were under pressure from a fierce competition as the firm focused on the integration of Stop & Shop and Giant and on streamlining administration, logistics and management. EBITA jumped to € 31 million in the 4th quarter compared to 21 million in 2003.

During the full year, net sales slid 7.3% to € 52 billion; excluding currency and divestment impact it was 3.3%. Operating income was 195 million from 718 million, a 72.8% decrease as it was negatively impacted by exceptional losses related to divestments and the resale of 10% of the shares in ICA. It was positively impacted by a lower operating loss at U.S.Foodservice. EBITA at 1.8% of net sales from 1.9% was 932

million compared to 1,065 million a year before.

Ahold has still a long way to go as it has to reduce its net debt (€ 6.3 billion) and its divestment program is almost closed. It just finalized the sale of its 13th and last large Hypernova hypermarket in Poland to Real of the Metro Group.

POLAND

Warsaw attracts investors and enterprises.

The commercial, office and residential real estate market is stimulated by the country as a new member of the E.U. In the past four years, 26 shopping centers covering 500,000 sq.m were opened and financed mainly by French companies. France is now the country's largest Foreign Direct Investor with already € 12 billion poured into the country mainly in Warsaw's commercial sector.

In three years, big-box store number almost doubled. **Metro** is Poland's largest retailer. It sold its store shells to the American funds Apollo-Rida. **Carrefour Polska** (30 hypermarkets and 72 supermarkets) is the second largest retailer following its acquisition of 13 hypermarkets from Ahold end of 2004. Its Arkadia hypermarket (18 400 sq.m), opened before Christmas, is a project developed by Cefic/Beg and the Simon Group. Reduta hypermarket has just been enlarged to 11,300 sq.m and Promenada 3 will be expanded to 17,000 sq.m.

The French retailer **Auchan**, ranked 4 by sales in 2003, has planned a hypermarket in Wilanow, in the south part of the capital. The shells of the French **Géant** hypermarkets, developed by Apsys, were sold to GE Capital and Heitman.

Blue City shopping center (60,000 sq.m) was opened early 2004. Les Terrasses Dorées, a commercial and office complex covering 65,000 sq.m in downtown Warsaw, is being built and developed by ING Real. Rodamco bought 50% of it.

In this country, where average GDP is as high as € 470 per capita, new shopping centers, offices and apartments are in full expansion in Warsaw.

RUSSIAN FEDERATION

Moscow's government wants to reform the disorganized retail trade.

To reach its goal, it has set up a restructuring program of the markets and the development of the municipal infrastructure for the next two years. This way, it seems to have given an impulse in urban Moscow retail expansion.

In fact, in the first half of 2004 alone, six shopping centers were opened and 12 more were scheduled for completion in the third and fourth quarters. In these conditions, total retail space grew to 460,000 sq.m in 2004, a small portion of the 3.2 million sq.m scheduled for the next two years.

These projects are almost concentrated in more affluent and less densely-populated areas in the northwest and southwest parts of Moscow. The most active players last year were foreign retail firms such as Ikea, Metro, the French Auchan but also Russian retailers including Hypercenter, Ramstore, Sedmoi Kontinent, Perekriostok, M.Video, Mir, Eldorado, Formula Kino and ICN.

Sedmoi Kontinent expects to add 40 new stores this year compared to 20 in 2004.

Germany-based Rewe signed a joint-venture agreement with the Moscow's holding Marta, developer of the Spar supermarket franchise. They have planned to invest \$ 300 million in the creation of Billa supermarkets within the next three to five years.

ECE, a German developer and operator of shopping centers, is already active in the Russian market; Kingfisher has announced it will open its first store in 2006. Wal-Mart remains silent as concern Moscow...

Retail development revealed a new trend in 2004 as a developer expanded the entertainment part of Atriland shopping center to make customers stay longer. The leisure part includes cinemas, bowling... and covers 12,000 sq.m of space next to the retail part and under the same roof.

Globally, rental rates of retail spaces have remained stable except a light decrease in rents for cinemas,

it is the consequence of the multiplex success, and an increase of rents for fast foods due to the fierce competition in this sector : according to analysts, over the next two years, they should grow by 25% for smaller tenants and by 50% for bigger tenants. In downtown Moscow, their increase is the reflect of a high demand and a limited availability while in the suburbs they tend to decrease under the pressure of the construction boom.

For the second consecutive year, Russia is ranked N°1 for investments in the retail market among 30 emerging countries by A.T.Kearney.

Source : The Moscow Times

Ramstore will invest \$ 270 million over 2008.

Turkish retail Ramenka announced it expects to extend its big-box store network by 8 new units in 2005 including 5 in Moscow, 1 in St Petersburg and 1 in Samara. It has been active in the Federation since 1997 as it opened Russia's first hypermarket. It now operates 28 hypermarkets and supermarkets including 24 in Moscow, 1 in Krasnoïarsk, 1 in Rostov-on-Don and 1 in Kazan. With 6 hypermarkets and 18 supermarkets in Moscow, Ramstore has become the capital's third largest retailer. Its largest project is Ramstore City opened in the northwestern region of the capital last December.

Ramenka is a joint venture between the mother company of Migros, KOC Holding, Turkey's largest industrial conglomerate, and Turkish construction Enka, active in Moscow.

Between 1997 and 2003, Ramenka invested \$ 250 million and still expects to invest up to \$ 130 million in 2005 alone. Sales grow by almost 30% annually: \$ 430 million in 2004, 550 million are expected in 2005 and 1 billion in 2007.

Source : The Moscow Times

UNITED KINGDOM

Kingfisher : the international division, excluding France, grew by 38.6% and retail profit by 38.8% in full year 2004.

Kingfisher has reported adjusted pre-tax profit up 16.2% to £ 686.5

million (€ 980 million) on sales up 8.7% to £ 7.7 billion (€ 11 billion) in the full exercise to January 29, 2005. Total net debt was reduced to £ 794.3 million (€ 1.13 billion) versus 843.8 million (1.2 billion) a year before.

In U.K and Ireland (56.4% of Group sales), activity was impacted by the sluggish consumer spending : in the 4th quarter, like-for-like sales fell 1.7% while they grew by 5% in France (33.3% of Group sales). France renovated Castorama stores, cut prices, introduced new products and a more dynamic marketing. Brico Dépôt was stimulated by a new catalog and promotions as well as by 6 new stores.

In the full year, sales grew by 4.8% in Great Britain and by 12% in France. In the rest of the world (Poland, Italy, China and Taiwan), sales growth was 38.6% to £ 786.6 million (€ 1.1 billion) and retail profit up 38.8% to 83.4 million (€ 119.1 million).

Among the Group's projects, Kingfisher expects to gain strength in the sector of Sales to Professionals with Screwfix Direct Business whose retail profit declined from £ 11.4 million (€ 16.3 million) to 7.7 million (€ 11 million). It grew sales by 3.6% to 228.6 million (326.6 million). The Group aims also to continue expanding in Europe and in China : B&Q retail profit was up from £ 0.4 million (0.5 million) in 2003 to 4.6 million (6.5 million) in 2004 in the Middle Kingdom. In addition to U.K and France, Kingfisher will open 20 stores in five countries in 2005.

In the first quarter 2005, sales were affected by a cold weather in France and in U.K.

Kesa in 2004 : another set of satisfactory results except for But.

Turnover of the Franco-British electrical and furniture group, which operates Comet in U.K and Darty and But in France, was up 5.0% to £ 3,959.1 million (€ 5.65 billion) at constant exchange rates. Retail profit grew by 2.0% to £ 206.7 million (€ 295 million)

Thanks to operating cash flow (£ 267.9 million, € 382.7 million), net debt was cut by £ 62.3 million (89 million) to 209.7 million (299 million) and investments were made in the →

necessary expansion (£ 90.2 million, € 128.85 million).

Turnover growth was driven by a stronger demand in digital products (LCD/ plasma TVs and MP3 players) and sustained by price deflation. White product market remained rather stable in Europe Grey products market (portable PCs and LCD screens) continued growing.

Darty sales grew by 5.7% in local currency (3.9% in like-for-like). Comet sales grew above the market by 6.5% (like-for-like was up 3.4%). But furniture sales grew in the second half in a market up 3.1% after years of decline. Its consumer electronics sales were weak hence like-for-like sales fell 2%. A € 4.5 million correction in accounting for unrealized profit in stock weighed also on EBIT that fell 13%. A top-level management program has been set up to restore sales and profitability mainly in the furniture sector of But.

integration that is proving tougher than what it thought. Sainsbury hired 3,000 new employees and will invest at least £ 400 million (€ 570 million) on product quality and place more emphasis on fresh food and private label products. It will also cut prices of 6,000 items. Its goal is to increase its total sales by £ 2.5 billion (€ 3.5 billion) by 2007/8.

It seems that the company, whose one third of shares is owned by the Sainsbury family, is now on the right way as its market share is now stabilized after several years of decline.

NORTH AMERICA

UNITED STATES

A new do-it-yourselfer profile

Home improvement trade is making profit on a growing customer category, the woman owner of her

home who wants to carry do-it-yourself projects, traditionally considered as a man's work.

Kesa key figures in local currency.

(million)	2004/05 sales	Variation	EBIT	variation
Darty	€ 2,264.3	5.7%	€ 173.7	7.5%
Comet	£ 1,538.1	6.5	£ 52.0	9.78
But	€ 808.4	4.7	€ 67.0	(13.3)
Other*	€ 494.7	13.5	€ 3.7	-
Central	-	-	£ (11.2)	-
Total	£ 3,959.1	-	-	-

Source : Kesa * incl.BCC, New Vanden Borre and Datart

According to David Newlands, Chairman, prospects for 2005 remain uncertain in two main markets : France and United Kingdom. He estimates that conditions in U.K will remain difficult and while in France the market's recent trends are positive, households' trust remain weak. In April 2005, Darty opened its first Italian store. Four will be added before end of summer and three in Switzerland before year's end.

Sainsbury on the recovery way?

The strategic plan of Britain's third largest food retailer with 15.8% share of the market is showing signs of success as like-for-like sales grew by 3.7% in 2004/5 under the new chief executive. In addition, figures of the 4th quarter are showing an improving trend as total sales rose 7.2% and 5.4% excluding petrol sales. In fact, Sainsbury has benefited from the difficulties of Morrison's, Britain's 4th largest supermarket chain, after its takeover of Safeway last year, an

Gradual changes in genders and increasing number of households headed by single women have contributed to the booming trend of those past years. While catering to them, Home Depot is targeting a lucrative and long-ignored market.

According to a study led by Sears in 2004, 83% of the 603 surveyed women declared that using tools makes them feel independent.

Lowe's, the long rival of Home Depot, and Sears are also interesting in the female customers and base their strategy on statistics, which give a light on the trend. After married couples, single women are the largest group of home buyers in the United States accounting for 21% of transactions according to the National Association of Realtors. By 2010, the number of women-headed households will increase to almost 31 million or approximately 28% of the total in the US according to a 2003 Fannie Mae study.

Lowe's is serving these women

very efficiently : "We took a step back and listened to our female customers. The result of research that started in the early 1990s has been stores with wider aisles, brighter lighting and clear displays," declared a company's spokesman. "Women want the stores to be inspirational," he added. By fall 2004, Lowe's offered them "Recipe cards" that explain how to conduct various projects that take one weekend only. It also organized monthly sessions mainly for women.

For the past two years, Home Depot has been leading similar changes in its stores, improving lighting and displays. "We've increased focus on product innovation, in-store environment and broadened marketing efforts -to both women and men," declared executive vice-president of merchandising and marketing at Home Depot. From May 2003, Home Depot has been organizing free Do-it-Yourself workshops for women once per quarter in all its domestic stores. Almost 200,000 of them have attended them and bought products and services that they saw demonstrated.

Sears tries also to create stronger ties with its female customers. After having conducted surveys on women homeowners since 2002, the mass merchandise retailer created an Internet site in July 2004 to supply users with information and lists of all kinds of home projects. "We learned that a lot of women are worried about being responsible for their home on their own". Hence it launched new categories of functional and stylish tools that are very easily selling products and supplying technological assistance.

However, firms need to take care and not presume of the situation, as the activity is still largely a male activity. After all, a quarter of home improvement sales are done with contractors, who are mainly men. Lowe's has discovered that women prefer to conduct big projects with a man, be it a husband, a friend or a neighbor. Consequently, in addition to "Recipe Cards", the retailer organizes in-store workshops for projects such as a sink installation.

Sears is also looking for the good balance between the female and →

male customers and discovered that a great number of women prefer receiving tools over traditional gifts but "We're really careful not to segment tool buyers by men and women" and, like Lowe's, Sears does not sell specifically tools designed for women.

Controlling challenges in the home improvement sector is a delicate task for any homeowner, be it a man or a woman as both are willing and able to learn and to buy.

Source : Business Week online

Toys R US bought by investment funds for \$ 6.6 billion (€ 4.94 billion).

Toys R Us, former world's largest toy retailer, overtaken by Wal-Mart in 1998, was sold in one single block and equal parts to a consortium of retail investors headed up by private equity firm Kohlberg Kravis Roberts (KKR), Bain Capital and Vornado Realty Trust.

This acquisition is still pending regulatory approval and the shareholders approval and should be finalized in July.

The toy retailer is now under pressure to come up with a reorganization plan and its buyers, who take over one part of its net debt (\$ 2.3 billion at the end of 2004), were interested in the toy division as it owns 466 of its 685 toy stores. Total value of its property assets amounts to \$ 2.5 billion.

Toys R Us operates 685 US toy stores and 198 Babies R Us and 293 overseas. It owns two thirds of the US stores and 103 of units outside U.S. In 2004, sales of Babies R Us, opened at least one year, grew by 2.8% while sales of Toys R Us decreased by 3.6%. Toys R Us posted sales of \$ 11.5 billion but they fell 1.8% in the third quarter to \$ 2.21 billion including 1.15 billion for the toy division alone. However, Toys R Us had succeeded in cutting its loss from \$ 46 million

Key figures of Toys R Us.

Division :	(\$ million)		property assets		
	sales	income	owned*	leased	total
Toys R US	6,476	119	466	219	685
Toys R US International	2,528	173	103	190	293
Babies R Us	1,763	202	91	107	198
TOYSRUS.COM	376	(18)	DCs 13	7	20
Total	-	-	673	523	1,196

*includes owned buildings on leased land () loss source : DSN Retailing Today

to 25 million. In ten years, net profit fell from \$ 500 million to 88 million. Its share of the market followed the same downward curb, from more than 20% in the mid-Nineties to just 15% while Wal-Mart succeeded in controlling the quarter.

Toys R Us, established in 1948 by Charles Lazarus, has been a victim of a price war with Wal-Mart, Target and supercenters and did not know how to face the development of video games and digital gadgets in spite of its diversifications (Babies R Us) and a modernization program (openings, agreement with Amazon). The closing of 102 Kids R Us in 146 and of 36 Imaginarium did not succeed in stopping the trend.

ASIA

CHINA

Sephora plans to open 100 stores over 2010 in the Middle Kingdom.

Sephora, the cosmetic, perfume and beauty aids division of the world's largest luxury-goods maker, LVMH (Louis Vuitton Moët Hennessy), recently announced that it planned to invest \$ 50 million to open as many as 100 stores in China over 2010. Six stores will be added in the next two years in China where demand is rising in this sector. For this operation, Sephora teamed up with Shanghai Jawa, China's oldest cosmetic maker. 81% of the venture is owned by the European firm. It will hire 80 employees in the first year and may break even after three years of operation.

First unit will be opened in April in Shanghai and will carry European and American brands catering to the 25-40 year-old working woman. This is the fastest growing group by purchasing

power that may spend as much as \$ 25 to 60 (200 to 500 yuan) a month on beauty aids, up 10% from 2004.

Sales of Chinese beauty aids may double in the next five years after growing an average 15% annually to reach \$ 21.28 billion in 2004 according to the State Council Development and Research Center as cosmetics are the most popular purchases in China after real estate, cars, telecommunication products and travels.

MIDDLE EAST

New commercial developments in the Emirates.

The future mixed-use complex City Center is being built in Manama in Bahrain and is due to be completed in December 2006. It will be the Emirate's largest center and will represent an investment of € 300 million.

It covers 450,000 sq.m of total space and three levels and will include a shopping center of 150,000 sq.m with :

- Bahrain's first Carrefour hypermarket of 17,000 sq.m retail space, 6,000 parking spaces,
- 10 department stores and middle-sized anchors,
- 350 shops,
- a fast food court under thirty various international brands,
- Middle East's largest 20-screen multiplex (8,000 sq.m, 3,600 seats) of Bahrain Cinema Company (BCC)
- 2 five and four-star hotels with a total of 700 rooms directly linked to the mall itself,
- Magic Planet, a family entertainment center covering 5,000 sq.m,
- Middle East's largest indoor water park with 13,500 sq.m,
- owner : Majid Al Futtaim Investments (MAF), a firm established in 1992 in Dubai and local partner of the French retailer Carrefour. It operates 6 shopping centers in the Arab World and has many projects in major cities of Middle East. ■