LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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SUMMARY

LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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INTERNATIONAL

European expansion in the United States of America according to American specialists.

If European retailers without presence in the USA decide investing in American supermarkets, they might buy store groups in well-specific geographic areas instead of entering the country through a merger with local operators. It is the opinion of a consultant at Frost & Partners during a seminar sponsored by The Food Institute. He adds that "It takes five to ten years to really learn how to do business in a new geographic area and European companies will figure out how to do it. I think we'll see two or three world retailers become successful in the USA, though it will take a while for that to happen."

The chairman of the food marketing at the University of Philadelphia estimates that "There inevitably will be more industry consolidation though I'm not sure it will be similar to the mega mergers of the past. It's more likely to involve a US retailer with a European company than two US companies because the Tescos of the world are leading the way in merchandising and private-label programs."

Other opinions that emerged during this seminar included :
- the anticipation of changes in the ownership of U.S chains. It could be the case over the next five to ten years for Safeway and Albertson's which face difficult times,
- to be successful, traditional supermarket chains should localize their operations. Thus, Safeway met problems when it acquired Genuardi's based in Philadelphia as it tried to make it a powerful local operator in its own corporate image,
- a growing number of supermarkets in the range of 2,700 to 4,000 sq.m may generate future problems for larger store operators looking for acquisitions as "These smaller stores will force retailers to localize their marketing strategies and understand consumers better",
- Wal-Mart's Neighborhood Markets may pose long-term challenges for some operators. "They may be considered as a condensed version of larger stores that carries only the fastest-moving SKUs and that could be deadly for traditional chain supermarkets that have trouble moving quickly. But they will not have much impact on the top quartile of chains or the top-performing privately owned companies."

Source : Supermarket News, Elliot Zwiebach

Islamic investors are eyeing Europe.

According to a recent research by King Sturge and Dr Ali Parsa of a London university, 74% of interviewed persons cite France and United Kingdom as the most popular countries for the Shariah investors. Then come Germany, Sweden, Netherlands, Norway / Denmark and Belgium at the same level and at last Luxemburg and Austria. These investors are in favor of a certain type of investment compliant with the Islamic laws and do not allow taking interest in firms linked to media, gambling or alcohol firms.

Northern Europe is very important for this group of 34 interviewed persons with a key role in Islamic finance based in U.K. They are international funds, specialist property investment companies, trading companies, bank equity, fund managers and advisers…. authorized to invest in international markets. They are ready to inject up to € 10 billion at the European market and just start becoming more sophisticated in their acts, using more and more institutional funds according to King Sturge.

85% of respondents have felt a lack of understanding in the Shariah funds, as they are not very familiar; others believe that the activity is postponed due to a certain confusion →

in structures used by investors. A Shariah board is a committee of scholars who orients financial institutional product development and guides each investor of this group

53% of respondents are direct investors and 26% want to continue being so. But 68% tend using indirect investments in order to play a role in the real estate sector.

To comply with Islam principles is the most important factor for these investors but 65% declared that the fund's tax status was as much important and 61% quoted availability of specialists with experience and knowledge as a priority factor.

Indirect investment has to improve the efficiency of deployed capital by these investors. While 47% among them think they have understood the importance of decision making, 35% said they were not sure of it and 12% said that investors lacked in decision-making capacity.

Industry is the most favored sector : 79% declared having already invested in it and 53% declared that they would do it again. It is mainly due to the high yield of assets that are better suited for approval by Shariah boards. Then come offices cited by 76%, logistics and retailing by 65%.

Consequently, Europe is the most popular area for Shariah-compliant investors, Middle East, Gulf States or entire globe for 62%, United States of America were cited by 47% and South-East Asia by 38%.

Source : Europroprerty

Top 15 worldwide food retailers in 2004.

company	headquarters	net sales ($ bil)	store count
1-Wal-Mart	USA	285.2	5,760
2-Carrefour	France	90.3	11,080
3-Groupe Metro	Germany	70.1	2,562
4-Ahold	Netherlands	64.6	7,078
5-Tesco	U.K	62.2	2,391
6-Kroger	USA	56.4	3,790
7-Rewe	Germany	50.7	13, 433
8-Costco	USA	47.1	441
9-ITM	France	44.0 (e)	10,753
10-Groupe Schwarz	Germany	42.6 (e)	6,627
11-Aldi	Germany	41.9 (e)	7,435
12-Albertson's	USA	39.9	2,525
13-Aeon	Japan	38.8	9,956
14-Walgreens	USA	37.5	4,585
15-Auchan	France	37.2	2,835

N.B. Leclerc sits in the 18th position and Casino in the 25th (e) estimation

Top 25 worldwide food retailers generated total sales of $ 1.3 trillion. Of this total, the top ten did 62% and **Wal-Mart** represented almost a quarter (22%).

Among top 10, **Carrefour** maintained its N°2 position and increased its sales by 4.2% to $ 90.3 billion. It recently reinforced its presence in Turkey, a country in which it will soon be the country's largest retailer through its recent acquisitions. In addition, it seeks to increase its market share in Brazil. Early 2005, it withdrew from Mexico and Japan after a four-year presence in order to expand in China.

German **Metro Group** has now become world's third largest food retailer with $ 70.1 billion sales, an increase of 5.3% mainly driven by its Eastern and Asia markets.

Ahold from Netherlands moved down to the 4th position and continued its recovery program by divesting stakes in Spain, Latin American, Poland and United States. Last year, as its sales decreased by 7.3% to $ 64.6 billion it planned to reinforce on its core markets such as Europe and United States.

British **Tesco** moved ahead of American Kroger which dropped to N°6 and grew its sales by 18.7% to $ 62.2 billion. This is due to its various formats (hypermarkets and convenience stores) in developing and emerging markets, its competitive prices, strong home-

In short...

British retailer Tesco has decided to expand in Turkey under the Kipa banner.

Tesco bought the Turkish supermarket chain about 18 months ago and has just opened its 6th Kipa outlet in Bodrum. It will be soon followed by two more in Antalya and Canakkale.

Tesco will grow in Turkey using the Kipa brand with the aim to have 35 stores over the next four years. To realize this target, a new local chain acquisition would not be excluded…

Eldorado, a new electronic chain in Russia : first Eldorado Plaza was unveiled on June 18th in Khimki, north of Moscow, to cater to middle and upper-middle classes.

This Elektro Plaza covers 7,000 sq.m (an investment of $ 5 million) and is the first store in Russia to use the “shop in shop” concept. This way, approximately one hundred Russian and foreign chains can show their products under their own brand.

Eldorado, its parent-company, has 620 stores across the Federation and Ukraine and aims to build 4 or 5 outlets in the capital, 3 to 4 in St Petersburg and 1 in each regional city of over 1 million inhabitants. It has a 18 to 22% share of the Russian electronics market followed by M.Video (7 to 9%), Tekhnosila (3 to 4%) and Mir (2 to 3%).

British Dixon's, which acted as a consultant for this project, signed an agreement in April giving it a 10% option to buy Eldorado before 2011 for $ 1.9 billion…

H&M looking at the Russian market.

Swedish developer Centrumutveckling, active in Russia, seeks to attract there the Swedish clothing retailer Hennes & Mauritz (1,100 stores in 21 countries including Poland and Hungary) that remains cautious about this market.

Foreign chains C&A and Zara are already present in this apparel market which has sales between $ 14 and 16 billion of which 70% are generated by mid-range brands. Anyhow, it is still difficult to →

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evaluate it considering the non-declared imports and the lack of transparency…

German retailers very interested in Romania.

German **Schwarz** Group has pegged 29 sites for its two subsidiaries, Kaufland (hyper-markets) and Plus (food discount stores), which will open stores in the country in 2005. Penny food discount stores belonging to German **Rewe** has already opened its first 9 outlets this past June. In addition, Rewe has about twenty Billa supermarkets, 8 Selgros cash & carry and 4 XXL food discount stores in Romania. "Plus" of **Tengelmann** plans to start a business in Romania this fall...

Carrefour reinforces its position in Brazil.

The French retailer has just bought 10 hypermarkets operating under the Big banner in the Sao Paulo region from Sonae for € 90 million. Their sales amounted to € 128 million last year…

Carrefour is the second largest retailer in Brazil with € 3.8 billion sales, a 12.6% share of the market. It has 85 hypermarkets, 100 supermarkets and 200 food discount stores…

Carrefour intends to acquire Penny Market from the German Rewe.

Penny Market operates 101 discount stores in the North of France with net sales of € 262 million. Of this total 55 outlets are directly owned. In addition, world's second largest retailer would sell Prodirest (€ 526 million net sales) to transGourmet, a joint venture between Rewe and the Swiss Coop Group.

Through 26 warehouses, it distributes food products to 40,000 customers in commercial and institutional catering.

Auchan has bought GrosBill.com.

GrosBill.com is an Internet site selling digital products : computers, photo, video with sales of approximately € 60 million. This way, Auchan expands its web network that ranges from food products to consumer electronics…

brand and non-food stores.

U.S.based **Kroger** faced mixed results in 2004. It is attributed to a price war, supercenter expansion, various retail formats and increase of health care and pension costs.

Germany's **Rewe** had sales growing by 4.1% to $ 50.7 billion last year. Its top management was reorganized and, according to plans, 580 outlets should be added this year including 350 in Germany and 230 in other foreign countries, especially in Italy and Russia.

Costco ($ 47.1 billion sales) operates American warehouse-clubs and seeks to concentrate on its organic expansion through 20 to 30 new units in Ireland, Australia and New Zealand.

In one year, the French **ITM Enterprises** (Intermarché) moved up to the 9th rank from the 10th. The Group recently withdrew from Germany and sold its Netto food discount stores to the German Edeka after having heavily invested in Spar Germany to turn it around.

German Schwarz **Group** is now active in 10 countries. It moved up and is now sitting in the 10th position with $ 42.6 billion sales, an increase of 10.4%, with Lidl discount stores and Kaufland hypermarkets. It expects to enter six new markets in 2005 in Eastern and Central Europe.

Source : Supermarket News

EUROPE

French property company Klépierre has acquired a € 425 million portfolio of Central European shopping centers from Plaza Centers.

This operation includes for € 205 million 4 centers in Warsaw, Krakow, Poznan and Ruda totaling 98,240 sq.m with annual rents of 19 million. It includes also for 133 million three more Polish centers located in Rybnik, Sosnowiec and Lublin. Klépierre will also buy developments in the Czech Republic, in Prague and Plzen, for € 87 million.

Ségécé, developer and investor of Klépierre, will buy the 50% remaining stake it does not already own in the management of Hungarian Plaza Centers.

Performance of European food retailing.

million € except for NPS (€)	capita-lization	04 sales	05 sales	04 NPS	05 NPS	04 PER	05 PER
Ahold, Netherlands	9,932	52,000	43,900	0.18	0.39	35.5	16.4
Carrefour, France	28,233	72,668	75,758	2.73	2.90	14.7	40.0
Casino, France	6,430	23,170	23,830	5.03	5.17	11.9	59.9
Delhaize Le Lion, Belgium	4,524	17,972	18,138	3.80	3.79	12.7	48.2
Guyenne & Gascogne France	655	1,168	11,182	5.84	6.31	16.5	96.7
Metro, Germany	13,761	56,409	59,538	2.53	2.83	16.6	42.0
Morrison, U-K	7,035	17,135	18,343	0.12	0.11	21.5	2.6
Sainsbury, U-K	7,171	21,781	23,835	0.13	0.16	33.1	4.2
Tesco, U-K	36,435	48,048	55,850	0.26	1.31	18.1	4.7

Source : Le Figaro *NPS : Net Profit per Share*

Since early 2005, food retailing has been particularly well performing in the stock market in spite of large disparities. In France, Casino share value fell 2% and Carrefour that was on a downward spiral in 2004 grew by 13.8%. Hyparlo, a Carrefour franchisee, was up by 53% after it gave a free share to its shareholders per held share. Guyenne et Gascogne share grew by 12.35%.

In Continental Europe, Dutch Ahold was appreciated by 13% and German Metro by 4.9%. British Tesco decreased by 1.5% and Morrison fell 13% after its recent profit warning.

Consumer prospects are not clear in France : Q 1 was rather difficult and next quarter should not be better. In fact, retailing has been impacted by the new 1st Minister's speech, Dominique de Villepin, who announced early June that he will go on reforming the Galland law on price reduction and "back margins".

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FRANCE

The reform of the law on price negotiations was adopted by the French Senate, which also put a brake on big-box store development.

The Senate has adopted without modifying the project that fixes at 20% the maximal amount of the retailer "back margins". Fine and sanction reinforcement was approved…

In addition, the Senate has adopted the law reform that aims to "guarantee a balance between different retail formats" by a better control of new big-box store openings. Henceforth aesthetic and environment criteria will be taken into account.

The law text will be presented this fall for a discussion before the French Parliament.

Retailing has created fewer jobs in 2004.

According to the National Bureau of Statistics, retail generated 23,000 new jobs in 2002 and 29,000 in 2003 but it was limited to 9,000 only last year. In fact, 2004 was impacted by a 1.8% growth in sales volume to reach € 470.1 billion only. This growth is limited to 1.6% while excluding pharmacies and medical/orthopedic material sales.

Hypermarkets, supermarkets and food discount stores reported lagging sales while growing by 0.4% only in volume compared to 1% one year before. It was the weakest growth registered by modern retail trade in five years. Food market share is limited to 68.3% of total retail sales compared to 68.4% one year earlier. Non-food decreased also from 18.9% to 18.7% in 2004.

Specialty big-box stores have reported growing sales by 4.2% compared to 2.7% in 2003. Other specialty retailers with decreasing sales in 2004 were tobacconists due to a slowing tobacco consumption, specialty food retailers (down 4.9% in volume), book and magazine sellers (-3.5%) and small general stores. Frozen food retailers reported a 10.7% high growth; home improvement was up 6.9%, sports and entertainment were up 3.9% and Distance Selling up 6.6%.

Apax Partners, one of the leading private equity funds, investing particularly in retailing, acquires Mondial Tissus and Heytens, two specialty firms in home decor, for an amount of € 180 million.

Heytens was founded in Belgium in 1974. It expanded in France in 1995 and was acquired by Sandinvest two years later. Specialized in the made-to-measure curtains, it operates 109 stores including 57 in France, 47 in Belgium, 2 in Luxemburg and 3 in Switzerland. New owners want to develop the concept in France and international markets with the aim to open 100 new outlets over the next five years.

The French **Mondial Tissus** operates 70 suburban outlets of fabric cut. The concept will be repositioned in markets such as household linen or creative leisure activities and 30 new stores would be opened. Both companies have reported € 174.4 million sales in 2004 and an operating profit of 21.6 million.

Apax Partners, active in Europe, Israel and United States, manages a € 15 billion portfolio for international investors.

La Samaritaine closed for security reasons.

The Paris department store, owned by Louis Vuitton Moet Hennessy luxury Group, closed its doors June 15 to evaluate the necessary measures and meet the Paris safety standards, as its metallic structure and flooring system are not resistant to fire.

Two solutions were proposed : in case the century-old department store is completely closed, works would last five years; if sections remain opened, it will last over a period of 10 years. In a first step, 300 employees take care of the store maintenance and administration. 450 LVMH employees will keep their position, being be paid while staying at home, but brand concessionaires (approximately 800 persons) will not be as much protected…

French Ernest Cognacq asked Belgian architect Frantz Jourdain to build La Samaritaine between 1905 and 1910 in the Art Déco style. In 2001, LVMH, owner of the high-end department store Bon Marché on the Left Bank, bought it. In the past five years, it has invested around € 50 million ($ 60 million) at current exchange to revamp its image.

GERMANY

Metro, Germany's largest retailer, is considering divesting of non-strategic assets : a majority stake of the DIY/home-improvement subsidiary Praktiker, might be put on the German stock market. Metro might also continue operating it with some autonomy.

Praktiker is present in 9 European countries and operates 339 DIY/home-improvement centers with sales of € 3 billion in 2004, of which 22% are generated in Eastern markets. Operating profit grew to € 59 million. American investment bank JP Morgan will advise Metro and examine all the options.

Metro cash & carry and consumer electronics Media Saturn outlets are very successful in international markets. However, Kaufhof department stores activity decreased by 5% in the first quarter compared to the same period one year earlier.

During the January/March quarter, Metro has reported a net profit of € 12.4 million, a 2.4% decrease, slightly lower than the 12.7 million generated one year earlier. Pre-tax profits grew by 8.8% to 39.7 million and EBITDA was up 2.9% to 439.8 million on sales up 4.2% to 13.415 billion.

Henceforth the international division accounts for 49% of total sales from 46.9% one year earlier with € 6.58 billion mainly via its Eastern European markets. In 2005, Metro expects to increase its cash & carry from 14 to 50 outlets in Russia where it will open its first Real hypermarket this year also.

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SPECIAL STUDIES

In Hungary, specialized stores follow the fast mall development.

Ten years ago, local retail trade began restructuring and concentrating under the pressure of foreign chains in sectors such as drugs and perfumes, consumer electronics or household electricals. New business activities emerged such as sporting goods, home decor and luxury products, which rise while Hungarian purchasing power is growing. People got accustomed to suburban shopping centers whose expansion rate has been high since 1996 such as Mammut (280 stores), Arkad (240), Polus Center (240), Westend City (400) or Mom Park (72).

Footwear will grow also.

The sector, almost saturated, is dominated by Salamander, which operates 37 stores including 13 under its own banner and 24 under Fönicia. Austrian Humanic (27 stores) and German Reno Cipö (34) and Deichmann-Schuhe (4 stores in operation and between 35 to 40 in projects) represent the mid-range segment. It is also important to note brands of independent retailers such as Ara, Marc Shoes, Rieker, Rohde… In 2003, according to estimates, 50 million of low to mid-range pairs were sold including 40 million imported. High-end brands do not account for more than 10% of total sales.

These shoes are sold in specialty stores that 50% of the Hungarians shop, by street sellers supplied by wholesalers and central buying groups. Their sales may decrease facing the hypermarket drive.

The DIY and home improvement market.

This sector is in full expansion with € 600 million sales thanks to the State's new policy that grants funds to real estate projects. Two types of consumers emerge : customers looking for prices and professionals looking for quality products.

Leading banners are German : Praktiker holds a 31% share of the market with 14 outlets and Obi 28% with 14. Other players are coming from Austria such as Baumax (24% and 13 outlets) or from France such as Bricostore (17%, 6 stores). Food big box stores sell DIY and gardening items and compete with specialty stores.

In the gardening sector, it is important to note New Garden opened in 2003 that occupies 7,000 sq.m of retail space, Brosod Zöldert operates 13 outlets in the provinces and Hermes Afesz 137 in addition to approximately one thousand small traditional retailers in Budapest and the regions.

Electrical appliances is a of € 440 million market.

Local and growing production is supplied by subsidiaries of major international firms such as Electrolux, Philips, Thomson Brands, Moulinex and Seb. There is only one local chain, Keravill, with 3 outlets left compared to 40 in 2002. It faces the pressure from two market leaders including the German Media Market of the Metro Group with 11 big-box stores and Electroworld (5). Media Saturn owned by Metro also is active in this market sector with 2. Competition is also hard with big-box stores such as Cora (7 hypermarkets), Auchan (9), Tesco (34), Metro 13 cash & carry and Euronics (87).

The € 50 million toy market.

Hungary imports its toys mainly from China, its main supplier with 37.5% of the total in 2003. That very year, 47% of imports were puzzles or small-scale models, 24% outdoor or swimming pool games. It is dominated by major international retailers such as Mattel, Lego, Smoby Majorette, Matchbox, Sony, which are supplied by wholesalers/importers. But big-box stores dominate the market while selling 65% of toys and games and local banners, Jatekbox and Jateksziget, and independent retailers account for the remaining 25%.

Equipment and sporting goods.

90% of shoes, almost 70% of apparel and almost 100% of equipment are imported. Equipment is especially appreciated by the affluent population or approximately 30% of Hungarians. Sporting apparel did not account for more than 3% of the total apparel purchases in 2003.

Products are sold in stores under their own banner or in multibrand stores such as Rossignol, Adidas, Nike and Reebok. They are also sold in mall-based specialty stores among which Hervis (5 units) and Budmil, a local sporting goods manufacturer. Competition is led by two foreign companies, Intersport and Decathlon. Big-box stores and department stores carry basic and mid-range products.

High-end merchandise for mountain trips or sliding sports is to be found in specialty stores such as Mountex (18 outlets including 5 in Budapest), Tengerzem (10 including 3) and Overland (16 including 3).

Magazines, books and music.

Major multinational groups dominate the press sector : Axel Springer (12 daily newspapers, 15 magazines, 5 TV programs), Sanoma (25 magazines, 3 TV programs), Waz (6 daily newspapers…), Ringler… Press is sold by 12,000 to 15,000 kiosks mainly supplied by Lapker wholesaler of the French Lagardère Group. In addition, Lapker is the owner of several newspaper

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kiosk banners including Relay, City Press and Sajtopont, totally more than 200 stores.

Books are also sold by big chains such as Lira Es Lant, owner of 39 stores including 5 in the capital, and 5 Fokusz stores. Libri, Hungary's second largest bookseller, operates 33 units including 5 in the regions. Alexandra operates an online site in addition to its 50 units in 28 cities of the country.

Music is sold by hypermarkets and specialty stores such as Fotex, Media Markt and Saturn and also by small kiosks in shopping centers.

Franchise expansion is supported by the government-subsidized loans.

In 2004, according to the Hungarian Federation of Franchise, there were 450 franchises and a labor force of 100,000 persons working in all sectors of activity in this country. Franchise accounts for a 5 to 6% share of total retail sales and might double this figure over the next ten years. Main sectors are cosmetics (Yves Rocher), hairdressing (J.Dessange), ready-to-wear and lingerie ((Etam, Jacadi, Calzedonia, Palmers, C&A, Skiny…). Costume jewelry, accessories and leather goods, home decor are still under-developed businesses. ■

Source : Lettre de Veille Internationale

SPECIAL STUDIES

Foreign Direct Investments are growing in Russian Regions.

Russia is now considered as a stable country as concern society and economy hence a positive impact over its development. Its economy is integrated in the global economy and for the past six years its growth rate hit approximately 45%. It the consequence of a healthy and consistent strategy mainly focusing on the "recovery" of the financial system and its right functioning, mixed economic risks, improvement of investment climate and especially of direct investments and growing market infrastructure. All these factors have led to the present macroeconomic stability.

region	average FDI 2000/2003 (US$ 000)	03 FDI (US$ 000)	average FDI share in 02 GRP
Sakhalin Region	827	2008	50%
Krasnodar Territory	470	144	7
St Petersburg Region	169	118	6
Moscow Region	453	707	5
Novgorod Region	39	101	4
Kaluga Region	36	2	3
Moscow	1,655	2,483	3
Oryol Region	20	11	2
Kostroma Region	14	39	2
Astrakhan Region	22	55	2
Novosibirsk Region	61	4	2
Primorye Region	41	42	2
Republic of Karelia	15	14	1
Orenburg Region	39	7	1
Samara Region	87	72	1
Sverdlovsk Region	88	76	1
Vladimir Region	18	42	1
St Petersburg	104	70	1
Volgograd* Region	32	14	1

** former Stalingrad ** GRP Gross Regional Product*

source :State Statistics Committee/The Moscow Times

The 2000-2004 period was probably the most favorable since the end of the Soviet Union in 1991. According to Ernst & Young, Russia was the second most attracting European country by the number of companies intending to invest there.

Compared to other countries, it is important not to forget that its key advantages by investment terms include a growing economy, a high level of education and a political and economic stability. In its 2001 survey, the World Bank indicated that investments were dependent of several factors : the regional economy, the education level, volume of external trade, region's investment level and level of former foreign investments.

A lot has been done to improve the investment climate even in the regions. Regional aspect is one of the key factors that will decide whether the investment process is successful or not in this country. But allocation was highly irregular. According to the State Statistics Committee, in practice, three leading regions accounted for two thirds of FDI by volume terms in the 2000-20002 period while ten leading regions accounted for 84%.

According to 2001 data, 8 of the 12 regions by GRP terms were included in the list of the top 15 regions by average FDI share. Thus, these various regions use their economic potential to attract foreign investors in different ways. Moscow sits in the first position in the investment level as Russia's largest commercial market and its Region is considered as the ideal place to serve the capital by production facilities, stores and logistics.

St Petersburg and its Region have shown their success in attracting investors also. Krasnodar Territory is an interesting region as the Russian part of the Caspian Pipeline Consortium is built there. It is a leading region as concern agriculture and food business and interesting for major international companies such as Bonduelle,

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Nestlé or Philip Morris. In addition, the Black Sea and its resorts are attractive for large real estate investors.

The Sakhalin Region, the second largest by FDI level, is the place where two of the top three international oil consortiums have operations based on production share agreements.

Samara is very successful as concern strategic investments thanks to its location and well-developed industry. For those past years, it saw major projects realized with the participation of General Motors, Nestlé, Danone, Henkel, Coca-Cola…

Another good example is the Novgorod Region. It was included in the list of the top 15 regions to be successful by foreign investment volume in the 200-2003 period.

Kaluga and Oryol enjoy their relative proximity of Moscow. For years, the Region of Novgorod authorities permanently led a policy in favor of FDI. Consequently thanks to its location between the capital and St Petersburg, the Region succeeded in attracting a significant amount of foreign funds.

The Urals District has reached records of initiated project numbers in the years 2003 and 2004. Foreigners are engaged in improving the Seversk Pipeline Plant, Ural Railroad Car Plant… Other projects of this region were planned by the German Metro Group or the French Accor hotel Group…

It is important to note that for investors, bribery and administration are the main obstacles to the business development in all Regions of Russia. Even if some problems depend on federal authorities, a certain number of factors impact the climate such as the business infrastructure in place, labor force and efforts led by local authorities to solve administrative barriers. These efforts should be maintained…

FDI investments in Russia grew between 2003 and 2004 to US$ 8.8 billion on a yearly average (1.7% of GDP) after years of stagnation at a very low level ($ 3 billion between 1999 and 2002, a little above 1% of GDP. Cyprus is among the first countries to invest in Russia. It is important to note that sectors part in the FDI total, excluding oil, grew in 2004 mainly in the retail, food and transport business. However confidence in local investors is affected by the new acceleration of the private sector’s funds going out of Russia in 2004…■

Sources : Ernst & Young/The Moscow Times/Real Estate Quarterly

2nd European seminar

Factory outlet centers : European evolution

- **Factory outlet centers, tools for developing territories**
- **Is the concept still attractive for investors, brands and consumers ?**
- **Their place in the distribution strategy of brand names, how to operate several different distribution networks at the same time ?**
- **Internet impact on factory outlet centers development**
- **Can factory outlets be incorporated into tourist programs ?**

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SPECIAL STUDIES

AMERICAN GROCERY INDUSTRY IN 2004

The grocery retail landscape is characterized by a very fierce competition and a decreasing number of large players whose market share is growing. The top fifty supermarket chains operate 55.3% of all supermarkets and account for 82.1% of their total sales. The top five firms concentrate 48.3% of sales in their hands and Wal-Mart alone has 17.4% and grew by 2.2 share points from 2003.

Top five American food retailers.

Rank/firm	Super. count sales> $ 2 mio	Estim. annual sales ($ 000)	Selling area (sq.m mio)	Main banners
1 Wal-Mart Stores	1,800	79,704,300	11.0	WM Supercenter, WM Neighborhood Market
2 Kroger	2,534	54 ,161,588	10.4	Kroger, Ralphs, Smith's Food & Drug
3 Albertson's	1,797	36 ,733,840	8.84	Albertsons, Jewel-Osco, Shaws
4 Safeway	1,572	29 ,359,408	5.70	Safeway, Vons, Dominicks
5 Ahold USA	826	21,052,200	3.33	Stop & Shop, Giant Food-Landover, Tops

Source : Progressive Grocer

In 2004, the supermarket number increased by 411 units growing their total to the record of 34,252. Chains (more than 11 stores) operated 22,453 units accounting for 65.6% of all supermarkets and generated sales of $ 386.356 billion (84.5%); independents (at least 10 stores) 11,799 (or 34.4% of the total number) and $ 71.05 billion (15.5%) sales.

Performance of an average supermarket in 2004.

average supermarket	2002	2003	2004
selling area (in sq.m))	2,595	2,718	2 812
sales ($ million)	12.49	12.79	13,35
checkout number	9.2	8.9	9,0
full-time employees	70	67	69
average weekly sales			
$ per store.	240,000	245,943	256,730
$ per checkout	26,140	27,505	28,414
$ per full-time employee	3,453	3,649	3,730
$ per household	73.49	77.25	80.00
$ per capita	27.61	29.01	30.02
$ per sq.m	89.6	87.70	88.44

Their sales grew by 5.7% in 2004, which was the highest growth rate since 1989. By selected retail outlets, supercenters grew by 19.8% and limited-assortment stores by 15.3%. Traditional supermarkets remained stable and other formats declined. Limited-assortment stores added 376 units and supercenters 239. All other segments decreased.

For the first time, 99% only of shoppers visit a supermarket today. Visits to supercenters increased by 12 while those to supermarkets declined by 14 units. Those to mass merchants fell. This can be explained by the conversion of many Wal-Mart traditional discount stores into supercenters.

Average basket at supercenter was 60% higher than at supermarket that grew by 20%. Meanwhile, the percentage of American households visiting dollar stores increased 15 points and all other store formats remained relatively stable. Sunday is now the best day of the week with 21% of the trips and Wednesday the laggard with 13%. ■

Profile of the average customer.

Customer of a primary household :	
woman	69%
man	19
both	11
various	1
Who goes with primary shopper ?	
No one	41
children under 18	31
man	23
both	5
woman	4
Employment of a woman:	
full-time	46%
part-time	13
not employed	41
Type of trips :	
weekly trips to markets	2.56
weekly trips to supermarkets	2.02
time spent in trips (minutes)	54-50
amount spent weekly	$ 74.00
average household size	2.58
average household income	$39,000
average age	46.70
shop 8.00 a.m/noon	39.00%
shop noon/5.p.m	38.00
shop 5 p.m/9 p.m	19.00

Source : Progressive Grocer Research

Percent of households that shop at selected retail outlets.

	1999	2000	2001	2002	2003	2004	5-year variation
grocery	**100%**	**100%**	**100%**	**100%**	**100%**	**99%**	**-1%**
mass merchants	95	94	95	93	91	89	-6
drugstores	87	86	86	86	85	84	-3
supercenters *	52	51	51	54	54	54	2
Dollar	52	55	59	62	66	67	15
warehouse	50	49	50	52	51	51	1
convenience/gas	50	48	45	46	45	44	-6

**including Kmart, Target, Wal-Mart Supercenters* *source :AC Nielsen Homescan Panel*

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However there is some concern in view… it is possible that the value-added tax rate of 16% today will increase in order to fill one part of the public finance loss.

NETHERLANDS

Ahold has reported a 55% profit decrease in its first quarter 2005.

Netherlands-based Ahold Group felt the impact of the price wars in the American and European markets leading to a decrease of 1% to € 1.3 billion year-on-year net sales and a 2.6% increase excluding currency impact. Operating profit fell to € 346 million from 349 million and net profit to 134 million from 298 in the same period one year ago.

In the US, net sales grew by 4.6% in local currency. The Albert Heijn supermarket sales in Holland increased by 4.2% and Central Europe by 14.7% to € 406 millions.

Net debt decreased by 8.6% to 6.469 billion from 7.075 in the same period in 2004 mainly driven by the divestments of Bi-Lo and Disco in Argentina and G.Barbosa in Brazil.

Ahold is investing € 1.6 billion to revamp its worldwide network and especially to focus on non-food as competition is gaining strength with Wal-Mart.

RUSSIAN FEDERATION

McDonald's invests $ 50 million to expand its network by 20% in Russia in 2005.

Worldwide fast food giant has also planned to begin franchising its outlets over the next three years but it is difficult to find reliable partners in the regions.

The chain will add 25 new restaurants this year including 5 to 6 in St Petersburg, at a cost between 1.5 and 2 million per unit. 20% of the marketing budget will be allocated to means to attract Russians into its outlets to having breakfast, 90% of them having no opportunity to have a breakfast outside of their home.

McDonald's has 129 restaurants across the Federation including 82 in Moscow and 15 in St Petersburg. Recently, it invested $ 10,000 per unit to launch a new breakfast formula to double their share of global sales.

Unlike its competitors such as Subway, Pizza Hut and KFC, which strengthen their development in Russia through a franchise, McDonald's owns and runs all its units directly while in America and Europe, its franchisees operate respectively 80% and 50% of its units.

Source : The St Petersburg Times

Globus Gourmet, a new high-end food shop opened in Moscow end of June.

This 750 sq.m shop, located in the Gimeney center, carries farm produce raised by the Moscow's restaurateur, Arkady Novikov, as well as exotic items including raspberry-flavored balsamic vinegar. An adjacent kitchen is run by a Cuban chef to sell fresh produce and deli.

Globus Gourmet is operated by STK (Stolichnaya Torgovaya Kompaniya), which invested $ 2.5 million in this first unit. Two more will be added by end of 2005 so that 15 will be in operation by 2008.

Globus Gourmet will not compete directly with Fauchon, which STK introduced from France to Moscow in October 2004 as its average basket will be around $ 30 to 40 compared to Fauchon's $ 80. But carrying also lower-end products in each category, it will face other food retailers and even kiosks.

Novikov, owner of around 60 coffee-restaurants in Moscow, that range from high-end cafés such as Vogue to the casual Yolki Palki chain, and Lev Khasis, president of Perekryostok, are both sitting at STK's board.

Source : The Moscow Times

Pyaterochka buys out some of its franchisees.

To consolidate its franchise business in the Urals, Pyaterochka, Russia's largest food retailer by sales with US$ 1.1 billion (+46%) and 235 directly-owned units in the Moscow and St Petersburg areas, -in all 89 Federation states plus the Ukraine and Kazakhstan-, is about to buy out its franchised outlets in the Sverdlovsk region and its capital Yekaterinbourg.

Its operating subsidiary, Agrotorg, will acquire the Eknonomtorg network including a head office, a training center and 19 stores covering more than 10,000 sq.m of net area. This operation that should be completed before the end of this year amounts to $ 11 million and covers 100% of Ekonomtorg shares and the debt. In 2006, the chain, that operates 17 stores in the region with $ 20 million sales in 2004, will add 23 units.

Pyaterochka will retain direct control of its Moscow/St Petersburg operations and expects to double the number of sites, while continuing franchising further and selecting highly as it is investing US$ 600 million to buy out many of its franchised stores over the next ten years.

In 2004 Pyaterochka reported a net profit of US$ 74.4 millions. Early this spring it announced its decision to come to the London Stock Exchange through its Dutch based Pyaterochka Holding NV.

Paterson signs its first franchise agreement

The Moscow supermarket chain with 50 outlets across the Federation and one in Ukraine signed its first franchise agreement with the Tubai Group. Under this agreement terms, Tubai will open one store under the Paterson banner in Balashikha, close to Moscow, next September.

Tubai has many activities that range from magazine publishing to shopping center building and has accepted to pay $ 20,000 in advance plus 2% of its annual sales in royalties in exchange of the right to use the Paterson banner and technology. This operation is a new business sector for Tubai and will help Paterson ($ 250 million sales in 2004) expanding under a very aggressive formula while continuing opening owned stores. It happens at a period when Western retailers are more and more interested in using the franchise formula to expand in Russia : Spanish clothing retailer Zara used it to open its 4th outlet and has just sealed an agreement with the Finnish Stockmann. For the first time in its history, clothing chain C&A from Netherlands entered Russia through a franchise agreement with the local retailer Russkaya Torgovaya Gruppa.

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Obi plans to open 60 DIY stores in Russia over 2010.

To expand in this country, Obi uses franchise. This way it already opened two stores in Moscow. Over the next five years, the chain expects to open 60 DIY outlets of which 20 to 30 in the capital, a project that will cost $ 250 million.

Obi brand, established in 1970 in Hamburg, belongs to DHH which itself belongs to the German retailer Tengelmann. Obi chain operates 486 outlets in 11 countries mainly under franchising. In 2003 their turnover totaled € 6.2 billion.

UNITED KINGDOM

British George clothing brand has doubled its sales in two years.

Asda's George business, very performing in the UK, hit £ 2 billion (€ 3 billion, $ 3,65 billion) sales and reinforced its leading position in supermarket fashion. This good performance was obtained through the brand development that has become a banner in other Wal-Mart's territories. 50% of Asda shoppers now buy George products compared to 30% two years ago.

George put the pressure on high street fashion retailers while opening 8 standalone units in the past 18 months. 12 more will be opened this fall.

The ambition to expand the brand is confirmed by the creation of a special international team to develop Wal-Mart's clothing worldwide.

Beyond, Asda is expanding into Northern Ireland through the acquisition of 12 former Safeway supermarkets from Morrisons for an amount of £ 73.6 million (€ 111 million).

NORTH AMERICA

UNITED STATES

Retail Real Estate Investment Trusts down in the first Q 2005.

In the first half 2005, REITs may be down. However, their wonderful performance in these past years highly offset any concern. In the first quarter, they fell around 7%, regional malls being slightly better (down 6.8%) than community centers (-9.1%) or freestanding centers (-10.3%) according to MaxCorp Financial. This trend may be the only consequence of profit taking by investors or may be tied to a potential interest rate rise.

It is true that the past five years have been particularly strong for the 34 retail REITs with a 40.2% growth according to the National Association of Real Estate Investment Trusts (NAREIT), a Washington DC-based group.

According to forecasts, cash flow will grow by 10.1% for regional malls, 8.0% for community centers and 7% for free-standing formats in 2005. According to an analyst at Prudential Securities, mall REITs are the healthiest of all because of the high and continued demand for retail equipment.

Source : The Wall Street Journal

Women stimulate online sales.

This year women will boost sales of cosmetics, jewelry and flowers to records according to a survey by NRF and Forrester Research for Shop.org.

Women emerged as a growing force on the Web four years ago and they now account for 51.7% of Internet active users. Online retail spending, excluding travels, are expected to grow by 23% from $ 89 billion in 2004 to 109.6 billion in 2005 or 7.7% of total retail sales.

More precisely, online sales of cosmetics and perfumes are positioned to increase by 33% to $ 1.3 billion, jewelry and luxury products by 31% to 3.2 billion, flowers, cards and gifts by 30% to 4.8 billion. Some retailers will drive at least 10% of their total sales from their Internet activity including tickets, books, toys, video games and consumer electronics.

Today online retailers can focus on expansion and innovation. They more and more link their site and their stores helping purchasers to search information on web kiosks inside stores. Those who seek to expand overseas establish country specific web sites or grant accommodations to international customers. They advertise a lot on research engines like Google, which guide 43% of these customers to their Web sites. Last year, they spent an average of $ 877.630 in search engine advertising that is twice more than in 2003.

All customers do not appreciate self-checkout.

In spite of many tests of self-checkout systems, supermarkets and other store formats as well as many customers are not convinced they are useful. For example, Wal-Mart recently removed them from a new 16,000 sq.m supercenter opened in Missouri. This decision was taken rapidly when the older people began rejecting them.

In spite of their advantages, some retailers are not in favor of a shopping experience in which customers enter a store, make their purchases and leave the store without saying a word to any employee.

Sometimes, customers refuse to use the self-checkout system as they do not know how to use it and because they need many staff interventions. However, positive customers appreciate them, as they are quick even if it is not always the case, particularly the younger crowd interested in technology.

According to the Food Marketing Institute, 45.6% of U.S. food retailers have equipped at least one store with self-checkout lanes compared to 17.5% in 2002. The most recent innovation is a self-checkout allowing shoppers to scan products as they shop the store with a handheld device or a tablet attached to the shopping cart handle. Customers have only to download their tally at any self-checkout system or regular checkout, pay and leave.

Source : Supermarket News

10 retail recommendations to innovate for 2010.

According to a survey by Retail Forward and sponsored by American Express, in spite of consumer perpetual changes, products and life cycles short life and fast advances in the field of technology, many retailers did not take the advantage →

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to innovate. While putting into practice new prospects and finding new ways to develop activities, they can reinforce their competitive and financial position, improve their customer experience and find a new expansion cycle.

Today the period has never been so favorable and opportunities so great. Significant and fast changes in demography, economy, society and technology create a fertile environment for new ideas and better serve customers, earn market shares and re-position one's activity.

We must not forget that for retailers in the maturity cycle of their life cycle, innovation will be more important than organic expansion over the next years. Retail giant innovators such as F.W.Woolworth, Richard Warren Sears, James Cash Penney, Southland-7-Eleven and Sam Walton "revolutionized the retail industry. Their innovations changed the rules of the game. They brought about drastic changes in the behavior of competitors, reinvented the industry's economic model and improved the customer experience," said Retail Forward President.

Ten keys for 2010.

1- **catch a wave.** Retailers who implement innovative ideas to a growing market opportunity created by demographic, economic, technological and societal trends can expand highly and generate financial performance. Needs of an aging population, ethnic consumers and the pursuit of a healthy life style supply a fertile ground with innovative solutions.

2- **solve my problem**. A customer-oriented approach creates opportunities to improve shopping. It involves adding services and information and to support merchandise-mix by a complete solution for purchasers. While carrying products in a certain context and bundling products with services, retailers differentiate and create consumer value.

3- **do it for me.** Demographic and life style changes lead former DIY customers to the Do It For Me market. Retailers answer to this growing demand by new services and facilities. Those who organize home-improvement installment services, those specialized in consumer electronics or those who propose meals solutions are growing examples in the field of Do it for me.

4- **help me choose.** A mass of information, too many choices, more complex products and a lack of experienced sales assistance help retailers in bringing new solutions to customers. To make them able to test merchandise before buying it, to help them using informative kiosks on demand… all that provide customers with the help they need.

5- **come to me.** New formats help retailers to be in contact with customers whether they are at home, at work or in their car. Mobile distribution and targeted marketing are winning popularity as more and more time-pressed customers look for more convenience.

6- **enhance the experience.** Retailers are more and more differentiating while using methods to sell a dream or a product and create branding. While immersing totally customers in their stores and integrating brands into entertainment experience especially, they explore ways to create memorable interactions with brands that reflect their target consumer.

7- **make it easy.** Innovative process, simple, intuitive services and solutions and answering to customer needs while new technological tools enable them to spare time and efforts. Retailers who apply more simple and rewarding customer experiences will realize higher sales and reinforce their satisfaction and loyalty.

8- **do it my way.** As purchasers are becoming more and more individualistic, innovative retailers will seek means to supply customers with a totally unexpected satisfaction and allow them to express themselves in new ways. Beyond mass customization and personalization, retailers offer customers the opportunity to participate in the development of new products and services.

9- **help me connect.** Social networks stimulate consumer communities sharing a common interest. Retailers reinforce their ties with their customers and their loyalty while helping them to connect, which is important to their eyes, and answering to their physic and emotional needs.

10- **speed it up**. Customers are time-pressed and they want everything immediately. Fastness in the buying process will continue driving changes in the store formats, conception, location, merchandising and transaction processing and payment.

In the past few decades, most retail innovations were mainly focusing on efficiency to answer to mass market opportunities. If ongoing innovations in technology and operating strategies continue improving efficiency, future retail innovations will be more consumer-oriented. "Going forward, retailers will address the unique needs and desires of individual consumers and provide a more rewarding and memorable shopping experience" according to Retail Forward. "They will innovate around new formats and distribution models, new product and service offers, marketing and customer communications and other components of the retail business."

Source : extract from Retail Innovation : Ten Opportunities for 2010, American Express/ Retail Forward

ASIA

Online retailing is exploding in Asia.

In 2004 in Asia, Japan is the largest Internet market with sales of $ 38.4 billion or roughly one third of the American market. It is followed by Korea ($ 6.3 billion), then China and Taiwan with 1.1 billion each. China ranks second in the world in total Internet users.

According to eMarketer, more than six out of ten Americans are

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Internet users in the Asia-Pacific region and worldwide in 2004 (in million, penetration and CAGR)

	Internet users (million)	% of the population	consolidated annual growth rate 2004/8
United States	170.1	60.6%	2.6%
China	94.0	7.2	14.3
Japan	72.8	57.2	5.6
Germany	42.0	50.2	5.3
U-K	32.3	53.4	4.4
South Korea	31.6	65.6	4.2
India	21.3	2.0	23.8
Brazil	19.3	11.0	9.8
Canada	17.8	55.5	2.8
Australia	11.9	59.2	3.4

Source : eMarketer

already connected to the Net and their number is to still increase by 2.6% a year over the 2004-2008 period. In China, according to estimates, the connected population will also increase in the same period by 14.3% on an annual basis.

In addition, governments of Japan, Korea, Malaysia and Singapore have led a policy in order to stimulate private sector to innovate in the fields of information communication and technology. eMarketer estimates that 73% of all Korean households had a broadband connection in 2004. Hong Kong, Taiwan, Japan and Singapore are all ranked ahead of United States.

In China, the market is exploding as 94 million of Chinese now go online. Hence the country is ranked second immediately behind United States by terms of Internet users. Net American giants want a piece of the cake. Recently, Microsoft announced it had formed a joint venture with the Shanghai Alliance Investment, headed by a son of former president Jiang Zemin, to operate a Chinese version of its MSN portal. Thus 340 million of cellular subscribers who often go online are thus targeted. Google opened a small office in Shanghai after it signed an agreement in February with the Chinese company Tencent in order to provide it with search services.

Yahoo !, Amazon.com, eBay and Expedia are also ready to join the boom. Amazon.com acquired for $ 75 million a firm based in the British Virgin Islands that gives it the control of Joyo.com, an online Chinese bookseller. Yahoo! acquired a research firm based in Hong Kong for $ 120 million in 2004 that gives it control of the Chinese research engine 3721.

eBay paid $ 180 million to buy an American firm that gives it control of Chinese Net auctioneer EachNet. An excess of $ 100 million will be invested for its expansion in China as today foreigners are allowed to own directly 50% of Chinese online firms even if authorizations are still slow to obtain.

Broadband households in select countries in the Asia-Pacific region and North America in 2004 (in % of total households).

South Korea	71.0
Hong Kong	60.2
Taiwan	50.8
Canada	42.7
Japan	38.6
Singapore	37.9
U.S.A	29.9
Australia	17.3
China	6.5
India	0.1

Source : eMarketer, April 2005

Kingfisher has bought Obi Asia and gives birth to the largest DIY chain in China. It opened its first home improvement store in Korea.

British Kingfisher's subsidiary B&Q operates 23 big home improvement and DIY outlets in China and expects to add 50 more over the next 12 months which will make it China's largest home-improvement retailer and foreign-owned chain in this country. It will place it in a better position when Home Depot arrives in the Middle Kingdom as the American chain already announced its presence through the acquisition of an existing chain; it could be Orient Home for an amount of $ 500 million.

B&Q offering is typically European and caters to homeowners accustomed to shop at small specialty shops or big-box stores such as Hong Kong Decoration Material Wholesale Market.

Obi Asia, which runs 13 stores in China, opened its first outlet in 2002 in Wuxi occupying 16,000 sq.m of retail space; 5 more would be added and converted later to the British concept after the government's approval. Originally, the German chain expected to add 12 stores in 2004, 50 in 2006 and approximately 100 over 2010. Its expansion began by the north-east region then oriented towards Beijing and cities such as Shenzhen and Guangzhou while focusing on its three abilities : the reputation of the German quality, the guarantee of low prices and everything under the same roof.

B&Q is not the only DIY player in China. The Home Way with which American Home Depot had tied links a few years ago operates 11 home-improvement stores. Homemart (26 units) and Orient Home (24 in 13 cities) are also active in this market. Ace Hardware has franchised outlets and a plethora of small traditional units catering to contractors and consumers. For the present time, the French Leroy Merlin has only one store in operation.

B&Q has now entered South Korea since mid-June in Guro, a district of the capital. This first unit is located in the basement of a Lotte Mart discount store. It covers 8,250 sq.m of retail space and carries 35,000 items in a wide range of categories including lightning, flooring, kitchen accessories, bathroom, furniture, painting, horticulture and hardware. 85% of products will be supplied locally. Its strategy aims developing nationwide rather than focusing on Seoul. **Russia** is on the horizon… ■

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