

# LA LETTRE DE LA DISTRIBUTION INTERNATIONALE

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## INTERNATIONAL

### Global investment in commercial real estate up 12% to \$ 457 billion (€ 378 billion) in 2004.

First, investors poured \$ 99 billion in real estate transactions of countries other than their own, a 21% increase according to Jones Lang LaSalle. This way, global real estate investments are expanding in markets with plenty of cheap capital, where many countries have reinforced transparency and investors are looking to diversify the geographic concentration of their portfolios.

Main part of capital is coming from the United States. While their cap rates have been generally higher than those of well-developed foreign markets, the situation has changed in the past few years as long-term interest rates have fallen. American investors have been looking for the relatively safe incomes of REITs and foreign investors have largely injected money into the U.S. trying to diversify and enjoy higher capitalization rates. As they fall, asset value increases hence many investors desire to expand overseas.

About 20% of real estate transactions in the U.S. last year were made by foreign buyers while in Europe foreign real estate investors, mainly neighboring countries, have accounted for 50% of transactions and for 12% in Asia. Even American REITs, traditionally concentrated in American specific geographic areas, are diversifying overseas where they have poured \$ 8 billion last year compared to 1.5 billion in 2000 according to Morgan Stanley.

Source : Jones Lang LaSalle/The Wall Street Journal

### Most attractive countries for global retail expansion.

India is the most attractive country in 2005 according to global management consulting firm A.T.Kearney's annual study of ideal regions for global retail expansion. It analyzes development via its Global Retail Development Index. India

overtook Russia this year with a 10% retail sales growth in the past five years and a lower concentration, the top five retailers holding 2% only of the market.

### Ten most attractive emerging countries for global retail expansion

	Score*
<b>India</b>	<b>100</b>
Russia	99
Ukraine	87
China	83
Slovenia	82
Latvia	81
Croatia	80
Vietnam	79
Turkey	78
Slovakia	77

Source : AT Kearney \*according to economic and political risks, purchasing power, market saturation and urbanization

China stepped down to the 4<sup>th</sup> position due to its already strong international position and concentration. Ukraine went up from the 11<sup>th</sup> to 3<sup>rd</sup> helped by a growing purchasing power and the country urbanization. In addition, Lidl announced it would expand within one year in Ukraine. Slovenia is attractive by its GDP of \$ 36,405 per capita and because the country is now a member of E.U that has brought expansion and stability. Croatia has a largely urban population and its total retail sales grew close to 40% in the past two years. In Turkey, A.T.Kearney announced that "The political environment is not affecting retail and though retailers have been expanding, the saturation level for Turkey is still quite low."

Pakistan appeared for the first time but at the bottom of the study. Kazakhstan should emerge next year. Mexico and Brazil sit respectively in the 24<sup>th</sup> and 29<sup>th</sup> ranks due to the concentration of retailing : Wal-Mart (Walmex) in Mexico and Casino, Carrefour and Wal-Mart in Brazil, which hold together 17% of the market.

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**German Adidas, a pioneer of the sporting goods industry and world's second largest athletic footwear and apparel chain, acquired American Reebok International for \$ 3.8 billion, number three of the activity.**

The deal is expected to close in the first half 2006 and would create a group with complimentary activities, holding a 20% share of the market and with approximately € 9 billion in sales. This way, Adidas is gaining ground on the sport shoe leader, Nike (€ 13.7 billion, 35% market share). Very active in American basket and football sectors, Reebok, whose brand will be kept, could reinforce its presence in the American market where it gets 55% of its total sales compared to 37% for Nike and 23% for Adidas.

Adidas will wide the gap with Puma, 4<sup>th</sup> world's sporting goods manufacturer with € 1.5 billion sales. Puma plans to double its size over the next five years, investing in sportswear, and to diversify in golf and motorcycling.

- **Adidas-Salomon** : € 6.4 billion sales, net profit 314 million, generates 54% of its activity in Europe, 23% in USA, 19% in Asia and 4% in Latin America and other various countries.

- **Reebok** : € 3 billion sales, net profit of € 155 million, generates 55% in the U.S, 21% in Europe, 13% Great Britain and 11% in other countries.

**Ikea will provide grocery in its stores.**

As Swedish furniture giant met success while introducing restaurants and grocery in its stores, it now plans to diversify while selling its own range of Swedish products under its own brand such as roll-mop herring and smoked elk sausage from 2006 in all its stores worldwide.

In fact, this strategy of food selling is dating back to the Eighties. Since that period the concept has been expanded to its "Food Markets" that now provide 150 Swedish items, a few of which under the Ikea brand. Ikea aims for Ikea-branded products to make up 30% of the groceries it sells by 2007. To reach this target, the retailer will need to translate the Ikea brand values from furniture to food, convincing consumers that the same product quality will be

retained. Similarly, Ikea also needs to ensure that its aim to sell specialty food produce is not diluted by the products' budget positioning (its Food Markets look to sell produce at 30-40% below market price).

Ikea France recently opened its 16<sup>th</sup> and 17<sup>th</sup> new units in Dijon and St Etienne respectively on August 31 accounting for a global investment of € 82 million. It announced that a new concept would be launched in extensible sites covering 23,000 to 27,000 sq.m of space. Customers will have software in 3D at their disposal enabling them to arrange future projects and Ikea best-selling products will be tested among them. Restaurants of 350 to 400 seats will be introduced in stores. This way, Ikea France expects to generate combined sales of € 47 million their first operating year and 80 million within the next five years. Ikea France is the third largest furniture player behind But and Conforama with a 9% of market share and € 1.01 billion sales. It expects to open 2 stores a year in France and become number 1 of the activity.

**EUROPE**

**United Kingdom is the largest European market as concern commercial real estate in monetary terms.**

According to Cushman & Wakefield Healey&Baker, 9.5 million sq.m of new retail and leisure space will be completed across Europe within the next two years including 4.2 million this year and 5.3 million within one year. This figure has to be compared to 3.5 million in 2004.

U.K is the most liquid and mature market in Europe mainly because of the amount of investors looking for commercial real estate. The value of shopping centers that changed hands in the first six months of 2005 is estimated at £ 2.76 billion (€ 4.02 billion), a 15% increase from the £ 2.40 billion in the first six months of 2004.

In this country, shopping sales should not reach the record of £ 9.8 billion (€ 14.27 billion) in 2004 that was already more than double the previous record of 4.7 billion (€ 6.8 billion) in 2002. This year, the figure

**In short...**

**Beijing plans to build 1,000 new stores before hosting the 2008 Summer Olympic Games.**

These mini-markets and convenience stores are part of the City's project to make Beijing "the largest toilet revolution in its history" in order to make life better for its 15 million inhabitants and tourists expected in 2008. In addition, the City wants to renovate 55 shopping centers, supermarkets and small boutiques and make their access easier for the disabled. It also plans to create 500 franchised laundry and dry cleaning shops...

**Shinsegae has opened a department store in the hub of Seoul (South Korea) on August 10.**

It occupies 46,200 sq.m in a 19-storey building including 14 reserved for sales. It focuses on diversity and quality, especially in food whose 70% of products are imported. This is an answer to the new Lotte Town, a project that includes a Lotte department store, a luxury Avenue and Young Plaza shop catering to a young population...

**Metro has planned to set up hypermarkets across Pakistan, mainly in Lahore, Karachi and Islamabad...**

German Group said that elimination of middlemen would help to improve quality of products at low prices...

**Souk Al Meharieis is the first supermarket recently opened in Tripoli (Libya) in 900 sq.m and 2 levels.**

The owner, Abdelhédi Abdelsalem, Khadafi's own nephew, wanted to build a real western big-box store. His store includes the first fish department of the country supplied by local importers. This could be expanded in case of success...

**Carrefour may be soon N°1 foreign retailer in Turkey?**

Leading Migros chain, owned by the Turkish Koc, is on the verge to acquire Tansas, a supermarket chain.

The French Carrefour has recently bought Gima and plans to become the leading retailer in Turkey by 2010. To reach this target, it expects to invest more than \$ 100 million a year and double the number of employees over the next five years... →

**Large retailers will probably invade the Czech Republic within a few years.**

According to Incoma Research, a high retail concentration is expected in the consumer goods sector and Aldi and Wal-Mart will probably enter the republic. British Tesco will not only continue building 5 to 7 hypermarkets a year (19 are already in operation) but it also expects to open several dozens of small supermarkets within five years. Carrefour (11 hypermarkets), Globus (11), Makro (12 cash & carry), Delvita (Delhaize le Lion, 95 supermarkets), Ahold (200 supermarkets) and Lidl (100 hard discount stores) are also present in this country... **Conforama, active in the Swiss market since 1976, has built its 11<sup>th</sup> furniture store and also its 6<sup>th</sup> in German-speaking Switzerland on August 10 in St Gall** occupying 4,000 sq.m selling area. Conforama sales in this country were € 229 million in 2004...

**Kingfisher to launch a new store format in U.K before the end of 2005.**

The first building material and maintenance store will be opened under the Trade Depot brand in Southampton in the former premises of a B&Q. A second store could be added early 2006 occupying 1,860 to 3,250 sq.m...

**Credit cards : French Cetelem/LaSer and Cofinoga reached an agreement.**

Semad, holding firm of the Moulin family, and BNP Paribas announced they reinforced the partnership between Galeries Lafayette Group and Cetelem in the consumer credit activity. Authorization was given by the French authorities...

**Grosvenor has acquired the French Malakoff shopping gallery (4,500 sq.m) from Apsys and Financière Euris for € 20 million which corresponds to an initial net yield of 7%.**

Grosvenor, a private international group, managed € 10.8 billion real estate assets last year. It is in charge of investments, promotion and management of real estate funds through its subsidiaries in U.K, Ireland, Continental Europe and the Pacific/Rim...

could total between £ 5 and 6 billion (€ 7.3 and 8.8 billion). The expected decline of 2005 is partly due to the amount of money looking for retail real estate investments that has put a downward pressure on yields. Average shopping center yields have been falling by 0.44 percentage point since the end of 2004.

It seems inevitable that slowing consumer spending in U.K will deter some private investors from such investments. Sales of high-street stores have been slowing since the end of 2004 and apparently same-store sales in June were down 0.5% from the same month in 2004. However for now, demand for shopping centers remains strong for a certain category of buyers including institutional investors, real-estate companies... Prudential sold some of its assets this year. In March it sold a 35% stake in the Bluewater shopping center located in Kent to the real estate investment branch of Government of Singapore Investment for £ 318 million (€ 463 million).

In Spain, real estate transactions totaled € 800 million in the first six months of 2005 from 563 millions in the whole year 2004. France reached a record with € 314.6 million of transactions in the first six months of 2005 from 48.1 million in the first half of 2004. This activity rebound is attributed to owner decisions to take profit from their investments. Very few good shopping centers are on sale except some in secondary markets or in small cities.

Spanish, German and Dutch real estate firms are the most active buyers. Riofisa recently sold one of its shopping centers in Madrid to an unveiled Spanish fund for € 250 million. This same year, Dutch real estate company Redevco Europe Services acquired a portfolio of 72 assets including 50 supermarkets and hypermarkets in Andalusia and Canary Islands from European private-equity firm Permira for € 210 million.

Almost 1.9 million sq.m space of new shopping centers and extensions are likely to be in the market for the next three years. It is the sign that the business remains strong.

In Germany, € 1 billion of real estate have been sold in the first

half of 2005 compared to 1.1 billion for the whole of 2004. € 2 billion of commercial assets will likely be put on sale this year according to Jones Lang LaSalle including shopping centers and retail warehouses.

Source : *The Wall Street Journal*

**Generalization of transactions by bank cards.**

In 2004, MasterCard and Maestro card holders spent € 13.9 billion in foreign payments, a 12% increase versus 2003. Visa registered +14.6%.

It reflects an increase of +18.6% of transactions by French travelers in Europe last year according to the Ministry of Tourism. It also reflects an increase of payments by bank cards : Visa was used to pay 37% of transactions in foreign countries last year, growing by 8 points versus 2000.

In addition, transactions via Internet are generalizing as MasterCard reported a 67.4% growth of its online transaction amount last year.

Travelers from Germany, Netherlands and United Kingdom spend the most in Europe and Mediterranean neighboring countries enjoy it most : Spain, France, Italy, Portugal and Turkey receive more than they pay according to MasterCard and Maestro transactions.

France is the most attractive country as concern food and restaurants. For the French people, Spain is the most attractive country where Visa and MasterCard holders spent respectively € 1.35 billion and 427 million last year. Eastern Europe is emerging and Visa use grew by 50% in 2003 in Croatia and by 35% in Poland, Hungary, the Czech republic and Slovenia.

**BELGIUM**

**Delhaize le Lion reports a drop of 23% of its net profit to € 76.9 million and a new drop of 13.3% of its operating profit to 206.4 million in the second quarter. Sales remained almost stable at € 4.6 billion.**

"Due to the continued competitive environment in our key markets and soft economic conditions in Belgium, our results were below our →

own sales and profit expectations," said Pierre-Olivier Beckers, President and Chief Executive Officer, who draws 91% of its activity from the U.S.A

Contribution of the operations in the **United States** in the second quarter amounted to US\$ 4.1 billion, an increase of 3.2% due to store openings and the Victory acquisition. During the semester, sales grew by 3.8% to \$ 8.2 billion.

In **Belgium**, Delhaize second best market, the Group posted sales of 991.8 million, an increase of 2.6% versus 2004 in the second quarter but its market share fell. In the semester, sales grew by 1% to 1.9 billion.

In **Greece**, sales grew by 3% to 222.6 million but operating profits decreased to € 4.8 million (-15%) in the second quarter. During the first six months, sales increased by +3.4% to 437.8 million and operating profit fell 6.6% to 6.0 million.

Sales of the **Emerging Markets** (Czech Republic, Romania and Indonesia) increased by +5.8% to 99.7 million. Operating profit amounted to € 0.2 million in the second quarter, a decrease of 88.7%

During the first half, the Group posted a net profit of €158.2 million, an increase of 13.6% and operating profit fell 7.2% to 411 million. Sales declined by 0.1% to 8.909 billion. However, for the whole year, Delhaize le Lion expects that net sales and other revenue will grow by 3.5% to 4.5% mainly boosted by United States. At the end of this year, the sales network is expected to increase by 102 stores to a total of 2,667 stores.

## FRANCE

**Carrefour : pre tax sales grew to € 35.440 billion, an increase of 2.6%. On current exchange rates, they were up 4.7%. But net income Group share fell 6.9% to 687 million in H 1.**

In France, where the Group gets 48% of its sales, turnover declined 1.0% to 16.89 billion impacted by price cuts. But the situation is improving as all Group's formats gained food market share (+0.7%) in the period, the first increase of share in the country by the Group as a whole since 2000. In addition the trend in

the number of customer transactions continued improving, up 1.4% in Q2. However, the value of the average basket fell by 2.3% reflecting the deflationary consequences of efforts led by the Group to strengthen its price image.

In H1, sales in Europe jumped +5.6% to € 13.5 billion, Americas by 3.5% to € 2.32 billion and Asia 11.1% to 2.73 billion. EBITDA grew by 23.6% outside France, which offsets largely France that fell 14.7%.

Carrefour will add around 1.4 million sq.m of new space in 2005 through new stores, extensions and also acquisitions. Net debt at the end of the period was stable.

**Sales ex-VAT and EBITDA per zone.**

in m. euros	sales ex-VAT per zone			EBITDA per zone		
	H1, 2005	variation %	pro forma	H1, 2005	change on current rates %	
France	16,887	-1.0	+0.5	770	903	-14.8
Europe (excl.France)	13,495	+5.6	+5.6	392	339	+15.5
Americas	2,321	+3.5	+16.8	14	(3)	
Asia	2,738	+11.1	+19.1	87	63	+38.1
<b>Total Group</b>	<b>35,440</b>	<b>+2.6</b>	<b>+4.7</b>	<b>1,262</b>	<b>1,302</b>	<b>-3.1</b>

Source : Carrefour

**Casino : first half 2005 consolidated sales grew to € 10,363 million, an increase of 1.8% at constant exchange rates.**

In France, growth was limited to 0.7% at € 8.2 billion in the first six months of 2005 with a second quarter increase (+1.1% after +0.2% in the first quarter). Supermarkets reported a 1.2% increase (+1.8% in the second quarter) helped by "a sharp increase in private label and low price product volumes." Géant hypermarkets sales were down 1.6% but they registered stable customer traffic. Hard discount store sales grew by 1.2% but same-store-sales of Leader Price were down 3% in the second quarter compared to -2.3% in the first.

In international markets, sales growth was up 6% to € 2.16 billion at constant exchange rates fueled in particular by U.S-based Smart & Final (+4.1%). In Latin America, growth hit 20.2% and in Asia 9%.

**Pinault Printemps Redoute : sales rose 4% to € 3,986.9 million in the second quarter and 3.1% to 8,094 in H1 2005. Growth was fueled by luxury goods.**

In the first six months, growth was affected by a lagging consumer spending context. Outside France, activity was positive climbing 4.3% and like-for-like sales were up +3.9% driven by Fnac stores, Redcats and CFAO.

Luxury goods, including Gucci and its subsidiaries, which account for 17% of sales, grew on a comparable basis by 15.9% in the first half and by 17.6% in Q2 alone.

Retail sales were up 0.2% only in Q2 and up 1.9% in H1.

## GERMANY

**Metro is suffering from the lagging consumer spending in**

**its home market.**

German retailer announced a 3.6% rise of sales to € 13.83 billion in the second quarter, lower than expected. EBIT fell 1.4% to 315.9 million. It posted a 10% decline in sales at Real hypermarkets and Extra supermarkets to 2.37 billion partly due to the sale of 140 units. Kaufhof department stores were also down (-5.7%). Sales at its Cash & carry increased by +7% to 6.89 billion and by +6.7% to 2.76 billion at Saturn and Media Markt electronic stores. DIY Praktiker sales were stronger as they were boosted by their strong presence outside the home market. Net profit was € 140.2 million up from 132.8 million.

International markets now account for 52% of Metro's consolidated revenue and grew by 9.9% in the second quarter; Eastern Europe itself was up 22.3%. Considering the first semester, profits stagnated at € 463.1 million while sales were up 3.9% to 27.24 billion.

Concerning Russian projects, Metro will grow the cash & carry number from 14 to 50 in the mid term and double its operation number in China to 30 units.

# **INVESTMENTS IN CENTRAL AND EASTERN EUROPE (the Czech republic, Hungary, Romania and Slovakia) IN SPITE OF FAST YIELD FALL**

In 2004, international investors poured € 3.6 billion in real estate transactions in Poland, the Czech republic, Hungary, Slovakia, Romania and Russia. A strong demand for property assets has pushed yields rapidly down, a trend that is likely to maintain, as buyers expectations are too high in this type of business. In fact, they now reach similar levels to those in Paris or Frankfurt. However, foreigners seem willing to take the risk investing in real estate of the region without a high compensation.

However, pessimist signs over rent growth are to be noticed particularly in the relatively mature markets of Central Europe. In fact, while they grow it is almost due to occupiers who move from one place to another rather than renting additional space. Hence the low level of net absorption of stocks. Strong compression of yields has also led to a project number development and an always-high availability does not mean that rents will likely increase in the near term.

Investors are attracted in this region by favorable macro-economic indicators. Their GDP is growing thanks to international firms that build factories, call centers and back offices in these countries while using a qualified and cheap workforce. But wages are rising and employees want to catch up on the standards of living of their western counterparts. At first, they spend more in food and now want to buy quality apparel and brands.

But lax planning would lead to a strong competition. Only lucky investors to acquire real estate in historic urban centers, such as Prague or Budapest, can be sure that competitors will not build a new shopping center or offices next door.

Another concern is lying in investment durability. How long will economic growth last before salaries in the region become too dear for companies looking for low-wage destinations? Companies are already settling there as taxes and labor contributions are much lower.

**With a high GDP growth, the Czech republic is one of the favorite countries for investors in Central Europe.**

country	1 <sup>st</sup> Q GDP	industrial production, May	consumer prices, June
Czech Republic	4.4%	4%	1.8%
Hungary	2.9	10.1	3.8
Poland	2.1	0.9	2.5*
Slovakia	5.1	1.5	2.5
Slovenia	2.6	1.3	1.9

Source : Economist Intelligence Unit \* May

**Romania is attracting a growing interest among foreign investors.**

**High compression of yields.**

Romania and its smaller neighbor Bulgaria are showing on the radar for international investors. According to Jones Lang LaSalle, Bucharest is sitting among the 5th fastest-growing cities in Europe including Kiev, Riga, Sofia and Tallinn and its economy is on the right path to reach the same size as Warsaw by 2010. Meanwhile, Bulgaria registered a 5.3% growth of its GDP in 2004 and its currency is already pegged to the Euro.

Investors consider that retailing in both countries is very promising, "GDP and purchasing power are a little lower but people still have the same needs," underlines someone at Heitman International. Its HEPP III funds with € 350 million in equity and a purchasing power of € 1 billion is able to buy assets in Bulgaria, Romania and Slovenia as well as in Central Europe.

**Retail trade in Romania and Bulgaria.**

In Bucharest, two urban shopping centers opened in 2004 and owned by Turkey's Anka Group and a former State-run department store cater for a population of 2.3 million inhabitants. Five to six more shopping center projects are presently led by developers such as Globe Trade Center.

A dozen hypermarkets and supermarkets has sprung up in the past few years : Carrefour announced that sales of its 4 hypermarkets had nearly doubled to € 190 million (\$ 233 million) in the first six months of 2005. The French retailer will add 4 by 2006.

Baneasa center, located in the north of Bucharest and anchored by Carrefour and Ikea is a € 1.2 billion investment. It perfectly illustrates the full development of Romania, a future E.U member, while the rest of Old Europe is stagnating. Baneasa project includes more than 3,000 inhabitants, a business center, a large shopping center and should create 10,000 temporary jobs and 25,000 permanent ones. In addition, Bucharest's mayor, Adriean Videanu, has recently announced the project to annex dozens of surrounding villages in order to spur similar developments. This would give the crowded city space to grow, while modernizing the undeveloped surrounding area.

## - La Lettre de la Distribution Internationale -

A still too high taxation, a low-structured administration, a strong and powerful underground economy, estimated at around 40%, and a 19%-rate VAT on food products are among the remaining difficulties to solve in Romania.

In Sofia (Bulgaria), the first modern shopping centers are being built to cater for a population of 1.5 million people. Israeli developer Aviv is now working on a 35,000 sq.m project while a consortium is building a new one of 23,000 sq.m. In fact, Bulgaria has almost no retail shops and western brands are working from small concessions. Unsatisfied demand has pushed rents upwards to € 120 sq.m per month for a prime site and could reach € 10-60 in new centers.

Big-box stores are active in both countries : Billa (Rewe) and Metro have bought several sites in Bulgaria and Kaufland in Romania. In Bucharest, there are 3 French Carrefour hypermarkets and 2 French Cora. Metro has 21 stores in Romania and the French Intermarché is entering the market in Ploiesti under the InterEx banner. The country has just seen its largest retail investment deal while the French Cateau Group bought two shopping galleries connected to the capital's Carrefour and Cora hypermarkets.

Both countries have a certain potential in the logistics and warehouse sectors. The motorway being built between Budapest and Bucharest could open a corridor while Sofia is in the axis between the Balkans and Turkey.

### International investors.

On the foreign investment level, Romania and Bulgaria are behind their neighboring countries such as Hungary since the end of the Soviet Union in 1989 as both countries are struggling by State-run industry privatization and the difficulty to reform their centralized economy. According to analysts, they rapidly catch up the lost time and their economies have been expanding at the same rhythm since 2000. Growth is expected to reach 6% in the next few years, Bulgaria having a lower inflation rate than Romania. At ABN AMRO, people underline their low workforce costs and geographic positions opening an access to Middle East, Russia and Balkans. However their EU membership might be postponed for one year

if they fail to reform their inefficient justice systems and master their corruption. They already have access to Union's markets and a delay in the membership would generate a delay in the infrastructure improvement and rural development but would not have a major impact on large investors, they say at ABN AMRO. Foreign Direct Investments (FDI) in Romania amounted to € 951 million between January and May 2005, a 12% increase over the same period one year earlier.

It is important to note that the economic surge is not evenly distributed in the whole country. Development of the various regions is actually heterogeneous as there is a high investment concentration in urban areas and around the Black Sea coasts of both countries. Few foreigners are venturing in the rural and poorer regions of Eastern Romania. However in the Timisoara district, west Romania, 1,900 Italian firms have settled there.

Bulgaria, though smaller, has also emerged as an attractive destination for foreign investors due to its economic stability. FDI reached € 2.14 billion in 2004 increasing 14.2% from one year earlier. These foreign investment funds have particularly led to a real-estate boom in Romania and Bulgaria and prices whose level doubled in the last years seem to level off recently.

In spite of relatively low monthly wages compared to western standards, \$ 300 in Romania and 255 in Bulgaria, both countries are attractive considering their high demand in new electronic equipment, electrical appliances, mobiles and cars.

While Romania fears an economy overheating and inflation increase, it has enacted more strict laws with the hope that VAT growth will not slowdown consumption. ■

### Rents and yields in Eastern Europe retail.

	rents €/sq.m/month	yields in %
Romania	60	14
Croatia	50	13.5
Slovakia	50	9
Bulgaria	50	14
Slovenia	45	16

Sources : Jones Lang LaSalle, Cushman & Wakefield Healey & Baker

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# EVOLUTION OF OUTLET CENTERS IN THE U.S. THEIR POTENTIAL IN EUROPE

## Recent drop in the evolution of American outlet centers.

Their count has fallen to 225 units in 2004/5 for several reasons :

- at present, retailers are looking more and more to settle in the suburbs of large metropolitan areas and in zones with high-tourist potential,
- among the first outlet centers opened, some still have outlet retailers but vacant premises were filled with traditional retailers, local or regional boutiques so that the factory outlet aspect is no longer dominant,
- few new centers are opened each year. However, new outlet centers are larger than before and many projects by Mills, which includes 30% of outlet retailers and 70% of leisure and traditional retailers, are still opened regularly. In addition, this type of business has lost a lot when developers have stopped transforming traditional shopping centers in outlet malls. It is the case of Horizon Group that converts a former regional mall in Texas into an outlet mall for the first time in ten years!!

At present, new outlet centers are larger when opening and their future development is more limited. In fact, in the past ten years, average area of a new outlet shopping center grew by 44% from 13,335 sq.m in 1994 to 30,450 sq. m in 2003.

Fewer firms own the 225 operating centers in 2005 and only two among them are publicly listed. Tanger Factory Outlet Centers and Chelsea Property Group, (which bought Simon Property in 2004) count together 85 centers and 2.2 million of sq.m. or 44% of the total in the U.S (4.9 million sq.m). Totally there are 84 independent owners owning 140 centers and 2.7 million sq.m. Top 10 account for 63 centers and a total of 1.6 million sq.m.

## Ranking of 10 largest independent outlet center developers in 2004/5

developer	center number	Total GLA (sq.m)
Prime Retail	30	930,000
Craig Realty Group	6	168,000
Horizon Group Properties	7	112,000
TGS North American	4	98,000
Belz Enterprises	3	94,000

Source : VRN

## What is their potential ?

While few new enters open each year, new projects however continue emerging. Between 2005 and 2007, 19 should break ground. Sales per sq.m are difficult to estimate, however they are projected between \$ 3,230 and 3,800 per sq.m and their occupation rate maintains easily above 90%. In 2004, Chelsea reported sales per sq.m of \$ 4,433 in its 28 Premium Outlets and Tanger \$ 3,335 in its 33 centers.

The number of tenants fell to 329 chains operating 15,805 stores. But, while the chain number declined the store number increased due to the chain expansion. It is a business still in mutation.

## About statistics.

- the outlet center number has grown from 222 in 1999 to 225 in 2004/5 after a peak in 1996 and 329 units. As soon as 1997, their number increasingly declined especially between 2001 and 2003 to fall to 230 units,
- best years for new center openings were 1990 with 40 and 1993 (32). Last year, their number fell to 3,
- average area grew regularly from 11,200 sq.m in 1990 to 22,000 sq.m in 2004,
- total area stands at 4.9 million sq.m.

## What potential in Europe ?

By fall 2004, there were more than 110 outlet centers in operation in Europe covering almost 2 million sq.m GLA according to the last survey by American magazine Value Retail News. From 2000, their surface in this region grew by 111% including all centers over 4,000 sq.m area.

End of 2005, it is expected that their growth will still increase to above 120 units. While the highest number of new centers is in United Kingdom, Italy and France, an analysis of current projects shows that they play a more significant role in Spain, Italy, Austria, Poland and Germany.

While comparing each country's population and the GLA area, Portugal has a huge potential and Germany, Greece and Poland should see their potential limited. Their ideal location is in the limits of towns. One fourth of them are in suburbs or in urban locations.

Their attracting power comes from the well-known brands such as Nike, Reebok, Levi's, Adidas, Polo Ralph Lauren, Villeroy & Boch... In Europe, they more and more include fast food courts, restaurants and cafés and leisure areas. To increase visit quality and length and also to attract new customer groups, outlet centers have been equipped with children's playgrounds, museums and gardens...

## Market shares of leading outlet center management companies by GLA.

various	50.9%
McArthurGlen	15.5
Freeport	7.1
Realm	6.9
Value Retail	5.3
Fashion District	5.3
Concepts & Distribution	5.2
Neivier	3.7

Source : Institute für Gewerbezentren, April 2005

- La Lettre de la Distribution Internationale -  
**Top ten largest factory outlets in 2005 in Europe and Turkey.**

projects	location	developers	GLA area sq.m	opening date
McArthurGlen Designer Outlet Serravalle	Serravalle, Italy	McArthurGlen Europe	35,000	Sept.2000
McArthurGlen Designer Outlet Cheshire Oaks	Chester, England	McArthurGlen Europe	33,400	March 1995
Marques Avenue, Troyes	Troyes, France	Concepts & Distribution	29,700	March 1993
Value Outlet Village, Castel Guelfo	Florence, Italy	ING/Pantheon Retail	29,000	May 2004
Sevilla Factory	Sevilla, Spain	Sevilla Plaza	28,000	2001
Junction 32	Castleford, England	Hermes/REALM Ltd	27,450	Sept.1999
Izmit Outlet Center	Izmit, Turkey	Bayraktar Holding	27,400	April 1997
Olivium Outlet Center	Istanbul, Turkey	Emintas-Ileri Mensucat/ Alkas Consulting	27,100	April 2000
Franciacorta Outlet Center	Brescia, Italy	Gruppo Percassi Craig Realty Group	26,650	Sept.2003
McArthurGlen Designer Outlet Livingstone	Livingstone, Scotland	McArthurGlen Europe	26,150	October 2000
<b>total</b>	<b>6 countries</b>	<b>8 developers</b>	<b>289,850 sq.m</b>	

*Source : VRN*

McArthurGlen is the European leading chain regarding the number of managed centers holding 15.5% of the market and a GLA area exceeding 270,000 sq.m. Freeport sits in the second position with a 7.1% market share and 5 centers of 135,000 sq.m and Realm in the 3<sup>rd</sup> position with 9 centers and 126,000 sq.m, all are located in U.K.

If customers do not find the same level of sales assistance as in a traditional store, service has however greatly improved those past years. Standard services are managed with professionalism and presently include tourist information offices, cleaning, security, individual changing rooms, temporary parcel-reception offices and a children's nursery. Credit cards are accepted, employees are friendly and it is now possible to exchange merchandise. Opening hours are pleasant and in addition some centers offer customers a free shuttle from the nearest large city.

Some outlet centers are being built in a large variety of styles. Originally, they were located in former factory premises. Others were opened under the form of enclosed malls with one even several levels. In those that copy a village, stores are gathered in individual buildings. Village-style outlet centers account for 48% of European centers. 61% of them are in United Kingdom and enclosed shopping malls 31%. Presently, 13 centers only were opened in converted factory buildings. ■

*Source : VRN*

## 2<sup>nd</sup> 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 ?**

**Thursday September 29 and Friday 30, 2005 in Troyes (France)**

*Among speakers :*

- Sophie Simonet, Cabinet CVL,
- Franck Verschelle, General Manager, Mc Arthur Glen France
- Kurt Herregodts, European Retail Manager, VF Factory
- Emmanuelle Delanoë, General Manager, Value Retail France
- Alain Bacquier, Development Manager, Freeport Leisure...

*To register : [www.magdus.fr](http://www.magdus.fr), registration*

A depressed market, the next parliamentary elections and the potential increase of 2% in the VAT that stands at 16% make the situation even more difficult. Anyhow, in the whole year, Metro Group expects sales growth by 5% to 6%.

**KarstadtQuelle sells 75 small department stores, Sinnleffers and Runners Point units.**

Thomas Middelhoff, new CEO of the first European department store chain, decided to sell 75 Karstadt Kompakt small department stores to a British financial consortium including Dawnay, Day Principal Investments, focusing on real estate, and Hilco involved in retailing. Runners Point sporting goods stores are sold to the German financial Group Hannover Finanz and the 67 apparel stores Sinn-Leffers to an investor group including the Anglo-Saxon and German financial groups HMD Partners, Curzon Global Partners and Deutscher Industrie Holding.

These operations follow the recent sale of logistic activities, real estate assets, Golf House and of the Wehmeyer chain. The non published amount of both transactions would be as high as € 1.1 billion and should help the German Group to pursue the restructuring program of its 89 remaining department stores expected to be completed in 2008. Thanks to that, the Group should continue to cut its debt that stands at 4.3 billion.

In the first half 2005, sales declined to 5.8 billion from € 6.3 billion in the same period one year earlier. EBITDA increased significantly by 30 million to 93 from 63.1 million. In the same time, the employee number decreased from 96,000 to 83,000. Considering the present exercise, the Group plans a new decrease of its sales by 5%. In addition, as the mail order division is still struggling, annual profits should be reduced to 350 million.

**GREECE**

**« The Mall » shopping center in Athens will open this Autumn 2005 :**

- 58,500 sq.m GLA, 5 levels,
- 200 shops with domestic and

international retailers including Intersport, Marks & Spencer, Sephora, Fnac and Champion (Carrefour/Marinopoulos),

- leisure areas equipped with a 15-screen multiplex cinema, children's play areas,
- a fast food court, restaurants and cafés,
- 2,100 underground parking spaces,
- investment : € 300 million,
- developer : Lamda Olympia Village, a branch of Lamda Development.

The center has an easy and direct access from major highways and by public transport.

**ITALY**

**Sonae Sierra sells Coimbra and builds a new center in Italy.**

Portuguese developer Sonae Sierra and Miller Developments have concluded the sale of Coimbra Retail Park to Scottish Widows Investment Partnership, the management subsidiary of Lloyds TSB assets, for an amount of € 19.3 million.

Coimbra Retail Park, opened between end of 2003 and 2004, records sales in excess of € 9.5 million with a GLA of 12,750 sq.m (14 shops, 560 parking spaces, 2 restaurants...). This sale follows the sale of Sintra Retail Park by the same partners.

In addition, Sonae is building a new shopping and leisure center in Spezia (Italy) in partnership (50%/50%) with ING Real Estate Development. It is scheduled to open in the summer of 2008 and will occupy 38,300 sq.m GLA. It will be anchored by a Coop Liguria hypermarket. It is an investment of € 130 million.

Sonae Sierra and ING Real Estate are co owners of 8 shopping centers including Centro Colombo in Lisbon and Zubiarte in Bilbao.

**NETHERLANDS**

**Royal Ahold : sales down 0.9% to € 23.4 billion in the first half 2005 versus the same period last year.**

Excluding U.S dollar impact,

they grew by 1.6%. Retail sales accounted for 67% of consolidated sales (€ 15.65 billion), an increase of 0.9%.

In Netherlands, Albert Heijn Arena and Schuitema grew respectively by 4.5% to € 3.53 billion and 0.2% to 1.67 billion. But sales grew more strongly in Central Europe (up 7.9%) to 818 million.

**Sales breakdown in H1, 2005 : € 23.42 billion compared to 23.64 billion in 2004.**

Stop & Shop/Giant Landover Arena (USA)	6.94
Giant-Carlisle/Tops Arena (USA)	2.68
Albert Heijn Arena (Netherlands)	3.53
Arena Central Europe	0.82
Schuitema Netherlands	0.74
<b>Total retail stores</b>	<b>12.6</b>
US FoodService	7.77

Source : Ahold

US Foodservice in the U.S had sales down 0,9% to € 7.77 billion due to the sale of certain activities.

As Ahold tries to cut its debt, it reached agreement to sell Deli XL, a Benelux-based food wholesaler, to Bidvest Group a South-African conglomerate, for € 140 million. This deal should be over in the third quarter of this year. Deli XL is a food service wholesaler with consolidated 2004 net sales of € 819 million. It supplies over 60,000 products to 34,000 customers including hospitals, company canteens, schools, hotels and restaurants.

Bidvest is a full-owned subsidiary of the South-African Bidvest Group Ltd (€ 6.7 billion sales), an international service, trading and distribution company operating in U.K, Australia, New Zealand and South Africa.

**Ahold is set to acquire up to 67 stores from Julius Meinl in the Czech Republic**, its first acquisition since introduction of the "Road to Recovery program." This will increase its retail network to 520 units in Central Europe (Czech and Slovak republics and Poland). Anti-trust approval is expected in the second half of 2005.

Julius Meinl belongs to an Austrian investment holding company, which operates a network of food stores in Central and Eastern Europe. It also operates a coffee roasting plant. In 2004 its retail sales were € 140 million.

## RUSSIAN FEDERATION

### Top 10 Russian retailers.

rank	food retail	revenues (mil \$)	variation (%)	store format	expansion
1	Pyaterochka	1,425	50	discount	national
21	Metro	1,059	61	cash & carry	national
3	Tander	894	45	discount	southern
4	Perekriostok	771	72	supermarket	national
5	Auchan	640	61	hypermarket	central
6	7-Continent	600	46	supermarket	central
7	Ramstore	550	22	supermarket	central
8	Diksi	490	60	discount	north west
9	Lenta	475	55	hypermarket	north west
10	Kopeyka	415	70	discount	central

Source : Standard & Poors

Russia is a difficult market for retailers and foreign food manufacturers as it is still very fragmented and various laws and procedures do not help them to acquire sites and real estate. But potential is great as Russians increase their food sales so that in 2020 the country might overtake France and Germany to become the largest European food grocery with € 375 billion sales from € 200 billion today according to Government's statistics.

At present, top ten food retailers, mainly discounters, have 5% of sales volumes, said S&P. Pyaterochka registers a 50% annual growth of its sales, Metro 61% and Tander 45%.

France-based **Auchan** is very active in Russia as it operates 6 hypermarkets in Moscow and a 7<sup>th</sup> is due to open in November. Its first Atac supermarket will be located in September in the north of the capital, close to the Ring Road. It is part of the expansion program of Auchan in Russia, which plans 4 hypermarkets including 2 in St Petersburg, 1 in Nizhny Novgorod and 1 in Yekaterinbourg.

German **Metro** tries to overtake its foreign competitors and has opened its first Russian Real hypermarket, a 10,000 sq.m store, on July 28 in Moscow. It was announced since 2002 but took only 10 months to get the necessary permit. It is an investment of € 25 million. It would be followed by one more hypermarket in the capital and a third one in Tolyatti late 2005. Real has also planned some units in St Petersburg and Kazan by 2006 at an average cost of € 20 million per unit.

But Russian food retail trade is

still dominated by street markets and more in the regions than in Moscow. Large shopping centers

are emerging in the capital but they target customers with cars and ready to spend a significant part of their weekend time to visit shops.

Average term leases are advantageous as they have a fixed price as long as six to seven years. But the price for each new sq.m is growing : \$ 1,500 in Moscow, 1,300 in its suburbs and 1,000 in the regions. Rents per sq.m in Moscow are about 450, 250-300 in Moscow's suburbs and 200 in the regions.

In the first half of this year, the country attracted 31% more Foreign Direct Investments to \$ 4.49 billion from 3.4 billion one year earlier according to the Government of State Statistics. Russia's \$ 521 billion economy is growing rapidly for the seventh straight year fueled by oil revenues.

### Sedmoi Kontinent : a Nash hypermarket opened in Moscow provides a wide assortment of home-brand products.

This store covers 5,200 sq.m GLA and offers 40,000 food and non-food items including 50 ranges in 13 categories under the Nash brand.

In fact, City's authorities want to push the western big-box store development in Russia, which accounts for 90% of total retail sales. Food represents a fifth only of that total and half in Moscow. In 2004, their sales jumped 12% to approximately \$ 200 billion. Around 45.6% of the market is in food according to the Department of Statistics. United Financial Group

forecasts that by 2010 modern retail stores share will increase to 34% (52% in Moscow).

Sedmoi is Moscow's largest grocery retailer with 91 stores and 4 brands : Peati Zvezd (21), Universam (31), Magazin u doma (36) and Nash Hypermarket (1). In the first half 2005 sales grew by 46% to \$ 330 million and profits were up 80% to 20.2 million. For the whole year it expects sales to reach \$ 700 million.

Sedmoi recently bought 12 Altyn stores (29,500 sq.m of selling area, \$ 65 million sales are expected) located in the western enclave of Kaliningrad for \$ 36 million. They will adopt the Universam brand from September. Two more Universam will be opened there, between Poland and Lithuania, in 2006. Sedmoi also aims to build 2 shopping centers of 40,000 sq.m in late 2007.

### Moscow is wealthy.

	Moscow	Russia
Population	10.4 million	144.2 million
Income per capita	\$ 8,300	\$ 2,600
Real wage growth	7.7%	10.9%
Retail turnover	\$ 48.6 billion	\$ 193.4 billion
Retail turnover growth	8.3%	12.1%

Sources : Government of Russia/Business Week

Sedmoi Kontinent is owned by a former banker and a lawyer and expects to sell 13% of its capital by April 2006 to finance expansion, or 10 million new shares following a first sale of 7 million in November 2004.

## UNITED KINGDOM

### Asda seeks to regain market share in a context of high competition.

Asda has contacted the British government in order to relax planning laws. It would put the retailer in a better position to compete more effectively with its rival Tesco. In fact, big-box opening decisions are made on the basis of a test in U.K. Before permission is granted, the authorities have to decide whether the area needs such a store and ponder over impact it would have on local activity.

Building new units is not the only means for Asda to better face Tesco as all leading food chains are expanding through acquisition of existing chains. As a proof, its decision to purchase a dozen Safeway units in Northern Ireland →

was approved early June by the Office of Fair Trading.

Competition is fierce as Tesco market share now exceeds 30% for the first time according to TNS in August and Sainsbury's has held on to its share of 15.9%, up from 15.6% a year ago... Tesco is almost 15% ahead of closest rival Asda, which remained virtually unchanged year-on-year at 16.7%. Morrison/Safeway fell to 11.7% from 12% as it sold its 12 Northern Ireland stores to Asda

#### Market share breakdown in 12 weeks to mid-August.

- Tesco	30.4%
- Asda	16.7%
- Sainsbury's	15.7%
- Morrisons/Safeway	11.7%
- Somerfield/Kwik Save	5.9%

Source: TNS Superpanel

British consumer spending is accelerating its decline. UK retail sales recorded their biggest year-on-year fall in 22 years during June, according to a CBI report. July was not better.

Asda, second UK's largest food retailer and British subsidiary of Wal-Mart, announced early summer that it planned to lay off 1,400 employees including 200 at the management head office in Yorkshire and 1,200 in the management of retail stores in a bid to cut costs and regain its share of the intensely competitive U.K. market. Its aim is to invest in store jobs. It does not plan any supermarket closing and its program of 10 to 13 new units per year is maintained.

#### Marks & Spencer sells Lifestores to Danish furniture retailer Ilva for € 51.8 million (£ 35 million).

As Ilva is trying to expand into the U.K, it bought the Lifestore of 7,000 sq.m located in the suburbs of Newcastle, opened early 2004 and closed one year earlier, plus a site in Thurrock.

Lifestore was a € 20.7 million investment. The project was created by Vittorio Radice, who ran Habitat and Selfridges, and was hired by Marks & Spencer to boost its home ware division. The aim was

to build a chain of 25 similar stores in U.K including two more within a year. The offering was broken into nine themes with a range of 12,000 lines.

Fighting off the € 13.3 billion offer by Philip Green in June 2004, Marks & Spencer decided not to expand the concept and to close the store early 2005 at a loss of € 42.9 million. Other stores planned were never built.

In May, the Group announced that home ware sales were down 21% while it had already given the concept up. Pre tax profits for the year to April 2005 had decreased by 19%, which can be explained by tough economic context and intensifying high-street competition.

In such a context, Marks & Spencer has reported a 3.1% fall of its sales in the first quarter of its financial exercise and like-for-like sales were down 5.4%. Apparel fell by 9.2% following price cuts to make the downtown store more competitive, home ware was down by 22.3% and food by 5%.

According to TNS, the retailer will benefit from the disappearance of the Littlewoods brand, bought by Associated British Foods in June, which gets 60% of its turnover from shoppers aged 55 and over.

#### Kesa Electricals : Q2 like for like sales were down 0.7%.

Franco-British electrical and furniture group, which operates Comet in U.K and Darty and But in France, had sales up 3.8% in

all its main businesses slowing in the quarter versus the first quarter.

**Darty** sales were up 1.8% versus 3.3% in the first quarter in local currency. Profitability was also down as best sales were registered among low-margin products such as flat-screen TVs and MP3 players and weaker among higher-margin fridges and freezers.

Like-for-like sales at **Comet** were down 5% following a first quarter drop of 2.2%.

**But** sales grew by 7.3% in local currency and like-for-like sales were up 3.1%. The restructuring plan continues showing positive signs.

## NORTH AMERICA

### UNITED STATES

#### 2004 U.S. retailers: US\$ 1,398,265,232,000 sales broken as follows by category :

Supermarkets	19.2%
Supercenters	11.3
Hard lines stores	10.3
Discount stores	10.1
Home centers	8.9
Drugstores	7.8
Warehouse wholesale clubs	6.0
International operations	6.1
Department stores	5.1
Electronic retailers	3.5
Apparel stores	3.3
Sears, Penney	2.7
Mail Order	2.4
Convenience stores	2.1
Shoe stores	0.6
Military exchange	0.6

Source : Chain Store Age Research

#### Top ten American retailers by sales in 2004.

company	2004 sales (000)	2003 sales (000)	2004 profits (000)	2003 profits (000)	store count 2004
1 Wal-Mart (discount/food)	285,222,000	256,329,000	10,267,000	9,054,000	5,289
2 Home Depot (home centers)	73,094,000	64,816,000	5,001,000	4,304,000	1,890
3 The Kroger (food)	56,434,000	53,791,000	(100,000)	312,000	3,763
4 Dell Computer (electronics)	49,205,000	41,444,000	4,254,000	3,544,000	-
5 Costco (food, electro.)	47,145,712	41,692,699	882,393	721,000	417
6 Target (discount, food)	45,682,000	40,928,000	3,198,000	1,809,000	1,308
7 Albertson's (food, drugst.)	39,897,000	35,107,000	444,000	556,000	2,503
8 Walgreen (drugstores)	37,508,200	32,505,400	1,349,800	1,165,100	4,582
9 Lowe's (home centers)	36,464,000	30,838,000	2,176,000	1,844,000	1,087
10 Sears (hardware)	36,099,000	41,124,000	(507,000)	3,397,000	2,026

Sources : company reports Chain Store Age Research

Sterling Pounds and up 2.3% in local currency. It is a sharp slowdown during this quarter. Kesa Electricals, which generates about three-quarters of its operating profit in France, reported like-for-like sales fell 0.7%,

#### Wal-Mart revises annual forecasts downwards. It tests a first environmentally focused supercenter

In the first six months, world's largest retail giant posted a 9.8% →

growth of its sales to \$ 147.718 billion (€ 109.2 billion). Net income was up 9.3% to \$ 5.2 billion. Operating profit lifted to \$ 8.6 billion compared to 8.0% one year earlier.

However, it missed its second quarter (May/July) estimates as net profit came in slightly below expectations (up 5.8% from the year earlier period) at 2.81 billion, its smallest increase in four years, on sales at \$ \$76.8 billion, a 10% rise. Same-store sales increased 3.5%.

Wal-Mart blames higher gasoline price and competition reinforcement : same-store-sales at Target, second largest discount chain behind Wal-Mart, grew by 5.8% compared to 2.7% at Wal-Mart in the past twelve months. Costco, largest U.S. membership warehouse chain, is ahead of Sam's Club growing by 5.7% last year compared to 3.5% at Wal-Mart'Sams.

To improve its image, **Wal-Mart is testing its first environmentally focused supercenter in Missouri in July.** It covers 20,000 sq.m GLA and aims to test the limits of energy conservation in retail stores : roof-mounted solar panels, natural light sensors, recycled rubber from old tires, radiant floor heating, a rainwater harvesting and treatment system... The store aims to be 30% to 50% more energy-efficient than a traditional Wal-Mart Supercenter. A second Supercenter of this type is building in Colorado.

**To still grow The Home Depot caters to professionals.**

World's second largest retailer, behind Wal-Mart, is on the path to generate \$ 80 billion in sales this year while pursuing contractors and home builders. When Bob Nardelli became president and ceo in 2000, after 30 years at General Electric, the home-improvement chain catered almost to do-it-yourselfers and small businesses. At that period, sales were almost half (\$46 billion) of what they are in 2005.

At present, Nardelli is happy having acquired half a dozen firms including three of the top five carpeting. It enabled him to expand its activity and establish The Home Depot Supply, a subsidiary to which the home market professionals address at least three times weekly.

Sales are generally made directly to contractors via the Net, the catalog or through some subsidiaries. Products are delivered to the site. It is so successful that The Home Depot Supply could generate 14% of Group's sales this year. In the long term, it aims to still strengthen its position in a contractor professional market estimated to be \$ 231 billion.

To cater to this contractor market is only one aspect of the president's plan to make The Home Depot grow and increase sales and incomes. He expects to add 175 new stores this year to grow the retail network to 1,950 and 50% of the projected cash flow (\$ 7.5 billion) will be reserved for capital spending.

Presently, The Home Depot is registering the fruits of the president's policy and average transaction grew from \$ 48.64 in 2001 to 58.25 this year. A \$ 9.61 growth brings in almost \$ 10 billion of annual additional revenues thanks to 1.3 billion transactions a year.

The home improvement chain is also looking for a global expansion: it now operates 10 outlets in Canada. In 2004, it bought Home Mart, Mexico's second largest home improvement chain to make it a leader with 50 stores. It also prepares to enter China very prudently and first stores are not expected before 2007.

In the first half 2005, it has reported a 14.1% increase of its net income to \$ 3.015 billion versus the same period last year. Operating profit jumped 15.2% to \$ 4.84 billion on sales increasing by 10% to 37.51 billion. Hence, the Orange company is considering its forecasts upwards and expects sales will grow 9% to 12% this year and net income per share 14% to 17%.

**ASIA**

**CHINA**

**Carrefour was the top foreign retailer by sales in China in the first half according to the Ministry of Commerce. Wal-Mart settles in Shanghai.**

World's second largest retailer generated US\$ 1.26 billion in sales in the first six months of this year and is ranked fifth overall in the

list of China's retailers while Wal-Mart sits in the 19<sup>th</sup> with sales of \$ 580 million. The largest retailer is Shanghai Bailian (\$ 4.5 billion, a 1.7% increase over 2004). Then come Hong-Kong listed Gome Electrical Appliances Holding, Shenzhen-listed Suning Appliance Chain Store Group and Shanghai-listed Dashang Group. Metro Jinjiang Cash & Carry, a joint venture between Germany's Metro AG and China's Jinjiang International Group, is 25<sup>th</sup> in this list with \$470 million sales. In fact, China's 30 largest retail chains have reported \$ 29,23 billion sales in the first six months, up 30% from the same period one year before.

Local press reported in July that Carrefour plans to invest \$ 25 million to acquire China's Nextmart while Wal-Mart announced to double its store number to bring it to 90 in the Popular Republic over fall 2006. In June Wal-Mart opened its first supercenter in Chongqing, a metropolis of 31 million inhabitants where it was much awaited as retailing is limited there to State-run stores and opened markets. To attract customers, it opens earlier and closes later than local stores and a shuttle is at their disposal to bring them to its supercenter. This venture is a bridgehead for an expansion in the highly populated markets of Eastern China. In August, Wal-Mart opened its first hypermarket in Shanghai, and also its 48<sup>th</sup> Chinese unit, in the heart of Pudong, with a total area of 18,000 sq.m. Two more will be added in the same city.

In fact, Wal-Mart seeks to dominate foreign markets in which it is present as they account for 20% of its global sales. China is not an easy market but it attracts Wal-Mart by 100 cities with more than one million inhabitants, 150 million urban families with annual incomes of more than \$ 10,000 over the next ten years... Difficulties are to be found in the choice of talented managers, right locations and local competition with Chinese conglomerates such as Shanghai Brilliance (3,300 stores, \$8.1 billion in sales) and Carrefour, whose very savvy attitude and a better risk understanding, helped it to develop a network of 62 hypermarkets in 25 cities plus 4 more before the end of this year. ■