

# GLOBAL RETAIL NEWSLETTER

7 rue Fould, 78600 Le Mesnil le Roi, France  
Tel 331 39 12 17 93 (direct line)

e-mail : [bguillot@chabot-associates.com](mailto:bguillot@chabot-associates.com)  
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## SUMMARY

NOVEMBER 2009

### *INTERNATIONAL*

- . Consumers will remain cautious after recession
- . Brands : where to find them and where are they coming from?
- . In short : French furniture retailer Conforama will test a smaller store format in high traffic locations under the Confo Déco brand... Docks Vauban center opened in France, in Le Havre, on October 15 in the former port warehouses of the city... Grand Arena Village center in Floirac, close to Bordeaux (France), 1st center of southwest France to be certified High Environment Quality... H&M : same-store-sales of the Swedish retailer down 8% in September... German grocery retailer Rewe Group is to acquire the 39 Shy supermarkets, a warehouse and premises of Coop Germany in Ulm... Jardiland, France's 1st garden center network is accelerating its expansion in France... Auchan opened a 1st hypermarket in Dubai (U.A.E.) on October 29 in the Dragon Mart Mall on 8,700 sq.m... Uniqlo, the flagship brand of Fast Retailing, opened a second shop in Paris, in the Opera district on October 1st... Carrefour City in Thailand...

### *EUROPE*

- . Commercial real estate market rebound in Q3

### *BELGIUM*

- . Delhaize Group has entered into a non-binding Letter of Intent with US-based Bi-Lo. Its Greek subsidiary, Alfa-Beta, is acquiring the Koryfi retailer

### *FRANCE*

- . Auchan has opened its first 100% eco friendly shopping center next to Blois
- . Casino : 3rd quarter sales remained almost stable
- . Carrefour exit from Russia. Sales down 2.9% in Q3 and down 2.3 in the first 9 months
- . Marionnaud has finalized its restructuring program in France
- . Habitat on sale
- . McDonald's France is launching a new formula, a restaurant with service

### *GERMANY*

- . Death of catalog retailer Quelle

- . Loop5 shopping centre opened next to Frankfurt

## **NETHERLANDS**

- . Ahold : Q3 performance impacted by deflation and price investments
- . Super de Boer sold to Jumbo Supermarkets

## **ROMANIA**

- . French retailer Kiabi has opened a first budget store in Bucharest on September 30

## **RUSSIAN FEDERATION**

- . X5 forecasts stable annual sales despite rising net sales in the first 9 months and is to develop online sales

## **UNITED KINGDOM**

- . Marks & Spencer is no longer U.K's largest apparel retailer
- . Tesco : H1 mixed performance
- . German food discount retailer Aldi had strong sales and profits in 2008 in U.K
- . British grocery growth continue falling under the pressure of a moderate inflation

## ***NORTH AMERICA***

### **UNITED STATES**

- . Home Depot and Staples join their forces to save U.S. forests

## ***ASIA/PACIFIC ZONE***

### **CHINA**

- . French sporting goods retailer Decathlon will open a store in Tianjin before the end of this year
- . South Korean Lotte has beaten Chinese Wumart Stores and buys the control of Times Ltd in China

### **INDIA**

- . Indian retailers drew lessons from the recent crisis and launch new projects
- . Big retailers import more food and care products to better attract customers and post higher margins

### **JAPAN**

- . Seven & I is reorganizing its business

## ***NEAR/MIDDLE EAST***

- . Carrefour continues expanding in Turkey
- . Islamic finance : growth or the means to diversify a portfolio in a market showing greater signs of recovery
- . Dubai : ongoing and delayed real estate developments

. A Hyperstar hypermarket opened in Theran (Iran), in the west part of the city, next to the Azadi stadium, but not under the Carrefour brand

**You can also read the following studies :**

✓Wal-Mart International or the difficulty to find a right balance between the local knowledge and the global scale

✓To invest in Russia, a too rich country to be ignored. Risks, promises

✓ Franchising in Brazil

**A few lines from our articles in  
GLOBAL RETAIL NEWSLETTER  
NOVEMBER 2009**

**■ EUROPE**

**Commercial real estate market rebound in Q3.**

Sales of commercial real estate jumped in Q3 and the trend is gaining strength but delay is still important. In fact, investments in Europe grew by 53% to € 19.6 billion up from 12.8 billion in the second quarter according to Cushman & Wakefield. Now, this level is still weak compared with the previous years. In the first nine months, total grew to € 44.1 billion from 203 billion during the same period of 2007.

Demand for European assets from foreign investors increased also to 44% up from 31% in the first six months. Domestic investors were also more active while more cautious with € 10.9 billion invested, 29% up on the second quarter. Debt remained weak but becomes more disposable for small deals or transactions in which the buyer is putting 40 to 50% of net worth.

Investors are stimulated by the sudden fall of commercial asset price and because it is clear that prices have hit bottom or are near to hit it. Values fell 22% in Europe globally since the peak of 2007. In Western Europe, United Kingdom was the most impacted country (-40%). Excluding this country, real estate value was down 17% in Western Europe, down 26% in Central Europe and down 45% in Eastern Europe.

However, in the past six months, the value decline has slowed down, even stopped scaling back in some markets and prices have started stabilizing. The average European prime commercial yield rate was 7.51% in the 3<sup>rd</sup> quarter. Globally, it fell 1% on the quarter as it was impacted solely by a fall of 0.24% to 6.73% in U.K.

The real estate market of this country was the most hit by the financial crisis and it is there that the strongest signs of a recovery are the most visible. According to the IPD Capital Growth index, the value of commercial real estate grew by 1.1% in September, which is the highest monthly growth since June 2006. Capital growth was 1.2% in Q3.

But, while IPD data are rising again, growth remains weak due to falling rents down 7.9% for prime assets in Europe in the 3<sup>rd</sup> quarter.

## ■ INDIA

### **Indian retailers drew lessons from the recent crisis and launch new projects.**

The economic crisis made Indian retailers wiser and more efficient after a difficult year pushing them to scale back in their expansion plans while capital to build new stores and supply chains was more difficult to obtain.

They now bet on new strategies and focus is on a profitable growth. It is why many among them moderate their opening plans, others concentrate on the sale of their private-brand lines and more explore lucrative relationships with global players.

**Shoppers Stop** is expecting a net profit for its fiscal exercise to end of March 2010 and other retailers including Koutons Retail India, Spencer's Retail and Aditya Birla Retail have started announcing expansion development after having closed unprofitable stores in 2008.

Some local retailers such as **Pantaloon Retail**, which was against the creation of relationships with foreigners, are now quite opened to collaboration as they seek funds for their development. Pantaloon Retail, owned by Future Group, would be in talks with the French Carrefour...

Major Indian retailer, **Subhiksha Trading Services** had to stop its activity early this year as it lacked fund to pay its suppliers and workforce as it had enlarged its network too fast and too far. **Vishal Retail**, a mid-sized retailer, had also to freeze its expansion and is in talks with its bankers and lenders to restructure its \$ 150 million debt. **Spencers**, which closed 150 unprofitable stores in 2008, is planning 10 to 15 this year mainly big-box stores.

As consumers cut spending and looked for less expensive brands last year, several retailers are now focusing on the introduction and the sale of private-brand lines. While putting traditional suppliers aside, they would be able to earn 10 to 12% more.

According to a recent KPMG survey, home brands are now accounting for 10 to 12% of products of the organized retail trade in India compared with 23% in Europe. To cut its costs, Spencer's Retail regrouped its warehouses in geographically close markets. Vimakreshal Retail has done the same. Koutons Retail has adopted an inventory management system for its deliveries to stores.

"The stress is no longer there" declared Kishore Biyani, **Future Group** chairman, who expects to open 2 Big Bazaar stores every month and 15 hypermarkets over the next half. On its side, **Shoppers Stop** declared that "This is the best stage for retail in India because companies that have a good balance-sheet, low debt and a strong franchise will do well." As customers are coming back into stores and that sales are rising again, retailers, who were busy in closing stores and cutting their costs last year, now plan new openings.

Big retailers are now quietly consolidating their positions such as Future Group, Aditya Birla Retail, Reliance Retail, Trent and Spencer's Retail, who focus on large

formats, which helps to earn more money than small formats as competition is tough with traditional stores. Aditya Birla (642 supermarkets and 5 hypermarkets) plans to bring its network to 700 stores and 7 hypermarkets by the end of Q1, 2010.

Big retailers are not the only one to be in a nice position : Lifestyle (15 stores), owned by Landmark Group from Dubai, seeks to open 44 new stores in tier II cities. Other specialty retailers including Tanishq, Mobile Store, Guardian Pharmacy, Reebok and Nike are expanding again after having closed stores.

**Bharti Retail**, which opened 28 stores, plans to add 40 more by December 2009 and German **Metro** (6 cash & carry in 6 years) 6 to 7 more in Punjab. First Carrefour wholesale store is likely to open over the next year in partnership.

Most impacted retailers are still struggling or disappearing : Piramyd was sold to Indiabulls, whose business is ranging from promotion to financial services and retail, Subhiksha was resourceless, Vishal Retail grew too quickly...

Let us remember that India jumped in one year from the second to the 1<sup>st</sup> position in the "Global Retail Development Index" ranking of A.T.Kearney for the 30 emerging countries.

In India, the retail trade is now generating \$ 350-450 billion (according to various sources) in sales almost entirely with traditional shops. The organized retail market will likely grow to \$ 42 billion for the financial exercise to end of March 2013 according to Edelweiss Securities.

## ■ NEAR/MIDDLE EAST

**Islamic finance growth or the means to diversify a portfolio in a market showing greater signs of recovery.**

Islamic bonds, or sukuks, were unknown instruments twenty years ago. They are similar to traditional bonds except that their profitability is driven from underlying assets. These assets must be tangible merchandise such as land, buildings or equipments. As, according to Muslim faith, money is considered as exchange means rather than a product. Interest payment or riba and speculation are banned, so that coupon payments to investors are coming from assets based on sukuks or on profits from joint-ventures.

In fact, riba is considered as usury and every speculative activity is forbidden as it is assimilated to money games. It is the reason why Islamic investors cannot use the traditional financial tools of the West World to offset fluctuations of the interest rates and currencies.

Indonesia, Pakistan and South Korea are ready to sell Islamic bonds overseas from 2010. Their amount could net \$ 2 billion and reflect the growing recognition of the sukuk as another source of funds for governments in Asia. Investors seem interested in these products in compliance with Shariah or Islamic law. Two French banks, BNP and Crédit Agricole via Calyon, present in the Gulf Countries, already work with the Islamic finance and manage assets with the Shariah compliant.

Issuance of Islamic bonds earned ground in Q3 worldwide and the value of offerings rose 82% from one year earlier to \$ 6.2 billion according to the Sukuk Monitor

in Dubai. Total global sukuk issuance grew to 13.5 billion to end of September according to the same source.

Prospects seem solid as demand of capital is rising today. It is the sign that trust has come back on the capital market according to the Sukuk Monitor, as investors believe in this market considered as a more stable platform to raise capital.

The Muslim population accounts for 20% of the world population and less than 1% of its financial assets are invested in this type of products. Islamic banks are opening in Muslim and non Muslim countries : London has 4, Paris will soon have one from Qatar and sukuk might be marketed and listed in France.

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**Chabot & Associates - LLDI, 7 rue Fould - 78600 - Le Mesnil Le Roi - France : Tel/Fax : +331 39 12 17 93**