

# GLOBAL RETAIL NEWSLETTER

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## SUMMARY

MAY 2010

### *INTERNATIONAL*

. In short : Carrefour is the 1<sup>st</sup> global retailer to settle in Iraq since the war... Home Depot cut investment spending... The Cactus Group, leading retailer in Luxemburg, just signed a membership agreement with EMC, the central buying group of the French retailer Casino... Migros profits up 3.6% in 2009... H&M net profit jumped 45.2% to \$ 521 million in 1<sup>st</sup> quarter to February 28... Conforama France expands its franchisee network... Ikea plans to invest \$ 1 billion in its Russian largest shopping center

### *EUROPE*

. Slowdown of European shopping centre development in 2010 and beyond  
. MAB Development and Neinver signed a joint-venture agreement to develop designer outlet centres in France and Germany  
. Europolis, real estate investor in Central and Eastern Europe (€ 1.7 billion real estate worth), attracts 4 major firms

### *BULGARIA*

. Bulgaria, E.U's poorest country, is betting on the retail trade

### *FRANCE*

. Okabé is France's 1<sup>st</sup> "green" shopping center opened March 25, 2010 in Kremlin-Bicêtre, next to Paris  
. Auchan : net profit of continuing operations down 6.5% in 2009  
. Casino, still driven by its international activity in the 1<sup>st</sup> quarter 2010  
. Carrefour exceeded its target in the 1<sup>st</sup> quarter of its 2010 exercise  
. Intersport continues growing in a sporting goods market declining for the second year in a row (-0.5% in 2009)

### *RUSSIAN FEDERATION*

. Auchan, one of the most active foreign firms in the Russian market, is the country's second largest retailer after X5

### *UNITED KINGDOM*

. Six foreign retailers are ready to open stores in British high streets  
. Kingfisher : profit for the year jumped 86.9%  
. Tesco : earnings up in 2009 boosted by Asia  
. Marks & Spencer reinforced sales growth in Q4

## **AMERICAS**

### **UNITED STATES**

- . Vacancy growth in shopping centers and malls
- . American retailers consider expansion in Canada, a nearer and more familiar market than Europe or Asia
- . Foot Locker : priority objectives and global expansion
- . General Growth Properties : Simon Property Group made a new offer

### **BRAZIL**

- . Three giants are sharing Latin America's largest market
- . Iguatemi Mall opened in Brasilia March 31

### **ASIA**

- . McDonald's is targeting Asia
- . In Asia, revenues are rising and a new middle class is emerging that can afford more than the minimum. Problems met by Japanese firms in the Asian markets

### **INDIA**

- . New rules on Foreign Direct Investments in the wholesale trade

### **JAPAN**

- . Retail sales up 4.2% in February after a 2.3% increase in January
- . Takashimaya and H2O Retailing cancelled their merger project

### **MIDDLE EAST**

- . Lankmark Group is to invest \$ 150 million in Middle East over the next 3 years
- . Spinney's to expand in Egypt

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- ✓ **The new Japanese consumer**
- ✓ **Portrait of the Indian consumer**

**A few lines from our articles in  
GLOBAL RETAIL NEWSLETTER  
MAY 2010**

**■ EUROPE**

**Slowdown of European shopping centre development in 2010 and beyond.**

According to the recent study « European Shopping Centre Report » by Cushman & Wakefield, 7.4 million sq.m were opened in Europe in 2009, or almost 20% less than in 2008 (9.3 million sq.m). Now, this slowdown in development activity is expected to continue with 6.1 million new sq.m to be delivered in 2010 and 5 million in 2011, the lowest annual levels in 7 years.

**New shopping center projects in Europe.**

in 2010/11			in 2009		
rank	country	000 sq.m	rank	country	000 sq.m
1	Russia	2,539	1	Russia	1,592
2	Turkey	1,307	2	Turkey	653
3	Italy	1,006	3	Italy	633
4	France	879	4	Poland	628
5	Bulgaria	609	5	France	560
6	Spain	605	6	Netherlands	380
7	Poland	539	7	Germany	372
8	United Kingdom	498	8	Romania	314
9	Germany	481	9	Ukraine	300
10	Romania	418	10	Portugal	280

*Source : Cushman & Wakefield*

Russia is expected to recover its accelerated development pace with 2.5 million sq.m to be delivered in 2010 and 2011, or 22% of the total in Europe. Three major shopping centers exceeding 100,000 sq.m will be opened this year including 2 in Moscow : Vegas (130,000 sq.m) and Mall of Russia (101,000 sq.m) and a third one in Saint Petersburg (Leto). However, this country counts only 73 sq.m of shopping center space per capita versus 225 sq.m on average in Europe. Now, the recent consumption recovery offers new prospects to retailers especially in the regions.

Turkey is developing rapidly with 1.3 million new sq.m of shopping center space expected between 2010 and 2011. The park might grow by one more quarter in two years. Major projects are also in the pipeline : Forum Marmara (160,000 sq.m) is due to be completed in 2011.

France is behind Italy. It is the Western European country in which the total volume of space in project is the highest with almost 900,000 sq.m to be delivered by the end of 2011.

The consumption slowdown and the shortage of debt finance stopped the construction of an important number of projects especially in Romania where the development is expected to slow to around 290,000 sq.m in 2010 and 130,000 sq.m in 2011 compared with 314,000 in 2009 and 750,000 in 2008.

Development activity of shopping centers will be the most important in the emerging markets of Russia, Turkey and Poland helped by favorable consumption prospects and low-retail equipment.

## ■ BRAZIL

### **Three giants are sharing Latin America's largest market.**

Companhia Brasileira de Distribuicao Grupo Pao de Açucar (\$ 13 billion revenues in 2009), Carrefour (\$ 12.6 billion) and Wal-Mart (\$ 9.5 billion) seek to invest highly in this country over the next years as middle classes are expanding, annual food spending are expecting to grow by 50% over 2015 to \$ 406 billion according to estimates of Planet Retail Brazil. Compared with other BRICs, Brazil may offer fewer barriers than Russia, India or China. India forbids foreign multiple-brand retailers and Russia limits expansion of retailers. China attracts by its fast economic growth, which is expected to reach 8% this year versus 5.8% in Brazil. However, "Brazil is more developed in terms of infrastructure and wealth creation. Consumers are used to shopping in hypermarkets whereas retail in China is more traditional."

Wal-Mart is already number one in Mexico and seeks to overtake Carrefour to the second or 1<sup>st</sup> position in Latin America's largest market. It plans to invest \$ 1.2 billion in 2010 to open 110 new stores in Brazil on top of its 436 existing ones and may be interested in one acquisition. To comfort its N°2 position in this market, Carrefour expects to add 70 new units and double the Brazil share of its total sales to 20% in 2015. Pao de Açucar, which is 34%-owned by the French retailer Casino, will invest \$ 2.8 billion in 2012 to add 300 new stores to its chain of 1,080 units.

## ■ INDIA

### **New rules on Foreign Direct Investments in wholesale trade.**

New rules issued by the minister of Industry at the end of March have caused uncertainty and concern among investors in the retail trade and may lead to review existing agreements. They precise that sales to "group companies" (the definition is not clearly precised) should not exceed 25% of sales of a cash & carry firm turnover and should be for "an internal use" only. They oblige also these firms to raise detailed reports of their daily sales such as indicate the name of the buyer, its registration number and the sale amount. Apparently, these new rules will not be modified and will not include any exception.

The most important concerns the 25% as some agreements were structured so that cash & carry firms owned by foreign investors sell the bulk of their goods to Indian retailers, who, in their turn, sell them to consumers.

India authorizes foreigners to own 100% of wholesale firms but bans Foreign Direct Investments in the retailers who sell directly to consumers. Foreign-owned wholesalers can sell to shops and restaurants but not to individual consumers. Now, while the prime Minister is in favor of foreign investments in the retail trade, many Indian activists and politicians hate big-box stores as they fear that 100% of FDI in retailers selling to consumers would push millions of small shopkeepers to unemployment. However, authorize them would help slowdown inflation by 2 points thanks to their supply chains as food prices rose 20% in January compared with a year earlier.

Bharti and Wal-Mart operate a 50-50 joint venture since 2007 and expect to open 7 cash & carry stores this year and have 15 in 2012. They decided to take time to think about these new rules. Currently, Wal-Mart and Metro, which supply retailers, did not push their customers to give precisions on their VAT registration as requested by the new rules.

The Tata Group signed contractual agreements with the British Tesco and Australian Woolworth, who supply its Trent supermarkets and Infinity Retail. Tesco

opened cash & carry units and simultaneously signed an exclusive franchise agreement with Trent. It gives the Star Bazaar hypermarkets of Trent access to its supply chain, computer networks and inventory management as well as to its infrastructures. In exchange, Trent will pay low fees to Tesco to use its services.

India retail market is expected to grow by 35% annually to reach \$ 80 billion in 2015 according to McKinsey.

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