

GLOBAL RETAIL NEWSLETTER
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SUMMARY

JULY 2011

INTERNATIONAL

. Wal-Mart, pushed by lagging sales in the U.S. and the stagnating growth at Asda in U.K, is attracted again by Europe and opens an office in London to find acquisitions. In South Africa, the government finally approved its purchase of 51% of Massmart for \$ 2.4 billion. At Wal-Mart China, the chief financial director and chief operating officer for the region resigned "to explore other opportunities".

. In short : VF acquires Timberland for \$ 1.8 billion or 12 times its Ebitda... The world's 3rd largest fast fashion retailer, Swedish Hennes & Mauritz, unveiled a 2%-growth of its sales to \$ 4.4 billion in Q2... H&M (His Master's Voice) succeeded in securing its refinancing with the banks... Carphone Warehouse is thinking over the future of Best Buy U.K... Globe Trade Center (GTC) signed a preliminary agreement with a subsidiary of Unibail Rodamco on the sale of a 50%-stake in the Galerie Mokotow mall of Warsaw... "West Paris" is a future outlet center in Paris area due to open by spring 2013... John Lewis Partnership Department Stores and online retailing in France...

EUROPE

. Westfield Group is to open Europe's largest urban shopping centre, Westfield Stratford City in 12 weeks time and puts U.S. centres on the block

FRANCE

. La Samaritaine : the Paris mixed-use complex will be completed by mid 2014 or 9 years after its closure for security reasons

. Unibail Rodamco : "Aeroville" will be opened in the north part of Paris, next to Roissy-en-France in the land of Aéroports de Paris

. Castorama has launched a new concept in Villabé, near Paris, June 1st

ITALY

. Central Retail Corporation (CRC) has acquired Italian retailer La Rinascente

NETHERLANDS

. Ahold : the American division boosted profits in Q1

FEDERATION OF RUSSIA

- . Russia is lagging among the BRIC in the field of competitiveness

UNITED KINGDOM

- . Kesa Electricals : its largest shareholder Knight Vinke Asset Management estimates that it is necessary to close Comet underperforming stores in U.K and to list its shares in the Paris Stock Market
- . Kingfisher was particularly performing in France in the 1st quarter
- . Tesco aims to double its position in Central and Eastern Europe and continues expanding in the U.S.

AMERICAS

- . Commercial real estate is focusing on site quality
- . Organized retail theft growth
- . Borders, under Chapter XI protection since February, received several propositions including from the Gores Group
- . Casino filed for international arbitration via the International Chamber of Commerce against the Brazilian Diniz Group over the shareholder agreement that covers their mutual control of Pao de Açucar

ASIA/PACIFIC

- . Zara is testing the Australian market
- . Marks & Spencer is reinforcing its presence in India and China as it posted higher profits than expected in 2010/11

CHINA

- . Burberry : Chinese demand boosted its profits. The Chinese luxury market is the next world's largest market

INDIA

- . Regulations on FDI may be eased in the retail trade by 2012

INDONESIA

- . Competition : PT Matahari Putra Prima seeks to overtake Carrefour as Indonesia's largest retailer by sales from 2012

JAPAN

- . Uniqlo : the government has launched the "Super Cool" campaign to spare energy during summer. It suggests people to wear Hawaiian shirts, t-shirts, light pants and sandals at work
- . The luxury retail market has been soft those past months

MIDDLE EAST

- . Evolution of the retail market in the United Arab Emirates
- . It is important to maintain the growing retail pace of the 1st quarter while being conscious of the following facts in the Emirates

You can also read the following studies :

✓Global retail expansion. Investment opportunities

A few lines from our articles in GLOBAL RETAIL NEWSLETTER JULY 2011

■ INTERNATIONAL

Wal-Mart: pushed by lagging sales in the U.S. and the stagnating growth at Asda in U.K, the world's retail giant is attracted again by Europe and opens an office in London to find acquisitions.

In the U.S, Wal-Mart sales dropped 1.1% for the 8th consecutive quarter and in U.K, LFL sales grew by 0.1% only excluding fuel and VAT. Consequently, Wal-Mart decided to settle in the British capital to observe the European market. Its London team will be distinct from Asda based in Leeds and which has its own teamwork in London for its George clothing brand. However, the Wal-Mart International division continues expanding with sales up 12% in the 1st quarter and 4,500 stores in 15 countries including India and Mexico.

Wal-Mart entered Europe in 1997 while acquiring the German Wertkauf hypermarkets. It was an unsuccessful venture for it and it retired from this market in 2006 after selling units.

In South Africa, the government finally approved its purchase of 51% of Massmart for \$ 2.4 billion, but with some conditions. It will have to freeze job cuts during the next 2 years, honor union negotiation agreements during 3 years and invest \$ 14.4 million in a supply-chain training program in order to improve local competition. This first transaction will be a springboard for its expansion in the continent as Wal-Mart is interested also in Congo, Angola and Senegal.

South Africa lost one million jobs in 2009 during the recession and unemployment rate is as high as 25%. In 2010, FDI fell in this country to \$ 1.3 billion, hardly a fourth of the amount registered in 2009 according to the United Nations, and compared with a 9.7%-growth in the developing markets. At the beginning, when Wal-Mart announced it wanted to buy Massmart and after the favorable vote of its shareholders, everything seemed to go quickly, but it was forgetting the South-African competition authority, an independent body, which evaluates and gives a position on

competition, fearing that the retailer increases imports, ignores local industrials pushing consequently to factory closures and dismissals. According to a report from the Economic Development Department, if 1% of Massmart purchases were transformed into imports by local suppliers, this would lead to the loss of 4,000 jobs in South Africa.

Massmart, founded in 1990 by Mark Lamberti, is South African largest retailer with 288 stores in 14 countries of the continent. Almost all its stores are located in South Africa.

At Wal-Mart China, the chief financial director and chief operating officer for the region, resigned “to explore other opportunities”. Wal-Mart entered China in 1996, operates 338 stores and is in full expansion in smaller cities. It generated sales of \$ 7.5 billion in 2010, accounting for just 2% of its annual sales of \$ 420 billion. The giant has still to close the acquisition of the discounter Trust-Mart. It was delayed to January 2012 for the second time since it announced last year it would buy its full control. It started to buy a 35%-stake in 2007 from Bounteous.

Other foreign retailers met also difficulties in China since 2010. Home Depot closed its last Beijing store in January to focus on 2 other fast-growing cities. In February, Best Buy closed its 9 electronic stores and in March Mattel closed the Barbie store of Shanghai on 6 levels. In addition, Wal-Mart and Carrefour (180 hypermarkets in China) were fined a combined \$ 1.4 million in February by the National Development and Reform Commission for false practices over prices in some of their stores.

Big store breakdown in China in 2010 according to Monitor Group:

- regional chains/traditional shops: 73%
- RT-Mart International : 8%
- other : 9%
- Carrefour : 5%
- Wal-Mart : 5%

■ INTERNATIONAL

Global Retail Expansion. Investment opportunities.

A.T.Kearney has just published its 10th Global Retail Development Index (GRDI). This annual survey of 30 emerging markets helps retailers to fix the strategies of their global expansion while ranking the commercial attraction of these countries and identify investment opportunities of emerging markets. Scores are based on 25 macro economic variables specific to the retail market including political and economic risks, the retail market growth and saturation... This year, the survey reflects the huge changes that impacted developing markets.

In 2011, some developing markets are exploding and modify the power balance. China recently overtook Japan as the world's second largest economy and it is expected that India would grow still faster in the long term thanks to its younger population. Recession has accelerated changes in the production and consumption worldwide, from west to east, north to south, from developed markets towards developing markets.

Global Retail Development Index : Top 30 global markets in 2011

country	2011 rank	change 2010/2011	country	2011 rank	change 2010/2011
Brazil	1	+4	Indonesia	16	0
Uruguay	2	+6	Morocco	17	-2
Chile	4	+3	Philippines	18	+4
India	4	-1	Tunisia	19	-7
Kuwait	5	-3	Sri Lanka	20	N.A
China	6	-5	Malaysia	21	-4
Saudi Arabia	7	-3	Mexico	22	+3
Peru	8	+1	Vietnam	23	-9
United Arab Emirates	9	-2	Columbia	24	+2
Turkey	10	+8	Argentina	25	N.A
Lebanon	11	N.A	South Africa	26	-2
Egypt	12	+1	Panama	27	N.A
Albania	13	-1	Dominican republic	28	-5
Russia	14	-4	Iran	29	N.A
Kazakhstan	15	N.A	Bulgaria	30	-11

Source : A.T.Kearney N.A Not available

While Asia is leading the world recovery, South America reinforced most its position in the 2011 Index thanks especially to its continuous growth: Brazil sits in the 1st position of the ranking with an expected GDP growth of 5% for the next few years, an important and mainly urban population, growing retail sales and notable investments expected during the World Cup and Olympic Games.

Events in the Middle East and North Africa can impact immediate projects of entering some countries, but the very young and outspoken population could lead to a greater economic stability and more global integration. Still more important, Kuwait, Saudi Arabia and the United Arab Emirates, still ranked in the Top 10 positions, did not have any political conflict like some of their neighbors and are expected to remain stable.

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■INDIA

Regulations on FDI may be eased in the retail trade by 2012.

India will announce this new decision next year enabling Wal-Mart and Carrefour to open stores. Presently, Indian laws limit Foreign Direct Investments in the retail trade to ownership of wholesale stores or to 51% in single-brand stores in order to protect local storeowners. They are banned in the multi-brand retail market. World's both giants have opened wholesale stores in partnership in this country of 1.2 billion inhabitants to have a foothold there and expand their supply chain. They helped

farmers to have access to a better technology and consequently to earn more money with the sale of their products.

Now, to allow FDI in the multi brand retail market may contribute to moderate grocery prices, as inflation grew by 16% in the past financial exercise due to rains that disrupted supplies. India is the 3rd most attractive market for global retailers among the Top 30 major emerging countries according to AT Kearney: an expanding middle-class, a growing economy and a population more and more brand-conscious will contribute to boost retail sales by 35% over the next 3 years from \$ 396 billion in 2011 to 785 billion in 2015. KPMG in Chennai predicts that the government will first limit FDI to 26%.

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