

# GLOBAL RETAIL NEWSLETTER

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## SUMMARY

AUGUST/SEPTEMBER 2011

### *INTERNATIONAL*

- . Bargain-hunters Chinese travel abroad
- . American retailers are looking for sites in Europe
- . In short: Mab Dev. and Sonae Sierra create a joint venture to build a shopping center in urban Solingen, Germany... McDonald's to build its largest restaurant for the Olympic Games in London in 2012... Carrefour has opened a second hypermarket in the north of the Emirates and enters a new market, Albania... Metro plans to invest in countries of the former Soviet Union... Auchan to triple its store number in Russia... Lulu Hypermarkets, a part of Abu Dhabi-based Emke Group, is on the way to reach its target of 100 stores in 2012... Ahold: in the 2<sup>nd</sup> quarter, Dutch retailer has unveiled a net income down 1.5%... Swiss shoe retailer Bally is to enter India via franchise with Bird Group... NCR Corp has signed an agreement to acquire Radiant Systems, a maker of payment systems for the retail market...

### *EUROPE*

- . Boulanger has bought the 35 French consumer electronics stores from German Media Saturn
- . Habitat acquired by the French Cafom SA

### *BELGIUM*

- . Delhaize Group: operating profit below expectations in the 2<sup>nd</sup> quarter as investments in low prices to attract American consumers weighed on margins

### *FRANCE*

- . Carrefour: current operating income down 22% in H1 forces to put a new commercial strategy into practice in France
- . Casino: acceleration was very net in France in Q2 as organic growth hit 3.2%
- . PPR Group to sell Redcats Distance Selling division in the 2<sup>nd</sup> half. In the retail division, Fnac has announced a new strategic program
- . Grosvenor Fund Management, Bouwinvest and a Canadian institution have bought 2 French malls from Unibail Rodamco

## **GERMANY**

- . Metro AG: the consumer electronics division weighed on performance

## **ITALY**

- . “Westfield Milan”, a future shopping center next to the Linate airport

## **FEDERATION OF RUSSIA**

- . Investments in Q2

## **SWEDEN**

- . H&M chose not to raise prices to grow its market share in the longer term
- . “Mood Stockholm” is a retail and office city complex due to open in spring 2012 in the financial district of Stockholm

## **UNITED KINGDOM**

- . Asda and the fierce competition in the grocery market
- . Kingfisher: activity in U.K weighed on sales in Q2

## **AMERICAS**

- . Tesco will test small stores in the U.S.
- . Borders, or the bankruptcy of the second largest bookseller in the U.S.
- . Gap has projects in South America and develops the Athleta brand
- . Casino reinforces its position in Latin America

## **ASIA/PACIFIC**

- . Fast fashion success in Asia: demand is expected to climb by 4.7% in 2011 boosted by a 10.8% growth in China

## **CHINA**

- . Tesco signed a strategic agreement with Gome Electrical Appliances Holdings
- . Suning Appliance Chain is refining a ten-year expansion program
- . Copycat stores: Ikea, Apple, Subway are imitated to satisfy an increasingly sophisticated public
- . Sun Art Retail was listed July 27 in the Hong Kong market: a very strong performance that day
- . Foreign retailers buy land as rents grow
- . Nike is highly successful in China thanks to the demand explosion
- . Carrefour acquires minority stakes owned by its partner President in China

## **INDIA**

- . The government eased Foreign Direct Investment regulations in the retail trade

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

- ✓The mall future in the Mena region
- ✓Retail power players 2011 in the United States
- ✓American Outlet Stores are well positioned to reinforce their market share

**A few lines from our articles in  
GLOBAL RETAIL NEWSLETTER  
AUGUST/SEPTEMBER 2011**

**■INTERNATIONAL**

**American retailers are looking for sites in Europe.**

A weak economy and high unemployment in the U.S. push consumers to spend less and retailers to go global. But, are new sites enough for such a demand as the lack of new shopping centers built in Europe has limited expansion plans of retailers in 2010?

According to CB Richard Ellis, 1.9 million sq.m of new malls was added in Europe in 2010 down 36% from 2009. Now, expanding American retailers overseas include Banana Republic, which expects to open its 1<sup>st</sup> store in France this year, and Apple its largest operation in the world in London in 2010. Fashion retailers such as Tommy Hilfiger and Michael Kors are building their own units in Paris also. Others such as Gap have announced store openings in Europe and Africa. It will be its comeback to Europe after a failure in the Nineties, which forced it to close its German operations.

Meanwhile, Abercrombie & Fitch is expanding abroad with its 2 brands including Hollister. In May, it opened its 1<sup>st</sup> unit on the Paris Champs-Elysées, the first of several planned for the next 2 years including Madrid, Dusseldorf and Brussels in 2011 and more in 2012. Mass-market Hollister projects are still more aggressive: 20 were opened last year and 40 are planned this year as part of a plan to operate 185 in Europe. The company felt the impact highly when international sales growth outpaced sales in the U.S. in Q1 2011 and helped Abercrombie & Fitch to generate profits.

Now, if American retailers find the space they are looking for in Europe, the success is not sure. In the Nineties, they already tried to open shops there, but some found difficult working with local regulations and high rents. Today, rents are still high and regulations did not change much. Challenge lies in the difficulty to find space. Originally, Abercrombie & Fitch expected to open 30 Hollister in Europe in 2010 but had to cut its aim by one third for administrative and organizational reasons.

Prospects change from one country to the other. According to CBRE, projects are now much smaller than in 2007 and 2008, during the record in the shopping center development. But, construction starts increase in markets such as Turkey, Russia and Poland: 146 are being built in Europe today and the highest level of activity is in the

European emerging countries. Many of these centers under construction are projects that were postponed during the recession.

The next positive aspect of Europe for Americans lies in the fact they think it is easier to experiment and try to launch new strategies in new markets rather than renovate old models at home. It is the reason why they accelerate their expansion in Europe.

## ■ CHINA

### **Copycat stores: Ikea, Apple, Subway are imitated to satisfy an increasingly sophisticated public.**

Chinese retailers and restaurants go beyond a simple fake as in some cases they even sell copies of merchandise. The trend was recently noticed in the city of Kunming where a fake Apple store sells real iPads and iPhones in a store that is particularly similar to a real Apple store and even identifies itself as Apple without of course the permission of the American brand.

As concern Subway restaurants, copiers use similar logos, offer the same sandwiches and even accept their own coupons, as consumers confuse both units. For it, the trend is not inevitably a bad factor as it makes its brand known, but it limits the real identity of the brand by consumers and risks to tarnish its image.

Walt Disney faces similar difficulties: a certain number of Disney stores are opened in China even if the American firm did not launch its own store network in the country and even if it authorizes its product sales in this market.

These copied stores range from small regional operations such as “11 Furniture” to national big-box franchises like Dairy Fairy. To some extent, they reveal an unsatisfied demand, as foreign firms did not expand highly. Thus, Apple has only 4 stores in Beijing and Shanghai despite license resellers in the country.

Ikea (9 stores only and 12 projects) did not expand in far cities of the west such as Kunming where the Chinese firm “11 Furniture” copies its merchandise and marketing strategy. At Dairy Fairy, employees wear the same blue uniforms and red aprons as the Dairy Queen employees.

This is not new in China but the trend has proliferated those past years. It may be explained by the growing consciousness by Chinese entrepreneurs of the importance of the store and customer experience. For a long time, they refined their art of copying but they succeeded less in creating their own brands.

What happens today is strongly worrying multinationals as the country is the world’s largest one for commodities growth. Spending in the retail market is expected to reach \$ 4,300 billion in 2015, up by more than two thirds from the 2010 level according to the Chinese Academy of Social Sciences.

## ■CHINA

### Foreign retailers buy land as rents grow.

According to Bloomberg, foreign retailers are pushed to buy sites as rents are rising. In the central district of Wangfujing in Beijing and in Shanghai, they almost doubled in the second quarter of this year from 2007 according to Cushman & Wakefield. Demand of commercial real estate boosted by 42% demand of commercial property investment in 2010.

Wal-Mart (339 stores in more than 120 cities) bought sites in northeastern Dalian for the 1<sup>st</sup> time in 2010. It may continue buying land or join its forces with a developer to build new operations.

Ikea Centre Group invested \$ 1.2 billion to build malls. With its local partner, they own 8 of the 9 stores in China and lease a site in the south city of Guangzhou. Together they continue looking for sites to buy...

Foreign retailers started entering China in the mid Nineties while the country began opening its economy to international investments with the aim to join the WTO in 2001. After it eased restrictions on foreign capital in 2004 to meet the World Trade Organization criteria, foreign retailers were allowed to fully own their stores and restrictions over zones where they could be present were cancelled.

**Carrefour** opened its 1<sup>st</sup> hypermarket in December 1995 and bought a few sites but the major part of its stores is leased. **Wal-Mart** and **Metro** entered China in 1996, **Auchan** in 1999 and **Tesco** in 2004. Now, to build and own its stores was limited so far to big-box according to Colliers International. Retailers that need less space like Apple Inc and Gap will continue to rent.

Chinese retailers, who expand in second and third-tier less affluent cities, may obtain advantages from the government to buy land and build stores. Foreign retailers may be favored in their property investments as they are in local currency, which is planned to appreciate to 2.5% to 6.3% against the US dollar by the end of this year. The yuan rose 26% since the government was no longer pegged to the dollar for the 1<sup>st</sup> time in July 2005.

In May, retail sales growth slowed down to 16.9% or less than the average of the past 5 years. Loan costs rose as the central bank lifted its interest rates 4 times since October and the government is tightening its currency policy to master inflation and the home price increase.

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