



THE RETAIL INDUSTRY: THIRD QUARTER 2007

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A WORD FROM THE FOUNDER AND CEO

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Ruth Stanat
CEO & Founder, SIS International



SIS International Research, Inc. 11 E 22 Street Floor 2, New York, NY 10010
T: +1.212.505.6805 Fax: +1.212.505.0284 research@sisinternational.com www.sisinternational.com

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EXECUTIVE SUMMARY

In the Q307, luxury brand retailers have been able to draw regularly from their clientele, but those catering to the lower strata of society have been the hardest hit in operating margins.

Rising gasoline and commodity prices have forced consumer goods companies to increase their wholesale pricing. Retailers though have not passed this increase onto customers, since consumers are looking forward to more discounts in the holiday season. Retailers though will be forced to increase prices in early 2008. In the US, the University of Michigan has forecast a decline in personal consumption for the next four quarters. Higher mortgage payments are reflecting in the rise of interest payments in the US, which might impact consumer spending in the coming months.

The global retail industry is undergoing a significant change that is closely following the global economical transition. Corporate firms in developed economies in the sectors of banking, automobile, retail, healthcare, etc. are witnessing stronger growth from international markets than domestic markets. While domestic markets still account for the larger share of the revenues, their growth rate has been flat for the past couple of years for many large retailers.

While the larger portion of sales for large retailers will still come from the developed economies for the next few years, emerging countries with their large population will offer stronger growth and profits for the large retailers in volumes. After 2010, we envisage gradual reduction of the proportionate income from developed countries and an increase in proportionate income from developing economies for these large retailers. In these countries, share of organized retail is less (15% across BRIC countries per AT Kearney), thus offering

large potential for growth. The top five retailers account for only 3% of the retail market share in China, while they occupy around 10% in Russia and 30% in Brazil. BRIC countries are expected to account for more than 20% of the global retail market in 2010.

The top ten retailers have increased their share of global sourcing and decreased domestic sourcing. This has resulted in cost efficiencies that they are passing on to consumers. As such, the effective cost of most brands over the past decade has decreased for many consumer goods. Thus global sourcing is also becoming a key differentiator for large retailers. Global sourcing has also helped deeper discount stores like Dollar General, Dollar Store, etc. in the US. They have been increasing their market share over the past couple of years, though rising gasoline prices have forced some of them to raise their prices to \$1.25 USD. The top four dollar store retailers had combined revenue of \$20 billion USD



in 2006. Though that translates to only .5% of total the US retail stores in the US in 2006, dollar stores still have huge scope to grow since they have lot of markets to penetrate still.

Technology innovations have decreased the entry barriers for entering the retail sector. On-line stores are increasing their market share, especially in consumer goods and automobiles. Forrester Research estimates on-line retail sales to increase 18% YOY to reach \$259.2 billion USD in 2007. Only those retailers who have evolved strong on-line/off-line integration will be able to sustain their market share in the consumer goods sector.

Rising food prices globally are being attributed to rising gasoline prices, higher interest rates, etc. Another factor being attributed to price rises is the US emphasis on ethanol as an alternative fuel. This has increased corn prices, resulting in rising

food prices in countries such as the US and Mexico (which is dependent on US corn). Rising gasoline prices have resulted in cost increases for plastic-based goods manufacturers, which have resulted in discount stores being forced to increase their prices for plastic-based products. For large retailers, because of volumes, the rising plastics prices have not affected them much, but smaller discount stores have been witnessing rising costs and not able to withstand competition. Many smaller retail chains are closing shop across the globe.

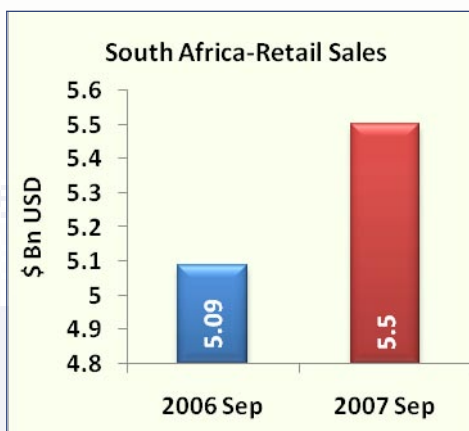
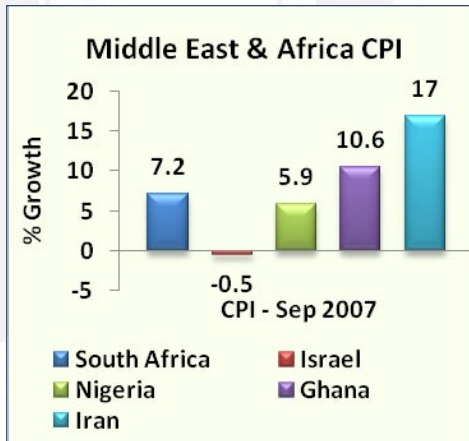
In developing countries, higher wage rises are resulting in higher levels of consumer spending, reflecting higher retail sales. We are witnessing ongoing consolidation in Latin America, Africa, and Russia. Retailers in developing countries are aggressively increasing their footprint in their domestic markets. After establishing a stronghold in domestic markets, they are expanding cross-country initially within the continent and then into emerging markets. The majority of the retailers are adopting the franchise model or joint-venture model to enter into new territories. Few retailers however prefer to expand via greenfield expansion or through inorganic growth, acquiring weak retailers in their target companies.

Retailers globally are increasing the share of their private labels while at the same time promoting masstige brands to cater to all ends of the income strata. Retailers are finding positive response from masstige brands. Hence, they have expanded these brands from apparel into cosmetics and other personal care products. Retailers are also increasing the range of services they offer, along with more variety of goods. Retailers are offering services ranging from beauty consultation to financial services and now are slowly increasing the number of their stores that offer primary medical consulting services. They are also increasing the sale of generic drugs in their stores. Discount retail stores are trying to offer as many services and goods as possible at the lowest possible rates, while luxury brands are increasing their channels to drive more sales. Retailers are also focusing on their on-line channels to drive more sales and avoid the loss of market share to on-line only stores like Amazon and e-Bay.

GLOBAL TRENDS

- Cost efficiency focus and retiring debt major financial goals
- Geographic expansion focus with primary focus on regional domination and then expansion into emerging markets
- Opposition to big box stores in India
- Growth of masstige brands driven by retailers
- Higher mortgage payments
- Increased investments both by domestic and foreign players in developing countries
- Inflation under control in many countries
- Led by Wal-Mart, retailers increasing range of generic medicines being offered at their pharmacy stores
- On-line retail sales growing exponentially. Retailers increasing their on-line presence to offer seamless experience
- Retail industry consolidating in developing countries through increased pace of mergers
- Retail sales increase in Asia, Europe, and Africa
- Retailers driving growth of organic and natural products as differentiators and to lower end price to consumer
- Retailers expanding range of financial services offered
- Retailers focusing on greener, cost-efficiency moves
- Retailers increasing basic healthcare services offered at stores and increasing penetration of health clinics at stores
- Rise in retail space in developing countries
- Rise of private labels of retailers
- Rising consumer confidence and expectations
- Rising food, fuel, and energy prices
- Rising personal disposable income globally due to higher wages
- Share repurchase program being launched by many retailers

GLOBAL TRENDS: AFRICA & MIDDLE EAST



Source: Statistics Department (ME & Africa Countries)

Indices: Israel has inflation under control, whereas South Africa and Nigeria faced higher inflation in September 2007 compared to September 2006. South African retail sales in September 2007 stood at \$5.5 billion USD, compared to \$5.09 billion USD in September 2006.

ABU DHABI

French Geant is planning to set up five stores in Kuwait, out of which two will be hypermarkets and three will be supermarkets. The company will also expand into UAE and Watar. Geant has presence in Lebanon, Saudi Arabia, Bahrain, and the UAE in the Middle East. Geant will compete against EMKE Group's Lulu hypermarkets and co-operatives in the UAE.

Saudi Arabia is contemplating creation of a department for consumer protection for monitoring

consumer prices. Saudi Arabia will have 2.5 million square meters in leasable area by end of this year and, by 2010, it will be the sixth among gulf cities in retail space per person. The GCC retail sector is \$100 billion USD in size.

Middle East retail projects worth \$770 billion USD are currently under construction for the period of 2006-2011. Dubai Festival City's resort, which has a size of 2.1 million square feet, will house 550 shops, 20 branded stores, and 90 restaurants and cafes. Dubai's Mall of the Emirates will be superseded by Phase 1 of the Mall of Arabia at 4,000,000 square feet in area. Consumer spending is expected to be around \$8 billion USD in 2009.

Abu Dhabi is planning to invest \$60 billion USD in retail infrastructure. Yas Island, scheduled to open in 2009, has a size of 2.3 million square feet, and will house a three-storied shopping center, theme parks, resorts, and office and residential space. While Dubai is targeting foreigners, Abu Dhabi is targeting locals. International brands in home decoration and electronics retailers are expected to take space in these new upcoming locations. New malls are being planned in Sharjah, Dubai, and Kuwait. Dubai Mall is expected to have the largest mall space in the Middle East.

While population figures make Saudi Arabia and Egypt attractive, UAE's low-risk assessment makes them very attractive to retailers, according to a recent AT Kearney report. Gap is planning to open approximately 100 Gap and Banana Republic stores in Saudi Arabia and Turkey through franchises.

Abu Dhabi's population is expected to surge to 3.1 million by 2030 from the current projected 930,000 in 2007. The number of annual tourist visits are expected to rise to 7.9 million from the current 1.0 million. These estimates appear in the Plan Abu Dhabi 2030: Urban Structure Framework Plan released recently by the Abu Dhabi government. Increasing population and tourists will increase demand for retail space from estimated 0.86 million square meter in 2007 to 1.5, 2.5, and 4.0 million square meters in 2013, 2020, and 2030 respectively.

RetailME magazine predicts Dubai's retail spending to exceed \$7.6 billion USD, Abu Dhabi to exceed \$1.9 billion USD, and Saudi Arabia to exceed \$6 billion USD. Saudi Arabia is coming up with the \$266 million USD Al Shobily Grand Mall, while Bahrain is coming up with the \$400 million USD City Centre in Bahrain. The outsourced facilities management sector in the GCC countries is expected to reach \$10 billion USD by 2012 at a growth rate of 15.3% between 2006-2012. The total facilities management market is expected to exceed \$575 million USD by 2012. UAE, with the strongest growth rate in the Middle East, accounts for 66% of the total facilities management market revenue share. Qatar accounts for 17% share of total facilities management market revenues.

The rapid evolution of new malls may decrease occupancy at existing malls and also create a situation of oversupply. Retail brands though are currently experiencing their highest sales per square foot in the GCC region currently.

ON-LINE RETAIL SPENDING IN AFRICA

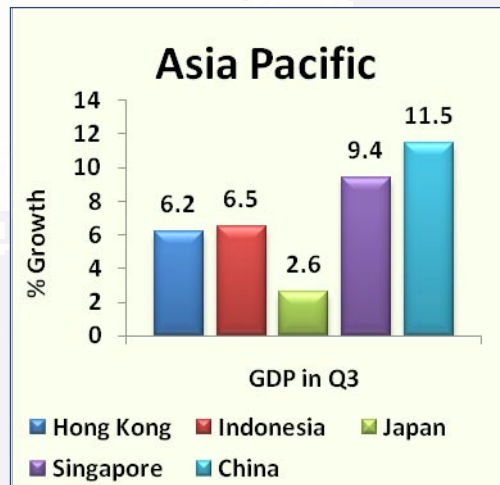
According to World Wide Worx's report titled "On-line Retail in South Africa 2007," on-line retail spending in South Africa will rise 35% in 2007 over 2006 and total on-line spending is expected to rise to \$135 million USD. These figures do not include the \$0.43 billion USD (2007 projects) on-line air ticketing market. Increased broadband, growing Internet awareness, and comfort with on-line shopping has resulted in higher sales growth. There are roughly around 1,014 on-line shopping sites in 2007, though 75% of the market is dominated by 12 sites. The 12 sites belong to three major malls, M-Web ShopZone, the eBucks Shop, and Digital Mall; two on-line grocers, Pick 'n' Pay Home Shopping and Woolworths; two largest on-line book retailers, Kalahari.net and Exclusive Books; the largest on-line florist, NetFlorist; the largest on-line wine retailer, Cybercellar; the largest on-line electronics store, Digital Planet; the largest on-line health and beauty store, Ascot Direct; and the largest auction site, Bidorbuy.co.za.

Asia-Pacific Retail Sales



Source: Department of Statistics (Asia-Pacific Countries)

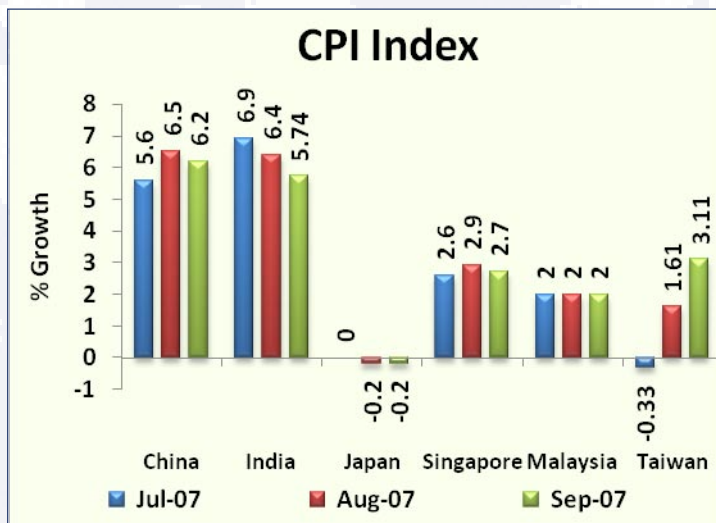
Asia-Pacific GDP Q307



The MasterCard Worldwide Master Index of Retail estimates retail spending in Australia to rise 6.2% in the second half of 2007 over the first half of 2007. The index estimates \$97.3 billion USD turnover, driven by a tight labor market that has driven wages up and made credit easily available. MasterCard says that despite interest rate hikes, consumer spending will remain high due to strong employment growth and wage hikes. Access Economics of Australia also predicts that the rate hike

will be offset by the \$5 billion USD tax cuts. MasterCard estimates that 2007 GDP is expected to be at 3.5%. MasterCard's Australian Consumer Confidence Index has surged to a four-year high of 68.3 points. Access Economics expects retail turnover to rise at 5.1% in 2007-2008, then slow down to 3.3% in 2008-2009. Southern Australia will witness a moderate rise in retail turnover because of its strong manufacturing base being hit by the dollar decline, while Northern Australia will witness strong growth in sales.

Asia-Pacific CPI



Source: Department of Statistics (Asia-Pacific Countries)

The above graph clearly shows that consumer prices in India have been declining since July, whereas in China, they were moderate in September compared to August, but still higher than July. Malaysia has unchanged CPI, but Taiwan's CPI has increased tremendously. Malaysian CPI has been up 2% in the first nine months of the year, driven by food price hikes, transport, and housing. Taiwan's CPI grew much higher than given above in October under the effect of a typhoon that hit Taiwan. CPI in October grew 5.34% from October 2006. Taiwan is expecting to bring its CPI below 2% in 2008.

Japan's CPI fell in September for the eighth time this year, impacted by falling prices of digital consumer appliances and a fall in cell-phone fees. Japan has been facing a deflation scenario for quite some time and this has been impacting retail industry sales. Prices of televisions fell by 18.9% in September while notebook computers fell by 27.8% in Japan.

Singapore's CPI fell to 2.7% in September compared to 2.9% in August, driven by lower housing prices. Singapore expects the annual inflation rate to range between 2%-3% in 2007, but expects to



raise 4%-5% in the Q108 from the same period in 2007.

MasterCard expects all Asia-Pacific markets to register strong growth in sales with Indonesian sales increasing 16% year-on-year to touch \$30.2 million USD. China is expected to grow 12% year-on-year, while Philippines, Malaysia, and Hong Kong are estimated to register 13.7%, 6.9%, and 5.8% growth in retail sales. MasterCard estimates Indonesian central banks' efforts in controlling inflation and reducing lending rates will help increase consumer spending in Indonesia, while rising incomes and strong labor markets will boost consumption in China.

Private label store brands have not been able to penetrate in Australia, where they accounted for only 19.1% of packaged goods sales in the year up to June 30, 2007. Supermarkets had estimated 30%, but demand pace has been slow, driven by a "low-quality" perception of store brands and shopper loyalty towards manufacturer brands. Like in other markets, brands with low emotional appeal are acceptable in the private label category, but not those with high emotional involvement. Interest rates have been increased recently in Australia. Retail sales in September grew by 0.8% in Australia to \$19.857 billion USD despite the 6.5% higher interest rate and higher inflation according to the Australian Bureau of Statistics.

The Reserve Bank is expected to increase interest rates again, but income tax cuts are offsetting the higher rates. Retail prices are lower because of the higher Aussie dollar. ABN Amro opined that a combination of low unemployment, further tax cuts, rising equities, and house prices would boost retail spending. Consumers are

showing more interest in cheaper imported electronics items and cutting down on food services. Watches and jewelry, whose prices have increased in the previous quarter, failed to gather sales.

JAPAN

Same store sales at supermarkets fell 1% in September to \$0.009 trillion USD, according to the Japan Chain Stores Association. The fall was led by weaker winter clothing sales due to warmer weather conditions. In August, sales had dropped 0.5%. Supermarket sales have been sliding in 42 of the past 43 months. When compared to the previous year, sales have fallen 0.8%. In the first nine months of 2007, retail sales fell 0.8%, compared to the same period last year. Sales of food categories, accounting for 64.1% of total sales, grew 1.1%, while clothing and household products, accounting for 10.3 and 19.1% respectively, dropped by 9.6% and 3.2% respectively.

CHINA



Source: National Bureau of Statistics of China

Source: National Bureau of Statistics of China

The consumer price index in October grew by 6.5% in October over October 2006, driven by strong growth in food price increases and growth in services costs. Rural area prices increased 7.2% compared to 6.1% of urban areas. CPI increased 0.3% over September. Apparel pricing was down by 1.3%, while consumer durables grew 1%. Drug prices increased 2.9% of which Western medicine price decreased 0.1%, while traditional Chinese medicine prices went up by 11.5%. In the first 10 months, CPI grew by 4.4% over the same period in 2006.

China's retail sector has been projected to grow to \$2.5 trillion USD by 2020. IGD predicts that

by 2020, China will account for 19% of the global food retail market. China had \$1 trillion USD in retail sales in 2006 and is expected to reach \$1.13 trillion USD in 2007. China is expected to overtake Japan as the world's second-largest retail market by 2010.

In October, retail sales grew 18.1% over October 2006 to reach \$111 billion USD, with urban areas growing 18.6% to reach \$75 billion USD and rural areas growing 17.1% to reach \$35 billion USD. Wholesale and retail trade sales grew 18% to \$92 billion USD. Apparel markets grew by 32.6%, while the office appliances market grew by 26.3%, the household appliances market grew by 30.5%, and the cosmetics and jewelry markets grew by 32.1 and 37.5%. For the first 10 months of 2007, retail sales grew 16.1% to reach \$971 billion USD. Carrefour grew sales in China by 53% in 2006. Ernst and Young opines that the Chinese high-end fashion market at \$2 billion USD annual sales is the world's No. 3 consumer and could grow to \$11.5 billion by 2015. In India, the high-end fashion brand market is estimated at \$1 billion USD by Technopak Advisors.

Chinese middle class consumers visit a hypermarket every 10 days according to Tesco. Hypermarkets account for nearly 30% of China's grocery sector in China's 15 largest cities, whereas TNS data reveals that supermarket share has fallen to 19.1% in the first half of 2007. Hypermarkets hold 45% of the Shanghai market share with the market being dominated by Wal-Mart/Trust-Mart, Carrefour, Tesco, and Taiwan's RT-Mart. No player has even 5% of the market share, which reflects the huge opportunity in this market. TNS opines that hypermarkets can gain more market share in China by expansion in the smaller cities.

INDIA

A 2004 report by the Centre for Policy Alternatives stated that if large retailers captured 20% of the retail trade, it would reflect \$18 billion USD in sales, which would reflect an employment of 43,540 persons, displacing eight million people in the unorganized sector.

Mall Development: India has a huge scope for malls since organized retail accounts for only 4.6% of the organized retail segment. Israel-based Plaza

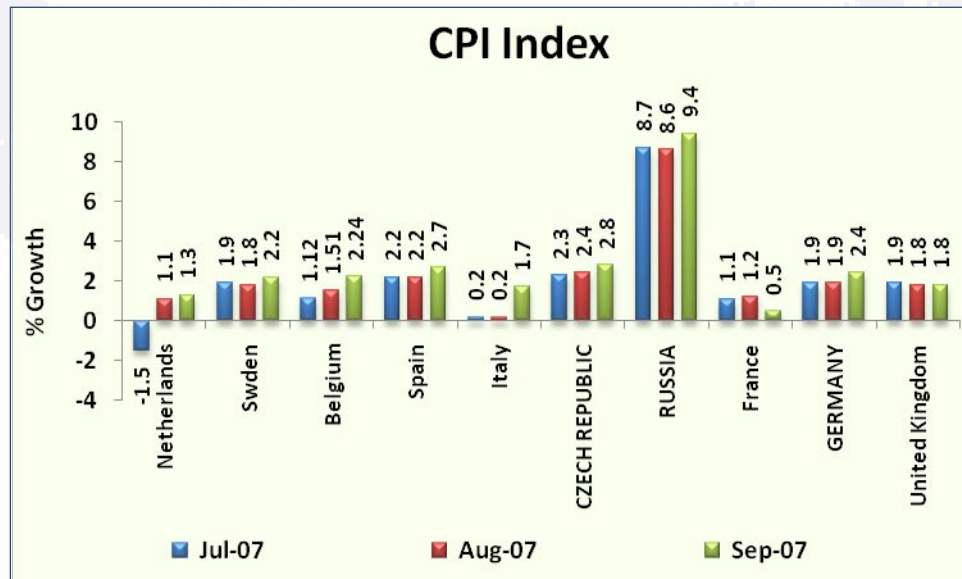
Center is planning to invest \$1.25 billion USD up to 2012-2014 to develop around 50 malls. Plaza Center with \$561 million USD turnover and \$196 million USD net revenue has 42 malls across Europe and is listed on the LSE. Plaza Center notes that the Indian market is more developed in infrastructure, compared to Eastern Europe and, despite high interests and low incomes, consumer spending is high. It, like other retail players, is setting up malls in cities where the IT sector is flourishing rapidly, since the IT sector contributes significantly to the city's economic growth. Since land prices are lower in Tier 2 cities, many retail space builders prefer to push into Tier 2 and Tier 3 cities. Plaza expects to have three tiers-up market, mid-market, or discount malls depending on location and economic demographics. Plaza though noted that Indian malls take 35% longer to be developed compared to European malls.

MALAYSIA

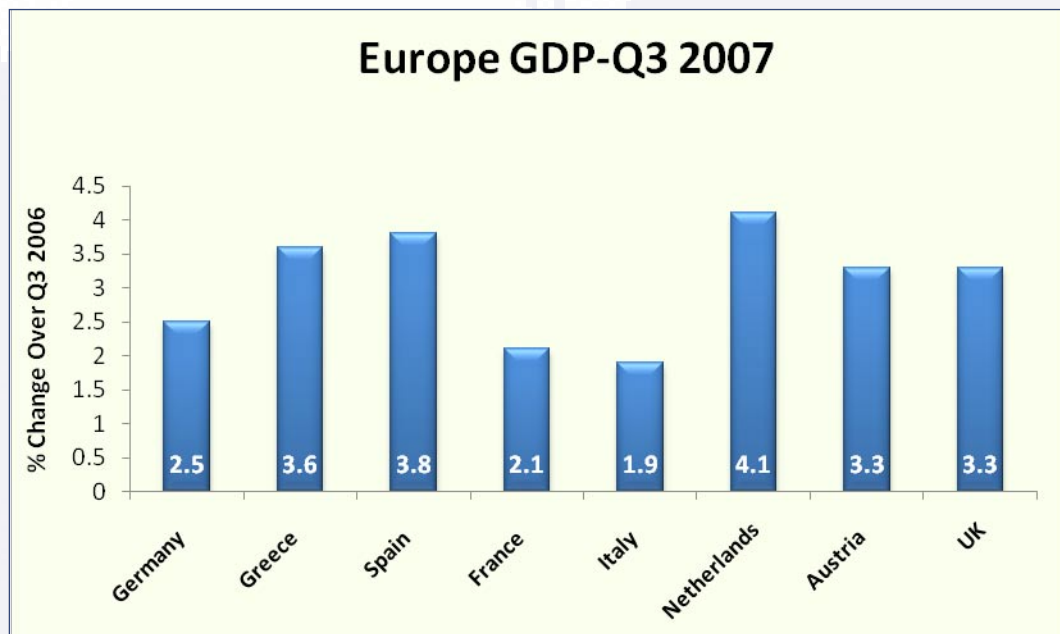
Costa Coffee is planning to surpass Starbucks stores in the UAE. It has stores in all six GCC countries and the Arab countries in the Levant region. Costa is increasing its presence through exploring expansion of its sales channels, which include drive-thrus, petrol stations, and airports. They will also be available in monorail stations when the Dubai Metro opens. Costa is planning 300 stores in the Middle East and is targeting 1,700 stores globally. Costa has global revenue of \$100 million USD.

GLOBAL TRENDS: EUROPE

Europe CPI Index



Europe GDP Q307



Source: Statistical Departments (European Countries)

CONSUMER PRICE INDEX

In Europe, the weak housing market in the UK, Ireland, and Spain, coupled with rising interest rates, might hamper retail sales. With buoyant retail sales, retail stocks grew by 7.9% this year, driven mostly by the consolidation factors ongoing

in the year. Though all major retailers reported growth in income, operating margins for most of the retailers were hurt. UK retail sales grew 0.6% in September, driven by aggressive discounts from retailers according to the Office for National Statistics. Toys and electronic goods led the growth. Unemployment in the UK is down, though growth rate is expected to fall to 2.3% in 2007 per the IMF.

Retailers have decreased prices despite growing interest rates. Inflation was at 1.8% in September. Economists expect the UK budget deficit to widen and are expecting tax revenues to fall.

UK BRC-Nielsen Shop Price Index (SPI) for October revealed that prices were 1.1% higher than October 2006, due to inflationary cost pressures. Food prices grew 3.7% in October though non-food prices continue to fall. Shop prices have risen 0.5% between September and October according to the BRC Index.

According to the Bloomberg Purchasing Managers Index, which is managed by NTC Economics, rising food and energy prices have dampened consumer confidence, resulting in weakened sales in October. IMF cut down its forecast for the euro region growth to 2.5% and 2008 forecast to 2.1%. NTC Economics reported that Italy sales fell in October and September.

Consumer price inflation rose to 2.1% in September. Consumer price inflation in Slovakia increased to 2.8% in September, due to rising services, energy, and food prices. Consumer price inflation increased to 2.3%, driven by rising food prices. Hungary's consumer price inflation decreased to 6.4% in September from 8.3% in August.

RETAIL SALES

Europe Retail Sales



UK Retail Sales Index



According to the Federal Statistics Office, Germany retail sales grew in September over August, driven by the apparel sector growth. In the Q307, retail sales increased by 1.2%. The retail industry is expected to grow in 2008. For the whole of 2007, the HDE retailers' association has cut its sales forecast by 0.5%.

French and Italy retail sales fell according to NTC. Germany's saving rate has increased to 10.9% as percentage of disposable income, compared to 10.5% last year. Unemployment in Germany has fallen to a 14-year low. France retail sales growth is charted above. It has been witnessing moderate growth in sales compared to earlier months.

Scottish retail sales grew 4.9% in October compared to October 2006. Same store sales in October were 0.2% higher than October 2006. A milder October hit clothing and footwear sales. Higher cost of buying and growth in food prices have contributed to milder sales growth in October. Shop prices in Scotland as measured by the SRC/Nielsen Shop Price Index increased by 1.1% in October. Non-food sales slowed down to 2.9% from 7.4%.

Hit Wise has reported that on-line retailers are witnessing increased traffic re-

ceived from social networks, with eBay being the biggest beneficiary of the traffic. Retail Decisions (ReD) has reported that on-line credit cards have increased by 131% in 2007. On-line shopping has grown by 88% this year among Britons compared to last year.

The US, followed by Ireland, Germany, Spain, and France, reported the highest number of on-line fraud cases. In the UK, London accounts for 5% of all fraud in the UK.

FRANCE & GERMANY

Retailers in France are demanding to negotiate directly with suppliers. Suppliers have increased prices and retailers are forced to carry them. Retailers are opposing these price hikes, saying that higher prices will lead to higher inflation rates and weakened sales.

CZECHOSLOVAKIA

Inflation grew to 2.8% in the Q307, due to increase in food and energy prices as well as growth in excise duties on tobacco prices. Barring food, prices of other items continued to decline. In Czechoslovakia, the CPI is down by 0.3%, compared with August, though it is up 2.8% up compared with September 2006. The decline was led by reduced recreation, transportation, communication, and health prices, though housing, fuels, apparel, education, and energy prices increased in September. Goods prices overall grew by 2.7%, while services prices went down by 2.9% when compared year on year. Inflation remained unchanged at 2% as in August.

BULGARIA

Bulgaria has currently six malls and has upcoming construction. Rising incomes have led to higher disposable income, which has led to a strong surge in retail trade. Due to saturation in the Czech and Hungary markets, retailers are focusing on Bulgaria, which is expecting its three-year constant 6% GDP growth rate to continue in 2007. Carrefour, Metro, CBA, Lidl, Mercator, and Tesco are planning openings in Bulgaria. Carrefour is constructing a \$109.3 million USD shopping mall in Sofia, and is expected to employ 2,300 people and to be operational by October 2008. Domestic players like Piccadilly, who have a niche customer base in the middle class, are also extending their stores to 16 by 2008.

GLOBAL TRENDS: LATIN AMERICA

BRAZIL

Brazil's retail sales grew 1.4% in September from August, and 8.5% compared to September 2006. September sales were led by strong growth in automobile and electronics sales, fueled by low interest rates. Brazilian central bank had not changed its overnight rate in October, though higher food and gas prices drove inflation to 4.12%. The expected annual inflation rate would be at 4.5%. Electronic office equipment grew 30.4% in October, while home appliances grew 12.7%, cars 19.8%, and construction material grew 9.1% respectively.

MEXICO

Mexican retailer group ANTAD said that its group members' same store sales grew 3.2% in September to 55.3 billion pesos, but fell 0.7% in October. Same store sales from January to October grew 1.2%. ANTAD has cut its same store sales growth to 1.5%. Department stores registered the slowest sales growth for ANTAD members. The National Association of Supermarkets and Department Stores now known as ANTAD has revised downwards its 2007 retail sales growth forecast to 1.5% from the earlier 2.5%, anticipating a weak consumption cycle in the second half of 2007, due to proposed government moves to increase taxes. The revised figure includes Walmex's figures. Due to decreased exports to the US, retailers have borne the brunt of a weakened economy which has restricted apparel purchases. Retailers have postponed \$420 million USD of the proposed \$2.98 billion USD investments due to the government not pushing economic reforms through the parliament

CHILE

Chilean central bank is hoping that inflation will fall down to 3% soon. The bank is holding the overnight lending rate at 5.75%, since inflation is holding steady with food inflation coming down. Nonfood inflation stands at 3.5%, which is within the bank's expectations. Consumer prices

grew 0.3% in October and the annual rate increase grew to 6.5% in October. With projected sales of \$7.8 billion USD, the Falabella and D&S merger will become the second largest retail chain in Latin America, after Wal-Mart, and the largest in Chile. Many foreign retailers are expanding their presence in Latin America again. Their earlier entry was marked by past economic and political turbulence, prompting them to leave the region.

PERU

Peru's inflation rate has come down to a 0.31% growth rate after rising 0.61% in September despite rising food and furniture costs. Inflation rose to 3.08% from 2.80% in September.

Peru's GDP grew 8.8% in September 2007 compared to September 2006. Retail sales grew 12.27% in September. Strong domestic demand driven by credit lending is helping growth. In the third quarter, Peru's economy grew by 8.4% than the 7.6% reported in the second quarter. For the 12 months ending in September, growth was at 8.16%. Inflation is currently at 3%. Many large foreign retail chains are opening malls, department stores, distribution centers, and large warehouses. Ripley and Falabella have announced a joint venture to develop malls in Peru. Their first three projects are being built at a cost of \$138 million USD in Trujillo, Callao, and Santa Anita. Falabella's CMR is the largest credit card issuer in Peru and has recently received permission to start operating as Banco Falabella Perú. Ripley is planning to invest \$200 million USD in Peru in 2008 and 2009,

VENEZUELA

The Venezuelan economy grew by 8.7% in the third quarter, driven by higher oil prices, though inflation has offset the 2006 GDP rate of 10.3%. The Venezuelan oil GDP is also showing weakness. The non-oil sector grew 9.7%. Imports grew 36% while exports grew 11%. The Venezuelan growth has been driven by government spending.

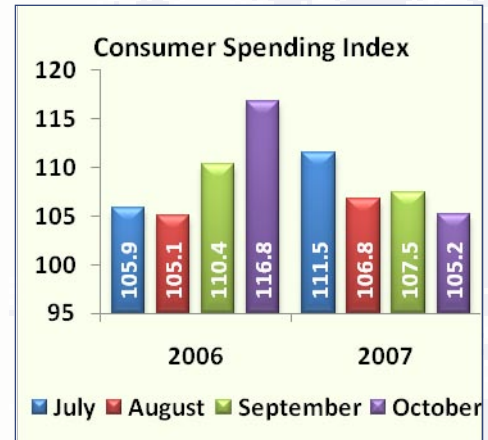
GLOBAL TRENDS: NORTH AMERICA

Consumer Confidence



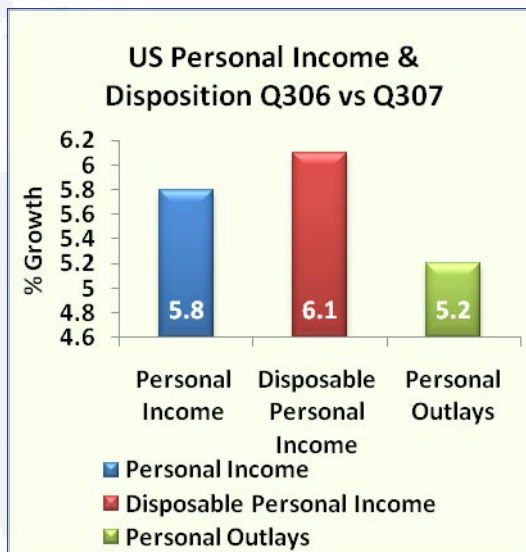
Source: University of Michigan

Rasmussen Consumer Index



Source: Rasmussen reports

Personal Disposable Income



Source: Census.gov

CONSUMER CONFIDENCE & CONSUMER SPENDING

According to the University of Michigan, consumer confidence in October fell due to declining home prices. The university opines that the current level of confidence clearly leans towards recession if current conditions continue, though the unemployment rate is still half that of a recession environment. The university forecasts a 2.0% decline over the next four quarters at the pace of growth

of real personal consumption. It expects the Q407 and the Q108 to be weaker.

The Index of Consumer Sentiment declined to 80.9 in the October survey compared to 83.4 in September and significantly below the 93.6 recorded in October 2006. The Index of Consumer Expectations declined to 70.1 in the October survey compared to 74.1 in September and significantly below the 84.8 recorded in October 2006. The Current Economic Conditions Index was lower at 97.6 in the October 2007 survey compared to 97.9 in September 2007, but higher than the 107.3 recorded in October 2006.

Twenty-eight percent of homeowners feel that their home prices have declined, while 22% anticipate a price decline to continue through 2008. Interest rates are expected to decline. While high food and fuel prices remained the primary concerns of lower income families, declining home prices was the primary concern of higher income households. Sixty-six percent though still expect renewed increases in the future, expecting a gain of 3.7% until 2012. The data reveals that the housing price slump in the future is becoming a nationwide expectation.

Personal finances continue to be stressed by higher mortgage payments and record food and fuel prices. Consumers will put more stress on retailers to keep lowering their prices during the holiday season.

CONSUMER SPENDING

The Rasmussen Discover (R) US Spending Monitor (sm) stood at 96.5 for October compared to the September level of 95.9. Spending confidence is increasing slowly though consumers are still less hesitant to spend more. Consumers are expected to spend more in the holiday season despite budget pressures and tightening of personal finances. The expected increase in spending levels was higher than September expectations. Household expenditure is expected to rise more and discretionary spending is being kept under check. Consumers also felt that rising food and fuel prices are not putting as much pressure on consumers as they did earlier, enabling them to maintain their discretionary spending. Consumers expect to maintain spending on household improvements and increase savings and investments, but are straining to manage their budgets. Rasmussen analysts opine that if this trend continues, there will be more personal disposable income which will translate into higher spending.

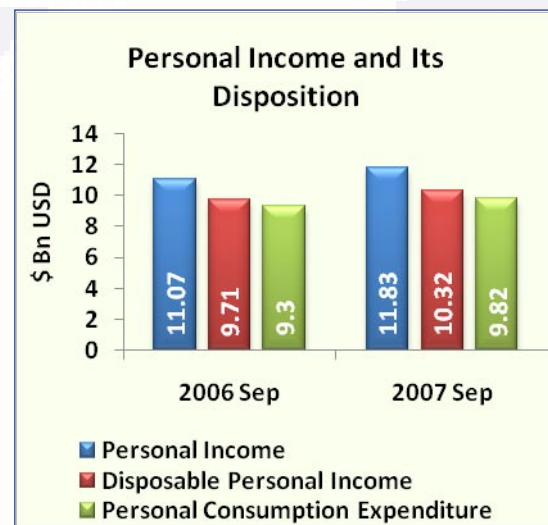
PERSONAL INCOME & GDP GROWTH

Real GDP grew by 3.9% according to advance estimates, driven by stronger growth contributions from personal consumption expenditures (PCE), exports, federal spending, equipment and software, nonresidential structures, private inventory investment, state and local government spending, and a decrease in fixed investments. The GDP growth was offset slightly by a negative contribution from residential fixed investment and increased imports.

US real personal consumption expenditures grew 3.0% in the third quarter compared to the growth rate of 1.4% in the second quarter. The higher expense reflects rising fuel and food prices.

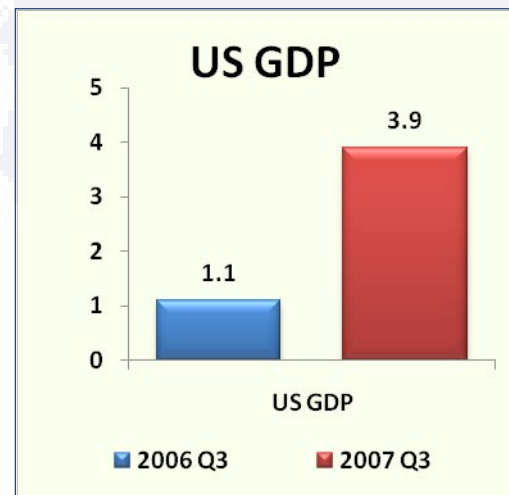
US real nonresidential fixed investment grew 7.9% in the third quarter compared to a growth rate of 11.0% in the second quarter. US personal income grew 5.8% to \$165.2 billion USD in the third quarter, compared to a 5.3% increase in the second quarter. US disposable personal income grew 6.1% to \$151.2 billion USD in the third quarter due to higher income receipts, which also led

US Personal Disposable Income



Source: Census.gov

US GDP Q306- Q307



Source: Bureau of Economic Analysis

to the 4.4% growth in the US real disposable personal income and 5.2% growth in personal outlays at \$129.1 billion USD. Personal outlays growth reflected higher mortgage payments.

US personal savings stood at \$86.5 billion USD in the third quarter, compared Q306 quarter of 2006. The US personal savings rate grew to 0.8% in the third quarter compared with 0.6% in the second quarter.

Jupiter Research forecasted on-line spending of \$39 billion USD for the 2007 holiday season. Jupiter Research reported that on-line shoppers remain insulated from the macroeconomic factors affecting physical sales, hence, retailers are focusing on

search engine optimization. Jupiter Research has forecast on-line spending by 126 million people in the US. Amazon has a market share of 12% with Wal-Mart coming second at 5% of the market.

In the rush towards organic foods, Safeway has increased its range of organic foods to 200 certified organic products from beverages and baked goods to frozen foods and snacks. These store label brands are much cheaper than packaged brands. US retailers are also offering a tiered structure for their private label brands, directly competing against even premium brand names. Nielsen Company places the private label share at 19% in the US. Retailers are focusing on the demographics and creating aspirational lifestyle brands, which are masstige brands, while discount stores focus only on reducing price through private labels. They are keenly focusing on packaging and aesthetics for their brands to capture customers at the point of purchase.

Retailers have more data than FMCG manufacturers do on customers' attitudes and interests and they own the relationships built over the years. Deloitte says that store brands now take only 8-9 months to get to the market. Since retailers also have the power over product placement, they can position their private label brands more prominently. Wal-Mart's private label brands make twice what P&G brands put together make. Saatchi & Saatchi states that Wal-Mart's private label is 50% bigger than any manufacturer's entire brand portfolio.

Manufacturers who so far focused only on their national competitors are using innovation to differentiate their products and are also pushing tiered brands, ranging from low-income to premium products to compete against private label brands. Manufacturers are also spending more on their loyalty programs to bypass retailer brands power and to retain relationships with consumers. While private labels are cutting across lower priced categories, they are not able to compete in the premium brands category or emotional appeal categories

where brand loyalty counts more than price.

McKinsey states that private label share would grow by 16%-24% of overall sales. The leading brand might have the retailer brand as its immediate competitor. In this scenario, retailers with cash reserves may find in future purchasing leading premium brands to increase their variety and also to offer end-to-end products across all segments. They are already alliancing with individual brand leaders in various segments to create masstige brands.

Wal-Mart has increased its environmental push by starting the use of black bags made with recycled plastic from soft drink and water bottles. With this move, Wal-Mart would save \$2.4 million USD of resin, assuming a usage of 100 million bags. US consumers are expected to use 91 billion bags in 2007. An estimated 500 billion to 1 trillion plastic bags are consumed globally annually with Taiwan consuming 20 billion bags, Ireland consuming 1.2 billion bags, and Australians consuming 6.9 billion plastic bags.

China's lowering of tax incentives for exporters has impacted the US footwear industry, which sources 85% of its products from China. These importers are already faced with rising raw materials prices. Morgan Stanley says that the apparel industry sources only 35% of its products from China, but footwear is closely linked to China.

Faced with increasing raw material costs, manufacturers are increasing their wholesale prices. The producer price index for September rose 2.3%, much above the consumer price index. Since the consumer price index has not increased by the same extent, it might be a scenario where retailers are getting squeezed at their margins. Retailers threatened by discount stores competition and consumer demand for everyday low prices are hesitant to increase prices. Moreover, being the holiday season, consumers expect more discounts from retailers. Retailers can then hike prices only after the holiday season.



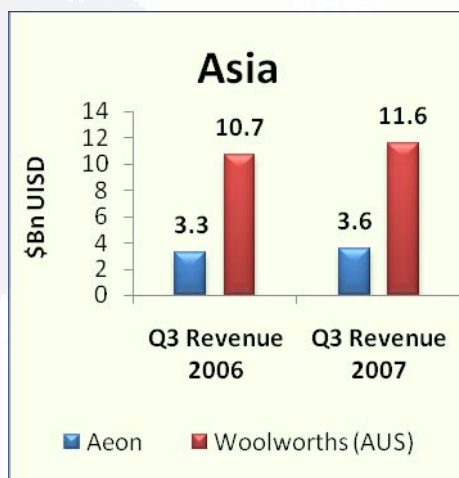


US RETAIL SALES

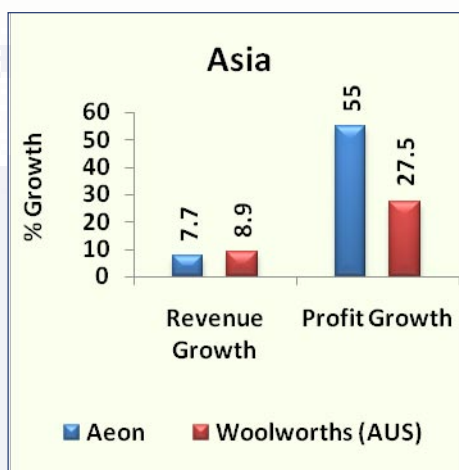
US retail sales increased 5.2% to \$380 billion USD in October 2007 from \$361 billion USD in October 2006. Sales in the period August-October 2007 were 4.5% higher than the same period last year. Sales were higher, driven by growth in fuel (+17.2%), food (+5.6%), electronics (+4.5%), health and personal care (+5.9%), motor vehicles (+8.6%), and apparel (+4.9%).

KEY COMPETITOR EVENTS: ASIA

Revenue Q307 vs. Q306



Revenue Growth & Profit Growth



Source: Company reports

RELIANCE RETAIL

Reliance has started Reliance Wellness in Hyderabad and plans to launch 20-odd wellness stores across the country by December 2007. These stores will offer allopathic and holistic (Ayurvedic, Homeo, and herbal) medicines, apart from selling 5,000 OTC wellness products in the areas of health foods, personal care products, and health-related products like books and music. Reliance has also included an ophthalmic section within the wellness center. It has introduced free health insurance coverage as a part of its customer loyalty program, RelianceOne, which already has 1.5 million members

and will in the long run go up to 10 million customers. Reliance will offer cashless hospitalization benefits depending on purchase volumes. It has already launched “digital” and “trends” specialty format stores in the national capital region.

Reliance is divesting Reliance Fresh into a separate company called Ranger Farm. Reliance Fresh has already 350 stores in a year and will reach 700 stores by December 2008. Reliance Retail is also planning to separate its different retail formats into separate companies. Reliance Retail’s logistics division has been discussing with Volvo for a joint venture to cater to its back-end logistics requirements. Reliance Retail’s finance division has signed with Citigroup to set up a nonbanking finance company for offering loans and credit cards for its customers. Citi will be holding majority stake in this venture, which will be set up at an investment of \$110 million USD. Annual credit card spending in India is in the range of \$12.5 billion USD. Companies are lining up to enter the fastest growing consumer finance sector. This is in line with Reliance’s vision that the future growth of Reliance would depend on “an ecosystem of partnership with global companies that can be hugely value accretive.”

Reliance Footprint specialty store has been launched recently, specializing in footwear, handbags, and accessories. It has a private label as well as European and American brands. Reliance Footprint will open 100 such stores by 2010. These stores are expected to contribute 4%-5% of Reliance Retail’s total revenue. The footwear market in India has a growth rate of 10%-11%.

Reliance is spreading into smaller cities. It hopes to expand into 784 cities and expects to launch in 119 cities by December 2008. It has launched its B2B initiative Ranger Farms targeting small retailers. It also has introduced its private labels in several categories apart from food. It has enrolled nearly one million members in its “RelianceOne” loyalty program.

Reliance Retail has signed up with UK-based Ultra Motor to sell Ulka’s light electric vehicle (LEV) through its Reliance outlets. Ultra will be respon-

sible for after-sales services and marketing centers. Reliance Retail is looking to enter jewelry retailing by opening 400 to 500 jewelry retail outlets across the country. It will tie up a sourcing agreement with jewelry manufacturers and is currently negotiating with Gitanjali Group, Intercontinental Gems, and Rosy Blue Group in this regard.

Reliance Retail wants to offer travel services at its retail outlets. It has applied to IATA for accreditation. It intends to open 140 travel outlets, offering the entire gamut of travel-related services. Reliance will tap the Tier 2 and Tier 3 towns in India by providing them better experience in travel planning. Pantaloon has a tie up with Cleartrip, while Reliance Capital, owned by Anil Ambani has a stake in on-line travel portal, Yatra. Reliance is also planning credit card and insurance ventures at its outlets.

Reliance Retail will open 115 apparel stores, stocking nearly 4,000 items under 94 brands, comprising all categories. It has tied up with many apparel manufacturers and employed designers. Organized apparel trade occupies 20% of the \$25 billion USD apparel market in India. Reliance also will soon open footwear, lifestyle, and auto shops. It is talking with US-based GAP for a franchisee agreement for its apparel initiative. There has been no agreement signed yet. GAP already has franchise partners in other Asian countries.

WOOLWORTH

Woolworth reported 8.9% growth in group sales to \$11.7 billion USD and 10.5% growth in consumer electronic sales. Same store sales grew by 6.1% in this quarter. Woolworth has reconfirmed its guidance for the full-year earnings with sales growth between 7%-10%. Supermarket sales grew 8% to \$10.058 billion USD, and the general merchandise division grew 16.5% to \$1.301 billion USD. New Zealand supermarkets had contributed to \$1.07 billion USD in sales, growing 14.7%.

FAST RETAILING

Japan's Fast Retailing is opening a large outlet in London this year after opening stores in New York and Shanghai. Fast Retailing is planning to invest about \$3.4 billion USD for inorganic growth over the next three years to reach its target of \$8.5 billion USD by 2010. It also has bid for Jones Apparel Group in the US. Fast Retailing is planning to open 200 Uniqlo stores in Hong Kong in five years. It already has five stores in Hong Kong. Currently Japan accounts for 90% of the company's sales, while sales from China are expected to reach \$0.94 billion USD by 2012. China's retail sales grew at 10%.

AEON

Japanese retailer Aeon is planning to open 50 shopping centers in China and Southeast Asia, mainly in Malaysia, Indonesia, and Vietnam. Japanese retailers have been facing declining sales revenue because of sluggish economic conditions. Aeon is hence looking to expand into international business to offset domestic sales.

MOTOROLA

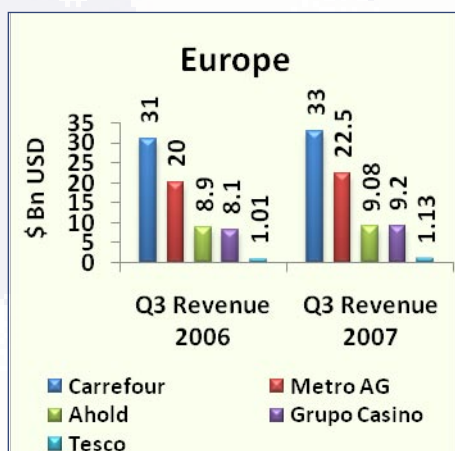
Motorola is planning to enter India by acquiring 400 retail stores by December 2007. Motorola has been faced with falling market share in the US and is looking to India to grow its presence.

MAX HYPERMARKETS

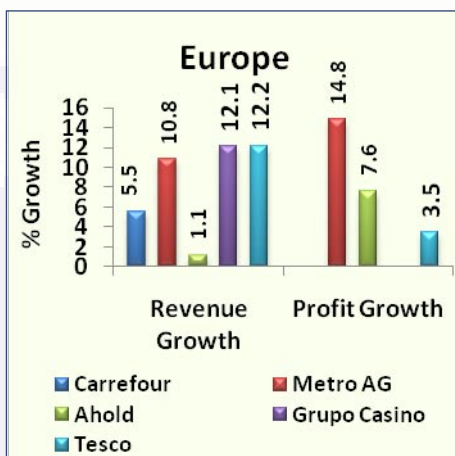
Dutch food retailer SPAR International is entering India through Max Hypermarkets India Private Ltd. Max will invest \$50 million USD in seven SPAR-branded hypermarkets and supermarkets in cities over two years. Max's owner also owns the Landmark Group, which operates more than 60 retail stores in India, and also plans to launch a chain of budget hotels. It is targeting \$1 billion USD revenue by 2010.

KEY COMPETITOR EVENTS: EUROPE

Revenue Q307 vs. Q306



Revenue Growth & Profit Growth



Source: Company reports

MARKS AND SPENCER (M&S)

Marks and Spencer is planning to invest \$2.25 billion USD in India and China in 2008 and is soon expected to open their joint-venture partner in India. M&S is planning to double its international revenues by 2012, like other major retailers. International revenues grew by 13.8%, driven by 12% and 16.5% growth in owned and franchised stores. M&S sources many products from India, Bangladesh, Sri Lanka, and other Asian countries. It will open a store in China in 2008.

M&S sales grew by 6.5% in the first half of 2007 to \$8.5 billion USD for 26 weeks ended 29 Septem-

ber 2007, affected by the summer weather change that led to apparel discounting for all retailers and food wastage. In the first half of their fiscal year though, M&S increased profits 11.5% to \$925 million USD. Net profit grew over 40% to 393.3 million pounds. M&S hopes to increase profits to one billion pounds for the first time in this fiscal year. Same store sales grew 1.6% in the UK, resulting in 5.9% growth in revenues.

Bank of England's five rate hikes since August 2006 and rainy weather affected consumer spending in the UK. Higher mortgage payments are taking a larger share of consumer disposable income, resulting in lesser spending on consumer goods.

METRO

Metro AG's net profit grew by 14.8% in the Q307 over the Q306, while revenue grew by 10.8% to \$67 billion USD in the first nine months. Germany sales grew by 7.4% to \$28,579 million USD, while international sales grew 13.5% to \$38 billion USD in the first nine months. Western Europe grew by 5.4% while Eastern Europe grew by 24.6% in the first nine months.

Metro Cash & Carry revenue increased 6.3% in Q307. Galeria Kaufhof decreased by 1.9% due to uneven weather conditions and effects of VAT increase. Despite the reduction in purchasing power and VAT increase, Germany reported the growth rate by 6.9% in the Q307 compared to the Q306, while in Eastern Europe and Western Europe (excluding Germany) increased by 26.8% and 4.1%. In Asia/Africa, the growth was 27% driven by strong sales growth in all Asian countries.

Metro AG plans to invest \$234 million USD to open eight new wholesale centers in Japan. Metro registered \$146 million USD in sales in Japan in 2006.

Metro in India is allowed to sell only to customers with a sales tax registration number. To drive sales in this segment, Metro is planning to increase private labels share of its products so that it can reach out to more retail outlets and food service businesses in India. Metro is introducing more brands beyond the current two, across food and

nonfood categories. Metro has realized that the food service business prefers to source through its own channels instead of purchasing through an organized source. Hence, it is targeting the 12 million small retail outlets in India. It has plans to enter the Indian dairy sector as well. It has three distribution centers currently.

Fitch has recently confirmed its stable outlook ratings, affirming Metro's "BBB" long-term issuer default and senior unsecured ratings and "F3" short-term IDR. Fitch said that Metro continues to face challenges in the competitive German market. Fifty percent of the voting rights are currently held by the Franz Haniel Group and Schmidt-Ruthenbeck family. Metro is planning to extend its consumer electronics chain into other Scandinavian countries. It recently opened a store in Turkey and one in Sweden earlier this year. Metro plans to add two more Media Markts in Turkey by December 2007, adding to its 20 Media Markt and Saturn stores already present there.

AHOLD

Ahold's sales fell 5.1% in the US while net global sales rose 1.1% to \$9,250 million USD and 5.6% at constant rates. Ahold's sales increased 1.5% to \$31,551 million USD in the first nine months of 2007. Facing stiff competition from discount stores, especially Wal-Mart, Ahold had to resort to price cuts, which are impacting profit margins in its US division, apart from the current renovation costs of its stores. Same store sales at Giant-Landover have fallen 1.8%. Ahold's sales at Albert Heijn, Albert/Hypernova, and Giant Carlisle, rose 11.8%, 11%, and 6% respectively in the first nine months of the year.

Ahold had cut prices in its US Stop & Shop outlets and added more private labels. Ahold is targeting \$701 million USD in cost savings by December 2009. Royal Ahold has repurchased 8,522,426 of its own common shares at a cost of \$127 million USD as part of the \$1.46 billion USD share buy-

back program announced in August. Ahold has so far purchased shares worth \$1.2 million USD.

CARREFOUR

Driven by robust performance in food and consumer electronics in Spain, less deflation in France, and continued strong trends in growth markets, Carrefour's net profit grew by 4.8%. Carrefour increased its revenue by 5.8% to \$32.8 billion USD, driven by acquisitions in Brazil and Poland earlier in 2007. Price cuts in the domestic market, weaker apparel sales, and reduced petrol retailing affected sales in France, declining 2% to 10.4 billion euros in the Q307. Carrefour is expecting organic growth to be 6%-8% in 2008 and hopes to generate 1.5 billion euros in cash flow.

Spanish hypermarket sales accounting for 15% of sales grew 2.5%. In line with Carrefour's strategy of concentrating on key markets in multiple formats, Carrefour's subsidiary Dia had acquired 250 discount stores from Spain's Tengelmann for \$275.4 million USD. The agreement also includes 58 future store projects. This acquisition helped Dia consolidate its position as the market leader in hard



discount stores in Spain.

Europe reported the highest growth of 4.2% because of the strong performance of hypermarkets, while Belgium reported a decline of 4.4% compared to the Q306 impacted by strong market share gains by hard discount competitors. European sales, excluding France, grew 5.1% to \$12 billion USD in the Q307 and 5.9% in the first nine months to \$36,174 million USD. Carrefour had withdrawn from the Swiss market by selling its 50% stake in Distributis AG. Coop Switzerland bought the 50% stake held by Carrefour and Maus Freres in a deal based on equity value of \$381 million USD for the entire Distributis. Carrefour has stated that this move reflected its strategy to get out of its non-core assets.

The Latin America region reported the fastest growth rate by 49.3% in the Q307 compared to the Q306. Latin America sales, driven by the \$1.07 bil-

lion USD Atacadao acquisition, the Brazilian “half” stores, and strong consumption growth in Argentina, grew 53% to 2.61 billion euros. Carrefour had acquired Rede Atacadao for \$1.07 billion USD. It had received \$329 million USD funding from the Brazilian Development Bank (BNDES) and a consortium of banks which includes UniBanco, BNP Paribas, and Banco Votorantim. These funds will be used by Carrefour to modernize its stores, invest in information technology, and open new stores. Carrefour plans to open 20 new stores in 2007. It opened its 146th hypermarket in July and also operates 35 supermarkets and 270 discount stores in Brazil. The Brazilian retail market is dominated by Pao de Acucar, Carrefour, and Wal-Mart. The rest of the market is accounted for by smaller chains. Asian sales grew 13% to 1.54 billion euros with the addition of more outlets in China.

Eastern Europe sales were boosted by the purchase of Ahold’s polish operations, prompting Carrefour to plan another nine superstores in 2007. It recently announced another acquisition in this region, Romanian Artima for 55 million euros. Artima is targeting \$139 million USD in 2007 sales and will add to Carrefour’s \$745 million USD in sales. Romanian grocery sales are expected to grow to \$5.31 billion USD by 2011. Carrefour competes with Tesco and Metro in this market.

Carrefour is No.1 in Middle East, China, Taiwan, Indonesia, and Brazil in hypermarkets. It is carrying out a disposal program to divest \$2.1 billion USD assets in 2007-2008 to maintain a free cash flow of \$2.1 billion USD, and is also targeting a share repurchase program of \$6.3 billion USD to be achieved before 2010. It is planning to leverage its real estate by creating a dedicated real estate vehicle in 2008 and raise around \$4.2 billion USD through stake divestment to institutions and IPO.

Declining sales in Italy have forced Carrefour to put stores worth \$1.4 billion USD up for sale. These stores have currently \$307 million USD in sales. Carrefour Malaysia registered \$0.35 billion

USD sales in 2006. Carrefour is also planning to sell 16 outlets in Belgium. Carrefour is planning to invest \$27.6 million USD in opening 20 hypermarkets in Bulgaria by 2014, targeting 20% market share. Most of these shops will be in malls. Carrefour is targeting \$69.4 million USD in annual sales per store.

TESCO

Tesco Malaysia is issuing 3.5 billion ringgit bonds to repay debt and for general funding requirements. These bonds will be a combination of conventional bonds and Sukuk bonds. This issue is being managed by Standard Chartered Bank Malaysia and CIMB Investment. Tesco has a market share of 7.1% in Malaysia with 18 stores. Tesco Malaysia has been growing steadily post its acquisition of the Makro business. It is restructuring the Makro stores to introduce the Tesco Extra format. Tesco expects to open three more stores in the second half, allowing Tesco to almost increase by 100% its total floor space in Malaysia.

According to the Malaysian Domestic Trade Ministry, Wal-Mart and Metro have applied for permission to open stores in Malaysia. Malaysian government gov-

erns store locations, and retailers cannot open new stores at their own discretion. Malaysia is planning to relax its restrictions on FDI in the \$18 billion USD Malaysian retail market. The government currently governs shop sizes, business hours, and locations of foreign retailers. Malaysia has four big players in organized retail—Giant Supermarket, Carrefour, Tesco, and local chain Mydin.

Tesco is planning 122 stores in Phoenix, Las Vegas, and Southern California with a \$2 billion USD in investment until 2012. The US rollout is based on the Tesco Express format. Tesco is planning to source 60% of its products locally. Tesco has been awarded the European Retailer of the Year for its breadth of 1,100 wines.

Tesco reported 9.2% growth in the first half of 2007 at \$50 billion USD and underlying profit before tax growth rate of 14.3% growth at \$2,697



million USD for the 26 weeks ended 25 August 2007. International sales grew by 22% while trading profit grew by 17.9%, including the fully consolidated operations of China. China contributed \$827 million USD to total sales. Same stores internationally grew by 1.2%. UK sales grew 6.4% while profit grew 8.2%. Tesco's on-line site, Tesco.com, increased sales by 35%. Tesco repurchased \$864 million USD worth of its own shares as part of its \$6.14 billion USD stock repurchase over five years.

Asian sales grew by 26.1% to \$5.9 billion USD, driven by strong sales growth in China, Korea, Thailand, and Malaysia. Europe (excluding UK) sales grew 18.8% to \$3.7 billion USD, driven by strong growth in Czech Republic, Hungary, and Slovakia. UK sales grew 5.4% to \$37 billion USD with same store sales growth of 2.7%. Tesco shoppers faced higher prices among food products according to mySupermarket.co.uk. Uneven weather also contributed to the impact.

Tesco has teamed up with AXA PPP healthcare to offer dental insurance products, both for NHS and non-NHS patients. Tesco has added free accident coverage to the dental coverage and is also planning to offer mortgage to its club card members. Tesco has around five million accounts for its Tesco financial service division, which it services jointly with the Royal Bank of Scotland Group. Tesco is increasing its range of services, since global spending on services is increasing more than spending on goods.

GROUP CASINO

Group Casino's revenue grew by 12.1% in the Q307 over the Q306, and organic sales grew by 1.9%. Convenience stores revenue increased 2.3% in the Q307, while Geant Casino hypermarket sales declined by 2.3%. Latin America had the fastest growth rate for Casino in the Q307 at 110.2%, while in Asia and Indian Ocean, Group Casino grew 4.8% and 0.1%. Sales in France declined by 0.3%.

RUSSIA

South Korean Lotte Shopping opened a store in Moscow at a cost of \$200 million USD. It is offering everything from clothes to furniture, and categorizes customers by their spending volumes. Lotte expects to earn \$5.58 billion USD from the store in 2008. Lotte is also considering another two stores in Moscow and one in China. Lotte ranks 14th among all departmental stores globally, according to In-Stores Magazine. Dell is opening its retail stores in Moscow soon. Dell already operates retail kiosks in China and it has recently announced a deal to sell through Gome's retail stores. It is also selling through Wal-Mart.

KEY COMPETITOR EVENTS: LATIN AMERICA

GRUPO ELEKTRA

Grupo Elektra's revenue grew 13% to \$901 million USD in the current quarter. Gross profit grew 12% to \$446 million USD. Grupo Elektra has obtained banking license to operate in Brazil and expand operations in Honduras and Peru. Banco Azteca increased its revenue by 22% to \$387 million USD. Grupo Elektra is repurchasing nearly 4.2% of its outstanding shares.

Elektra, who was the first retailer to open a bank branch in 2002 in Mexico, has now been granted license by the Brazilian government for banking operations. This license has been obtained through its subsidiary, Banco Azteca, to operate banking services at El Salvador. The success of Elektra has interested both Wal-Mart and Soriana into entering this segment.

CENCOSUD

Chile's biggest retailer, Cencosud, has purchased Brazil's fourth largest supermarket chain by purchasing GBarbosa for \$380 million USD in stock and \$50 million USD in debt. GBarbosa is expected to have 2007 revenue of \$900 million USD and has 46 supermarkets and 9,000 employees. Cencosud reported 12.8% growth in its first nine months of 2007 sales, reaching \$5.123 billion USD. Cencosud is planning to enter the Colombian market in 2008.

Cencosud has refinanced maturing debt by selling \$54.5 million USD of 21-year inflation-linked notes with 4.32% yield to domestic investors. The issue handled by Celfin Capital SA Corredores de Bolsa and Bice Chile Consult was oversubscribed twice. Cencosud is planning an entry into Colombian home improvement market along with French Casino. Cencosud has acquired Argentine con-

struction and home improvement retailer Blaisten for \$15.5 million, pending competition authority approval. Cencosud will gain access to 17% of Argentina's construction and home improvement market, currently held by Blaisten via its nine stores. Cencosud already has 30 Easy DIY stores in Argentina.

It is also negotiating with Wong in Peru. Corporacion Wong, Peru's leading retailer, is negotiating participation in its Lima-based shopping mall project with Chilean retailers, Cencosud, and Ripley. The 200,000 square meters project would be Peru's largest shopping center and will have Anchor stores from the Chilean retailers, who are keen on expanding in fast-growing regions due to strong domestic competition.

SORIANA

Driven by tight cost and expense control, Soriana has increased its third quarter net profit by 4% to reach \$58 million USD. Revenue grew 8.8% to \$1.454 billion USD. Soriana has 247 stores across Mexico. Fourth quarter sales would grow above 4.4%.

Mexico's second largest retailer has cut 2007 sales growth forecasts, attributing it to a cooling economic expansion in the US and Mexico. It has retained its net revenue growth forecast. Soriana is expecting same store sales to grow only between 1% and 1.5% in 2007 against an earlier projected 3.5%. Total sales growth is expected to be only 10%, revised from an earlier 15%. Net earnings growth forecast remains unchanged at 17%. Bear Stearns, which is covering Soriana, mentions that Soriana has to expand its stores to 400 in 2010 to compete with Walmex.

KEY COMPETITOR EVENTS: MIDDLE EAST & AFRICA

LANDMARK GROUP

Dubai-based Landmark Group is expanding into China with a \$25 million USD commitment to open six stores within the next 12 months in and near Shanghai. It will be selling home furniture and children's clothes under its Home Center and Babyshop Brands. The first store to be opened in Shanghai will be the Babyshop. Landmark believes that with the ongoing construction boom, Home Center has great potential to expand. Landmark operates 572 stores in the Middle East, India, Spai, and Pakistan. Landmark is planning to open six stores in Shanghai by 2009. Its India operations are expected to generate an additional \$1 billion USD by 2010.

PICK 'N PAY

Pick 'n Pay group grew its turnover by 16.9% to \$21.76 billion USD in the six months ended August 31, 2007 with a trading profit growth of 26.8% and 2.6% trading profit margin. South African operations grew 16.3%, driven by inflation and foreign exchange gains in some international operations. Pick 'n Pay opines that it is still underrepresented in emerging markets where their competitors are gaining ground. It also opined that the next six months will report higher food prices.

South African Pick 'n Pay will be converting Score stores into 80 new Pick 'n Pay franchise stores. Pick 'n Pay has reported strong growth in sales earlier whenever a franchised brand converted to Pick 'n Pay brand. The rebranding will take place over a period of 2-3 years. Score has stores in South Africa, concentrated in Limpopo, Mpumalanga, Gauteng, Northwest, and Free State with selected stores in the other provinces. Most of the score stores service the lower income segment of the markets.

In Dubai, MAF shopping malls reported a 38% increase in sales at AED1.6 billion in the recent Dubai Summer Surprises 2007, compared to 2006, driven by the influx of 10 million visitors.

ISTITHMAR

London-based sports retailer LillyWhite is entering UAE through a master franchise agreement signed with Retailcorp, an Istithmar group company. LillyWhite's parent, Sports Direct, currently gets revenues of GBP 1 million per day. Retailcorp will position LillyWhite as a premium lifestyle brand and target four stores in the UAE and three to six stores in South Africa. This will help Retailcorp consolidate its position in the sporting goods sector in the Middle East.

SAVOLA

Savola Group of Saudi Arabia is planning to double its Azizia Panda supermarkets to 130 by 2010 to stave of competition from Carrefour of France. It currently has 60 Panda stores and hopes to add five more by December 2007. It will continue to add stores in regions where it does not have a presence. French Retailers, Carrefour, and Geant Casino are giving tough competition to Savola in Saudi Arabia. Savola is planning an IPO in 2010.

CARREFOUR

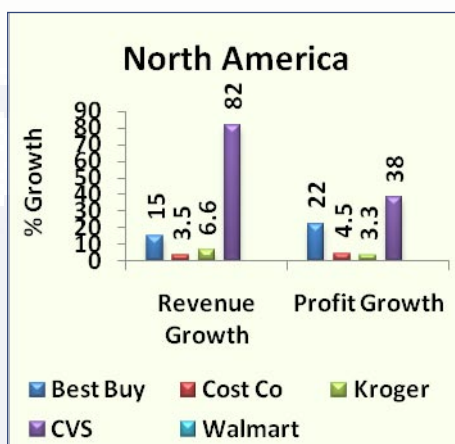
Carrefour has launched a Ramadan initiative by staking 50,000 items for sale, including a range of groceries with heavily discounted prices in Saudi Arabia. Carrefour states that it offers 8%-15% lesser prices than its competitors with better quality and choice. It is contemplating four more outlets in Saudi Arabia in a month and plans to launch 20 stores by 2014. Carrefour opines that stores being built by domestic rivals may not sustain competition and may wither away, pointing out that some supermarket chains with prestigious brands are already suffering losses. Carrefour is the market leader in gulf retail. Carrefour states that nearly 40% of its customers are expatriates in the gulf and that store registers 6,000-8,000 customers daily.

KEY COMPETITOR EVENTS: NORTH AMERICA

Revenue Q307 vs. Q306



Revenue Growth & Profit Growth



Source: Company Reports

BEST BUY

Buoyed by the success of its mobile store venture with Carphone Warehouse, Best Buy is planning to roll out this concept to 1,000 sites by 2009. Carphone has 2,000 mobile stores in Europe. Under the alliance, Best Buy is responsible for the store deployment in the US and Carphone gets a share of the profits. Nokia had opened its largest and only standalone store in China. Nokia's concept is similar to the Best Buy mobile store. Best Buy had recently purchased 3% stake in CPW's total outstanding common shares for \$183 million USD.

Best Buy is planning its second Shanghai store in 2008. In China, Best Buy has plans to increase its

stores to somewhere between 800-1,000 in the next three to five years. Best Buy would focus on up-scale markets in Tier 1 cities and mid-end markets in Tier 2 and Tier 3 cities under the Five Star brand. Best Buy had purchased the Five Star Appliance company in 2005.

Best Buy, in partnership with webhosting company Mydeo, has launched a new on-line video sharing and storage service titled "Best Buy Video Sharing." This service will compete against several on-line video-sharing Web sites on the Internet such as You Tube. Best Buy is differentiating its subscription-based service by offering permission-based sharing, full ownership, and an ad-free environment. The basic plan starts at \$6.97 USD for 100 minutes of hosting. This service expands the on-line services of Best Buy, which include Best Buy Digital Music Store and Best Buy Photo Center.

Sales increased 15% to \$8.8 billion USD in the Q307, driven by new US store openings, 16.3% growth in international segment sales, and a 3.6% gain in same store sales.

Domestic same sales grew by 1.7%, but revenue grew by 9% to \$7.2 billion USD. Operating income grew by 8% in the Q207 (second quarter for Best Buy's reporting period). On-line revenue grew 22% in the US for Best Buy. Effective pricing and retail execution drove the domestic segment sales, though offset by lower margin computing and video gaming sales. Home theater sales registered strong gains for Best Buy. China operations contributed to 30 basis points of the operating margin decline.

International segment revenue grew 54% to \$1.5 billion USD, driven by 16.3% growth in Canadian revenues, currency exchange gains, and new store openings. Best Buy is continuing investments in new stores in China, Turkey, and Mexico. Same store sales for consumer electronics and appliances decreased in the Q207. Home office and entertainment software categories accounted for increased sales in this quarter.

Best Buy also extended its strategic alliance with HSBC to increase rewards for its consumers. Its

board in June had approved a \$5.5 billion USD share repurchase program. In this quarter, Best Buy repurchased 56.8 million shares of its common stock.

Best Buy has taken up a new program to improve its relationships with business users. It has introduced a new offering called “professional series,” which are business-oriented products. The professional series will be separated from normal products through both its on-line and offline channels. Best Buy estimates that in 2006, around 3.5 million business users shopped in its stores. Apart from this separate offering, Best Buy has also doubled its rewards, allowing business customers to earn more than twice as Best Buy’s traditional reward program

KROGER

Kroger’s net profit grew by 3.3% in the Q307 over the Q306, while revenue grew by 6.75%. Kroger’s employees in Southern California have ratified a four-year contract under which Kroger will increase wages and provide more healthcare benefits. America’s Second Harvest has awarded Kroger with the “Retailer of the Year” award, citing Kroger’s donation of 30 million pounds of food and other needed products. Kroger donated \$150 million USD in 2006 towards hunger relief efforts. Kroger also signed tentative agreements with United Food and Commercial Workers covering unions in Ohio, Kentucky, and West Virginia.

Kroger and Hilex Poly have launched a major plastic recycling program called “Bag2Bag,” Kroger’s proactive green initiative to reduce pollution caused due to plastic bags. Kroger is expanding into organic products by adding 60 more items. Kroger’s Private Selection organic products always carry the USDA organic-certified seal, assuring at least 95% of the ingredients used are organic.

Kroger is also offering cheaper gas to frequent shoppers. It recently signed an alliance with VeraSun to become the first national retailer to offer VeraSun’s branded E85. (Currently, Kroger has 40 locations in Texas, Ohio, and Kentucky offering E85). Kroger is also increasing its financial services business. Kroger stores now offer home

mortgages, loans, and several types of insurance coverage.

COSTCO

Costco reported same store sales growth of 9% with US same store sales registering 7% gain and international same store sales growing by 17% in the recent quarter. Costco reported a 7% increase in sales for the 52 weeks ended September 2007 to \$58.96 billion USD. Same store warehouse sales grew 6% in the year. Net income declined 1.8% to \$1.08 billion USD. Same store sales in the US grew by 5% in the fiscal year ending September 2, 2007, while international sales grew 9%. Costco plans to set up powerful warehouse chain stores in Australia.

TARGET

Target same store sales have grown 4.1%, driven by strong sales in its electronics and healthcare business. Sales for the four weeks ended November. Three have grown 9.7% to \$4.45 billion USD. Target expects same store sales in December to be between 3%-5%.

MACY’S

Macy’s sales in the Q307 increased 0.4% TO \$5.910 billion USD, while its sales for the year declined 0.5% to \$17.723 billion USD. Macy’s same store sales were down 0.8% in third quarter sales and declined 1% in year-to-date sales.

Tommy Hilfiger US has given exclusive retail access for its fall 2008 men’s and women’s sportswear to Macy’s. Tommy Hilfiger will still sell its products at its own free-standing stores and its on-line Web site. It will allow its licensees to sell products on a nonexclusive basis.

Macy’s had earlier rolled out its largest brand rollout, the Martha Stewart Collection. The brand replenishes Macy’s home assortment section and distinguishes it from other brands. From bed and bath textiles down to cookware, the Martha Stewart Collection has a wide range and has been designed exclusively for Macy’s customers. It also signed up singer, Usher, for a fragrance line. It also signed up Chef Emeril Lagasse and entertainer Sean (Diddy) Combs.



Macy's joins other retailers signing up with apparel brands for signature store brands. Kohl's had recently signed up an exclusive clothing line by designer Vera Wang and kitchen gadgets under the Food Network brand. JC Penney signed up Liz Claiborne and Polo Ralph Lauren's brands.

WAL-MART

Wal-Mart reported an 8.8% increase in net sales for the Q307 and an 8.6% growth in the first nine months at \$268.257 billion USD, driven by strong growth in the US stores and Sam's Clubs and the growing pace of international sales. International expansion will have a capital allocation of \$4.5 billion USD in 2007 and \$5.3 billion USD in 2008. Wal-Mart will be increasing focus on health and wellness, electronics, and groceries, which are yielding strong results. Wal-Mart is offering brand name electronics. It also recently signed up with Dell. Sales in the electronic division grew by 4.6%. Sales in the four weeks ending November 2, 2007 grew 8.2% to \$27.92 billion USD. Walmex same store sales fell 1.2% in October. Sales in October rose 5% to \$1.65 billion USD.

Wal-Mart is investing \$862 million USD to acquire the remaining 41.1% stake in its Japanese subsidiary, Seiyu, to make it a 100% subsidiary. Wal-Mart is expected to spend \$15 billion USD in capital spending in 2008, most of which will go into increasing its international presence until 2009. Most of the international expansion will be in China, Canada, and Mexico. In the US, the focus will be on relocation and expansion of existing discount stores to super centers. It will open 195 super centers in 2007 and 170 in 2008 since they have a higher rate of return. It will also open 25 new Sam's Clubs in 2009 and 2010.

Wal-Mart has repurchased \$5 billion USD of stock as part of a \$15 billion USD authorization to repurchase stock. Wal-Mart will open 1,000 money centers in the US by the end of 2008.

Walmex will be opening its banking branches in its stores by November and offer savings accounts, debit cards, and loans to target Mexicans who currently do not have access to banking services. It plans to open 10-15 branches in 2007. It had re-

cently received regulatory approval for the same.

Wal-Mart will invest \$203 million USD in opening 19 new stores in Brazil, in addition to its 297 stores already in Brazil. The total investment slated for Brazil is \$509 million USD with plans to open nine more units, apart from 19 drugstores by December 2007. Wal-Mart expects to create 6,000 jobs due to its new store openings. The current expansion is in northeast Brazil, where Wal-Mart has already invested \$76 million USD in the preceding three years. Wal-Mart will spend \$35 million USD modernizing existing stores. A recent Global Insight report said that Wal-Mart saves American families \$2,500 annually, which translated into \$287 billion USD in savings in 2006. Wal-Mart saved \$610 million USD in prescription drugs so far via its \$4 USD drug program. Wal-Mart money centers saved customers about \$250 million USD.

Dell Agreement: Dell entered a retail distribution agreement with Wal-Mart. Dell will build sub-\$700 desktops exclusively for Wal-Mart. Falling market share has forced Dell to drop its insistence of "Direct to Customer" model for the first time in 15 years. In India, Canada and China, Dell would be soon selling through retail stores.

Wal-Mart Environmental Focus: Wal-Mart is leading the "greener" initiatives by pressuring its vendors to disclose and manage their carbon emissions, by making its stores environmental friendly and by selling more natural and organic products. It recently completed sales of 100 million compact fluorescent light bulbs. It is also going to sell only concentrated laundry detergents in all its stores by May 2008, thus saving 400 million gallons of water, 95 million pounds of plastic resin, and 125 million pounds of cardboard. Wal-Mart had witnessed good success with Unilever with concentrated detergent. Hence, it has adopted a supplier-wide goal to use only concentrated detergent. Wal-Mart has a sustainability officer who oversees energy and cost efficiency in reducing costs by adopting more natural methods. A recent Global Insight report states that Wal-Mart saves American families \$2,500 USD ever year.

HOME DEPOT

In an effort to stunt its earnings decline due to weak sales and to utilize their spare cash, globally



companies are implementing share repurchase programs. Home Depot is now halfway through its \$22.5 billion USD recapitalization plan. It recently floated a tender for 250,000 shares. Home Depot sold its wholesale units, HD Supply, to a private equity consortium (formed by affiliates of Bain Capital Partners, The Carlyle Group, and Clayton, Dubilier & Rice) for \$8.5 billion USD with a guarantee to purchase 12.55% equity for \$325 million USD and guaranteeing the \$1 billion USD senior-secured loan of HD.

NEW PRODUCTS AND TECHNOLOGY

CARREFOUR

Carrefour, a French retailer, has launched “5 minut” chain, a new store format in Poland. In the initial stage, 20 to 40 stores are going to be established. Carrefour is planning to develop the Carrefour Express chain with the help of partnership contracts. Carrefour also intends to extend its 34-strong fuel station chain by adding four new establishments by this year-end, and another eight in 2008.

TESCO

Tesco has launched the Greener Living brand, a new environmental brand that comprises products made from recycled materials. One of these products will be bin liners made from recycled plastic. Some other products of the brand include energy-saving light bulbs and an energy-saving eco-kettle. This new environmentally friendly brand also includes a new Greener Living Web site, an interactive site that will help educate and engage anyone who wants to live a more environmentally sustainable lifestyle.

WAL-MART

Wal-Mart has announced the launch of two new home brands—the Canopy brand and the Better Homes and Gardens brand. The Canopy brand, a casual private label brand, will launch essential home decor goods in February 2008 covering bedding, bath, table linens, rugs, dinnerware, furniture, and lighting. In the fall of 2008, Better Homes and Gardens will be launched with an exclusive multi-year licensing agreement with publisher Meredith Corp. Merchandise will feature colors, patterns, and designs focused on traditional style and will include bedding and throws, bath accessories, dinnerware, kitchen textiles, and decorative pillows.

SAINSBURY'S

Sainsbury's has launched Cleanhome, a range of own-label “green” household cleaning products. The seven Sainsbury's Cleanhome formulations

use sustainable natural ingredients that deliver outstanding cleaning performance, and these products are environmentally responsible and economical as well. They have been developed in unification with Added Value, a research and brand development group.

HOME DEPOT

Home Depot has launched a pilot program in California where two store locations were reworked as “design centers” to please their female customers. These will be the first ever Home Depots that aim to please female customers. The design centers sell fewer lumber and heavy tools and focus more on finished furniture, design services, and managerial tools. The centers have also been revamped aesthetically with homier color schemes.

KROGER

Kroger has started \$4 USD generic drug programs in conjunction with Wal-Mart and other big retailers. Thereby Kroger offers inexpensive generic drugs to its pharmacy customers for \$4 USD per prescription for more than 300 generic drugs prescribed for 30-day supplies at its 76 stores in and around Toledo, Ohio. The list includes common alternatives for some of the most generally prescribed drugs used to treat diabetes, asthma, depression, heart disease, thyroid and other health problems. Separately, Kroger will offer generic versions of the family planning drugs Ortho Cyclen and Ortho Tri Cyclen (28-day supply) and a fertility drug for \$9 USD.

BEST BUY

Best Buy has launched an on-line-based video-sharing program that allows customers to store and share home movies and videos over the Web. To offer the subscription-based service, Best Buy will partner with UK-based Mydeo, a provider of streaming video. Users can upload personal videos for sharing on Web sites and blogs or to send via e-mail. Plans begin at a base rate of \$6.97 USD for 100 minutes of video hosting and video lengths of up to 30 minutes each.



BUSINESS OPPORTUNITIES

RETAILERS AND CREDIT CARDS

Target Corporation has asked Goldman Sachs to review its \$7 billion USD credit card receivables business for other ownership alternatives. Target is also evaluating use of debt in its capital structures and the pace of its share repurchases activity. Target is keen on maintaining its current credit ratings. Hence, it will be evaluating sale proceeds investment options should a credit card sale review be given. Target had increased its Q307 revenue 9.5% to \$14.6 billion USD.

Many retailers including Macy's, Sears, and Kohl's had sold their credit card businesses in the past couple of years citing difficulties in maintaining them, apart from the opportunity to raise cash in a credit buoyant economy. Only a few like Target, Nordstrom, Charming Shoppes, Neiman Marcus, etc. still hold their credit card business. Even Wal-Mart contracts with banks that hold the debt and profit from interest payments. In today's market, where credit defaults have risen due to the housing market crisis, hanging on to a credit card business which is not a core competency might have dawned on Target (10th largest credit card issuer in US), though Target's credit card business is still a profitable division that generated a 34% increase in operating profits in the Q207 compared to 2006.

According to CFRA, the rise of troubled accounts at Target though has risen faster than the industry average, rising to 9.35% in July compared to 7.07% in February of 2007. Target has also mentioned in its recent quarterly report that it registered a growth in "late fee" income, pointing out problems in repayments. The credit card industry overall has been witnessing credit defaults with only a few major credit card companies posting higher profit growth compared to 2006. Stock market analysts have lent support to Target's de-

cision to review selling this division, though they feel that Target could have gotten a better price if it had sold before the sub-prime bubble burst. Banks might be interested in Target business and so might be GE Money. GE Money already serves a lot of leading retailers.

The National Retail Federation is pushing for credit card companies, not retailers to store credit card numbers. Citing the TJ Max credit information theft, NRF is pushing the onus of responsibility for protecting data on credit card companies. In Canada alone, credit card fraud is costing institutions about \$250 million USD every year. Since retailers do not thoroughly check proof of identity, it is easy for anyone to apply in someone else's name if they have the social security number and knows some basic details about the victim. Also, because many retailers like Home Depot offer six months of no payment and even sometimes 12 months no payment options, the fraud goes undetected for longer.

Lawmakers in California have also approved a recent proposal (pending governor's approval), asking credit card issuers to reveal to consumer victims the retailer's name where the leakage happened. Business lobbies are protesting this proposal, citing potential suits against retailers.

UK RETAIL HEALTH

Building on the Minute Clinics in the US, the UK may soon have clinics managed by retail chains. The Under Secretary of State for Health has recommended to the government in his "NHS Next Stage Review" report to open up GP services to private service providers to meet the demand for GP services. Virgin Group, Boots, Lloyds Pharmacy, Tesco, etc. are interested in setting up "satellite GP clinics" in convenient locations across the country. Time spent at the doctor office amounted to 3.5 million working days in the UK, according to the Confederation of British Industry who also said



that outdated GP services were costing the economy about \$2 billion USD a year in lost output.

RETAIL-INSURANCE CREDIT

Sainsbury has entered into a partnership with PruHealth, a private health insurer. According to this alliance, Sainsbury customers with PruHealth insurance get to earn “vitality points” whenever they shop at Sainsbury’s 779 stores in the UK. At the end of the year, these points are redeemed against premium renewals. PruHealth already has Boots, Virgin Active, LA Fitness, Nuffield Proactive Health, Allen Carr’s Easyway, and Cannons as partners for its scheme. With a cap of 10 points per week for an individual and 20 points per family per week, every \$4 USD spent on fresh fruit and vegetables will yield one vitality point.

CROSS-COUNTRY EXPANSION IN THE MIDDLE EAST

Middle East retailers are expanding beyond their domestic shores facing intensive domestic competition from foreign retailers and also to cash in on the huge retail spending across the Middle East countries. The industry is witnessing higher levels of concentration due to both domestic and foreign retailers expanding their penetration and opening new stores at an aggressive pace. In Saudi Arabia, Panda is expected to hold fort though it is as well expanding to stave off competition from Carrefour and Casino. Carrefour is expanding its current network in UAE and Saudi Arabia while targeting new stores in Kuwait, Jordan, and other countries.

UAE-based Easa Saleh Al Gurg Group (ESAG) is planning to open six stores in Abu Dhabi, covering an area of 70,000 square feet, focusing on home furnishings, household appliances, and fashion, with plans to bring in foreign brands as well. ESAG believes that with rising consumer spending, Abu Dhabi is becoming an important place for retailers. ESAG stores will have the same products as their Dubai stores. It is planning more expansion across UAE soon.

Abu Dhabi-based EMKE Group, who operates the Lulu hypermarkets, has opened its first store in Manama, covering 175,000 square feet. Lulu is

expanding into Bahrain with this project covering everything from vegetables to appliances. Lulu is planning to invest \$68 million USD in Bahrain in various projects in 2008. Lulu is the market leader in Oman and has significant market share in Yemen and Kuwait. It is aiming to cover seven regional markets. Bahrain is one of the latest ventures, while Qatar is high on its list of priorities apart from targeted expansion in Saudi Arabia and Kuwait. The Bahrain government has liberalized markets, thus contributing to retailer’s growth. Bahrain has a huge expatriate population from Europe and the Far East who are stoking the interest for appliances and electronic items.

UAE-based Lootah Group will be investing \$54.5 million USD in opening four stores in Dubai under its flagship brand SouqExtra by the Q308. It will follow this with the opening of four more outlets in other places in Dubai, apart from expanding to other GCC countries in 2009. Lootah has already begun work on the four SouqExtra locations in Dubai. SouqExtra are neighborhood centers with integrated primary services like a high-end grocery, children play area, fast food outlets, coffee shops, full-fledged gymnasium, salon, photo shop, and community hall. These centers are designed to avoid trips to large supermarkets or malls.

Dubai-based Istithmar has completed the acquisition of Barneys New York from Jones Apparel Group for \$945 million USD in cash. Jones expects to raise post tax and transaction expenses, nearly \$840 million USD in cash, which it will use to retire short-term debt and to repurchase \$400 million USD of its outstanding stock.

PRIVATE LABELS IN INDIA

Indian retail majors are increasing the share of private labels in their retail sales. Driven by competitive pressures to keep prices low, all retail majors have preferred to produce their own brands in pulses, soaps, detergents, grains, spices, and now venturing into even juices. Reliance Retail is keen on extending its private label beyond foods. It has already started its staples private label under “Reliance Select” and will be soon launching its private labels in jewelry, apparel, footwear, etc. Pantaloon and Subhiksha have their brands across many FMCG categories and even appliances. Food Ba-



zaar is planning its own juices and food products.

Indian retailers are counting on the weak brand loyalty for essential goods to drive the growth of their private labels. In sharp contrast to the mass market brands where emergence of private labels can threaten FMCG companies, in the high-end premium segment in urban markets, FMCG companies are witnessing strong pickup with retailers. Nearly 50% of the high-end product sales are coming from the retailers in metro cities. All FMCG companies are therefore introducing higher priced variants of their brands. Retailers are using in-store advertising and guaranteed low prices to push their products.

WAL-MART'S PRESCRIPTION PROGRAM

Wal-Mart's \$4 USD generic prescription program, which shook the entire pharmaceutical industry, has achieved good success and Wal-Mart is expanding this program by 10% by adding drugs covering more areas. Post Phase II, 361 products and 157 medication compounds are currently available. Wal-Mart claims that it has returned \$613.6 million USD in healthcare savings due to its low-cost generics and that the low-cost program was a profitable business and not a publicity stunt as alleged by its competitors. Texas and Florida recorded the highest level of savings. Wal-Mart expects the \$4 USD generics to account for more than 40% of prescriptions filled at its pharmacies. It is offering fertility and birth control pills at \$9 USD, compared to the national average price of \$24-\$30 USD. Wal-Mart is offering the generic equivalents of medicines like Lamisil priced at \$337 USD and Carvedilol priced at \$119 USD for just \$4 USD. Prescription drugs overall have been witnessing failing rates in the US because of the generic drugs adoption program.

RETAIL HEALTHCARE

Minute Clinic, the pioneer of retail healthcare has become a participating provider with Assurant Health, which serves 1.1 million people across the US. Assurant Health members can receive in-network health services from Minute Clinic. Already, 45 insurance providers are covered in CVS-owned

Minute Clinic services. Open seven days a week, 250 Minute Clinics spread across the nation have had one million patient visits. Minute Clinic offers treatment for common illnesses and provides common vaccinations.

RETAIL AFRICA

South Africa is expected to report reduced retail sales, primarily due to the effect of increased interest rates which was done to rein in inflation. The Bureau for Economic Research (BER) in a recent release said that the retail confidence index slipped to 84 points in the third quarter from a record high 91 in the second quarter. The business conditions though remained at a satisfactory level. BER noted that higher interest rates have seen decreased consumer spending in apparel, furniture, and household appliances. Strong employment and the wage rate hike have kept food prices high in a vibrant manufacturing economy.



South African Currency

Sub-Saharan Africa has seen flat retail sales, but North and East Africa have been witnessing a strong rising demand in sales. French retailers occupy the second largest share after South African retailers in this region. According to a recent report from World Bank, Kenya and Ghana are among the world's top 10 business reformers, and Mauritius is Africa's easiest place to do business. The Kenyan government in its recently unveiled 2,030 development strategy has emphasized the creation of a free trade port for the regional market to grow wholesale and retail trade among one of its 20 flagship projects. The government will also promote wholesale hubs where large-scale producers can sell their products in bulk. Small-scale players will

be helped to organize in new markets to help them grow.

In Kenya, Nakumatt holds the leading market share and it is planning to expand through East Africa. Manufacturing in Kenya has become hard and all FMCG companies are exporting to Kenya from nearby locations or locally manufacturing them. Unilever though has its tea estates still in Kenya. Business confidence though is highest in Kenya among East African countries, according to the Business Leaders' Confidence Index by Steadman Group, a regional market research company. Business leaders in Kenya, Uganda, and Tanzania are expecting to increase their profits in the second half of 2007 compared to the second half of 2006.

Nakumatt's competitor Uchumi Supermarket is struggling to raise capital. It recently failed to raise \$9.7 million USD from shareholders through a debenture. Hence, it is roping in an investment banker to find a strategic investor who can invest the \$9.7 million USD to boost Uchumi's capital base, which has declined due to intensive competition and heavy losses over the years. PTA Bank and Kenya Commercial Bank have the right to sell off Uchumi to recover the Sh950 million that was due to them. However, improved sales in the preceding few months might help Uchumi to recover through strategic investment. The 2006 Kenya economic survey estimated that consumer spending increased by 11% and stood at \$0.01 trillion USD. This might attract private equity companies to take stake in Uchumi.

ShopRite has presence in 15 countries, while Massmart is planning to enter Angola making it its 14th country of operation. Ghana, Nigeria, and Angola have had a GDP growth rate of 10.4%, 5.73%, and 20.5%. Because of their oil reserves and stability, these three countries offer good growth prospects. Retailers are noticing that due to growing incomes, more consumers are moving into the affluent category. Hence, they are "upgrading" products for the affluent market.

MASSMART

Massmart, along with ShopRite, are facing food shortages and are struggling to meet consumer demand.

Massmart is planning to make an entry into Angola, making it the 14th African country where it has operations. It will launch the game brand initially in Angola and extend it to six stores initially. In Nigeria, it is looking to expand beyond just a game store. Angola had a GDP growth rate of 14% for the preceding three years and, apart from having rich mineral wealth in oil and diamonds, is more stable. Massmart is taking calculated risks in expanding its brands beyond the proximity of South Africa, taking into cognizance logistical difficulties and the rand's volatility.

Massmart's strategy is to enter initially former colonies since they would have the same environment as South Africa. It is planning to add a total of 50 stores by 2011. Massmart would be spending \$47.9 million USD in new stores and \$39.2 million USD on improvising existing stores. It now has a total of 238 stores. Massmart is also seeking to add financial services to its portfolio. Massmart had earlier streamlined its nine brands into four divisions and is now searching for opportunities to create a fifth division. It wants to maintain its focus on food, liquor, and furniture retail.

In order to curb the number of Canadians shopping in the US, Canadian retailers have finally lowered prices across several categories bringing them down to US levels. Wal-Mart has cut prices across several categories. A rising Canadian dollar has increased the vehicle selling price difference between the US and Canada as high as 40%. For Honda cars, it was nearly a \$9,000 USD difference. Stirred by the increasing number of Canadians buying cars in the US, automobile manufacturers have denied Canadian exports making it difficult for Canadians to buy vehicles in the US. Bombardier had imposed a \$3,000 USD surcharge on its vehicles, making it difficult for selling to Canadians. These are manufacturers' attempts to protect their Canadian dealers. The price gap is high by 50%-60% on printed material leading to an 18% jump in US parcels coming into Canada in September. Since most suppliers charge retailers in the Canadian dollar, the profit remains with the supplier.

The Chinese provincial government of Guangdong has stated that it would support local businesses who wish to launch a mass defamation suit against Mattel for the damages caused by its mass recalls of Chinese-made toys. The US task force investigating the toy recall event had recommended tighter inspections and orders based on supplier ratings. China is not ready to accept the legitimization of the US product recall action. Many toy manufacturers in China had gone bankrupt due to Mattel recalling its toys. The fallout of this issue is important to US retailers who source many goods from China.

Mattel had recently apologized to the Chinese government by voluntarily claiming 85% of the blame for its toy recalls. Mattel is willing to make out-of-court settlements or settle even before they reach court rather than get entangled in legal suits.

OPPOSITION TO LARGE RETAIL CHAINS

Opposition to large box retail is not just against foreign retailers, but also against domestic retailers as well. The government has once again ruled

out FDI in retail. The commerce ministry has also asked the ministry has asked ICRIER to study the impact of organized retail on small store retailers. The Indian retail sector is the second largest employer in the country and much of that employment is in the unorganized segment. The government wants to ensure that there is not any job displacement because of the entry of organized retail. There is fiercer opposition to retail chains entering into direct sourcing contracts with farmers. This opposition is mainly from local politicians and businessmen who control the "trading houses" where farmers sell their produce. Reliance retail is facing opposition in the states of Uttar Pradesh, Orissa, Kerala, and West Bengal, the latter two having communist governments. The government of Uttar Pradesh and Kerala are also opposed to letting in large retail chains in the state.

Reliance has pulled out of the state of Uttar Pradesh after vehement protests against the company. It has also dropped its plans to source directly from farmers and has said that it will source from farmer cooperatives instead of directly from the farmers as originally planned, due to protests from farmer associations.

METRO

Metro is facing a potential license violation in India. Karnataka state government has asked Metro AG to stop its Bangalore cash and carry outlet from selling directly to consumers of cooperatives, allowing sales only to institutions. "FDI Watch" had filed a public interest litigation against Metro stating that it was selling to cooperatives formed by IT employees.

GERMANY

The German corporate tax reform is hurting German retail trade business, according to the Association of German Chambers of Industry and Commerce (DIHK) and the Association of the German Retail Trade (HDE). The primary reason for the current protest is that leasing rates are being counted as trade earnings, leading to higher trade taxes.

According to HDE, downtown retailers and local businesses are being made to bear higher tax charges. This is affecting existing retailers and those already in losses.

HDE estimates that nearly 250,000,000 small and medium-sized entities are being affected by the tax. HDE is requesting the government to review the reform since tax revenue targets have already been met by collected tax receipts by a wide margin of \$84.1 billion USD.

VIETNAM

Vietnam has also FDI restrictions, but the restrictions are expected to be gradually relaxed during the next 3-4 years. This is because of Vietnam's entry into the WTO. From January 1, 2009, companies will be allowed to enter the retail sector and to form joint ventures with Vietnamese firms or set up one-hundred-percent-owned subsidiaries. Vietnam's consumption expenditure is expected to be around \$53 billion USD in 2010.