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RETAILLING WITHIN THE E.C.

Philippe MOATI

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"Dynamique des Marchés" Department

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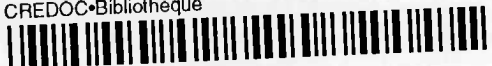
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RETAILING WITHIN THE E.C.

Philippe MOATI

"Dynamique des Marchés" Department

31st October 1991

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TABLE OF CONTENTS

INTRODUCTION.....	1
I - THE SITUATION OF THE DISTRIBUTION IN THE EEC.....	3
A - THE IMPORTANCE OF THE DISTRIBUTION SECTOR.....	3
C - ANALYSIS OF DISTRIBUTION STRUCTURES.....	7
GERMANY.....	7
GREAT BRITAIN.....	11
FRANCE.....	12
THE NETHERLANDS.....	12
BELGIUM.....	12
ITALY.....	13
SPAIN.....	13
D - NATIONAL AND EUROPEAN POLICIES AS REGARDS DISTRIBUTION.....	14
1) NATIONAL POLICIES.....	14
2) EEC DIRECTIVES.....	16
E - THE MARKET PENETRATION OF NON-EEC CAPITAL.....	18
II - RESTRUCTURATIONS OF EUROPEAN DISTRIBUTION.....	21
A - THE CAUSES AND TARGETS OF RESTRUCTURATION.....	21
B - A FEW EXAMPLES OF FINANCIEL OPERATIONS.....	23
C - ANALYSIS OF THREE MERGERS IN PARTICULAR.....	25
D - THE OPPORTUNITIES GIVEN BY RESHAPING.....	26
III - ANALYSIS OF A NUMBER OF GROUPS.....	29
A - SAINSBURY (GREAT BRITAIN).....	29
B - ALDI (GERMANY).....	32
C - CARREFOUR (FRANCE).....	34
D - LA RINASCENTE (ITALY).....	36
CONCLUSION.....	38
RIDER DEFINITIONS.....	40

INTRODUCTION

Europe, with its 12 members and its 327 million inhabitants in 1990, is the first market in the world. The population density is high (144.7 inhabitants per Km², 26.3 in the United States, 329.3 in Japan) and the purchasing power is considerable (the final consumption per inhabitant was of 7,588 ECU in 1988, 10,982 in the U.S.A. and 11,004 in Japan).

However, the geographical, political, economical and cultural fragmenting of the Community makes it difficult to consider the European market as a unit. Although 1993 should be an important step towards unification, the process is still far from its result.

The impression of fragmentation is even clearer when one analyses distribution. The essentially local nature of distribution (that is to say to offer the consumer, where he is, a number of goods and services that can be produced elsewhere) had the consequence that the homogeneization process, from an European point of view, has been slower than in industry. Thus, the characteristics of the commercial apparatus in each country are still strongly influenced by economical and social specificities. After having remained for a long time very craftsmanlike, trade only started giving birth to economically important groups quite late and its' expansion was clogged (more or less from one country to another) by a regulatory framework aiming at protecting small traders. The results of this is that there is only a small number of big groups specialized in retail distribution in Europe. Most of them concentrated the main part of their activities on their national market, and internationalization of European distribution groups is relatively recent.

Yet, European distribution is going through an intense period of reshaping. Since about twenty years, modern trade, of which the principle is concentration of purchases and sales on large areas, has achieved its breakthrough in most EEC countries. It has thus compelled traditional trade to fall back and to adapt to the new circumstances. At present, in certain European states where penetration of modern distribution is particularly strong, groups having obtained a considerable economic importance now are confronted with the problem of rapid expansion on a market that is growing

slowly and where opportunities to gain new shares of the market are lesser than in the past. These groups thus try to answer this problem through diversification, internationalization and external growth. The execution of these strategies goes with a number of reshaping operations and mergers. European distribution structures are undergoing a considerable change. They are concentrating in all countries and the areas of influence of the giants that have appeared are starting to interpenetrate. Competition is becoming more and more active and the key-factors of success are more and more difficult to achieve. The unification of European distribution is now being set up. This unification is hardly an effect of European Directives, that are particularly limited in this area ; it is mainly the result of an economical logic that makes it unavoidable.

I - The situation of the distribution in the EEC

A - THE IMPORTANCE OF THE DISTRIBUTION SECTOR

This sector totals in average 12.5 % of the Gross Internal Product of the EEC countries. This percentage is the highest in Italy (16.3 %) and the lowest in Germany (8.9 %). In most countries, this ratio has remained practically at the same level all through the second half of the eighties.

COUNTRIES	1984	1985	1986	1987	1988	1989
WEST GERMANY						
GDP (in millions of DM)	1755840,00	1830490,00	1931420,00	2003750,00	2110680,00	2235580,00
Share of wholesale retail in GDP (%)	9,48	9,23	9,07	9,12	8,97	8,93
Private consumption expenditure per head in US \$	5764,00	5780,00	8059,00	10114,00	10695,00	10394,00
Private consumption expenditure of households in % of GDP	56,36	55,90	54,46	54,53	53,81	53,29
FRANCE						
GDP (in millions of Francs)	4361913,00	4700143,00	5069296,00	5320834,00	5692725,00	6113118,00
Share of wholesale retail in GDP (%)	12,29	12,24	12,37	12,54	12,83	12,82
Private consumption expenditure per head in US \$	5521,00	5792,00	7983,00	9705,00	10324,00	10230,00
Private consumption expenditure of households in % of GDP	60,50	60,82	60,16	60,73	60,12	59,71
UNITED-KINGDOM						
GDP (in millions of pounds Sterling)	324256,00	355044,00	381943,00	419943,00	468756,00	511876,00
Share of wholesale retail in GDP (%)*	11,16	11,41	11,74	11,65	12,07	12,14
Private consumption expenditure per head in US \$	4670,00	4906,00	6206,00	7579,00	9255,00	9343,00
Private consumption expenditure of households in % of GDP	61,16	60,96	62,92	62,87	63,34	63,81
ITALY						
GDP (in billions of Lira)	727225,00	812751,00	897281,00	978858,00	1082926,00	1187988,00
Share of wholesale retail in GDP (%)	15,87	16,09	15,72	15,83	15,54	15,28
Private consumption expenditure per head in US \$	4434,00	4580,00	6469,00	8144,00	8893,00	9286,00
Private consumption expenditure of households in % of GDP	60,78	61,19	61,23	61,57	61,15	61,46
BELGIUM						
GDP (in millions of Belgium Francs)	4429335,00	4738273,00	4984266,00	5214148,00	5548476,00	6027902,00
Share of wholesale retail in GDP (%)	12,91	13,44	14,72	15,05	14,59	14,17
Private consumption expenditure per head in US\$	5046,00	5305,00	7255,00	9111,00	9648,00	9614,00
Private consumption expenditure of households in % of GDP **	64,88	65,54	64,12	64,38	63,20	62,46
DENMARK						
GDP (in millions of Danish Kroner)	565284,00	615072,00	666496,00	695837,00	724047,00	765369,00
Share of wholesale retail in GDP (%)	11,39	12,00	12,08	11,47	11,46	11,43
Private consumption expenditure per head in US \$	5815,00	6223,00	8851,00	10769,00	11182,00	10764,00
Private consumption expenditure of households in % of GDP	53,99	54,33	54,51	53,73	52,74	52,14

* (including restaurants & hotels)

** (including non-profit private firms working for the households)

COUNTRIES	1984	1985	1986	1987	1988	1989
SPAIN						
GDP (in billions of pesetas)	25392,30	28200,90	32315,00	36159,40	40128,80	44985,00
Share of wholesale retail in GDP (%)	-	14,21	14,11	13,87	-	-
Private consumption expenditure per head in US \$	2647,00	2761,00	3773,00	4766,00	5523,00	6087,00
Private consumption expenditure of households in % of GDP**	64,26	64,11	63,22	63,19	62,52	62,73
GREECE						
GDP (in millions of Drachmes))	3805686,00	4617816,00	5497680,00	6228034,00	7501970,00	8798390,00
Share of wholesale retail in GDP (%)	11,53	11,70	11,94	11,64	11,35	-
Private consumption expenditure per head in US \$	2206,00	2205,00	2666,00	3204,00	3603,00	3741,00
Private consumption expenditure of households in % of GDP**	64,68	65,52	67,64	69,56	68,20	69,29
IRELAND						
GDP (in millions of Irish pounds)	16406,60	17690,90	18736,80	20041,30	21482,00	23919,00
Share of wholesale retail in GDP (%)	9,34	9,67	9,44	9,32	-	-
Private consumption expenditure per head in US \$	2965,00	3134,00	4244,00	4944,00	5329,00	5453,00
Private consumption expenditure of households in % of GDP**	58,83	59,30	59,60	58,79	57,61	56,54
LUXEMBOURG						
GDP (in millions of Luxembourg Francs)	193666,00	205255,00	223333,00	230525,00	248040,00	276509,00
Share of wholesale retail in GDP (%)	13,97	14,08	13,38	13,94	13,86	13,48
Private consumption expenditure per head in US \$	5324,00	5531,00	7610,00	9685,00	10422,00	10322,00
Private consumption expenditure of households in % of GDP**	58,14	58,72	56,02	58,19	57,63	55,45
NETHERLANDS						
GDP (in millions of Guilders)	400250,00	418180,00	428610,00	430170,00	449420,00	474380,00
Share of wholesale retail in GDP (%)***	11,05	11,15	10,82	11,25	12,72	12,96
Private consumption expenditure per head in US \$	5115,00	5147,00	7175,00	8881,00	9215,00	8937,00
Private consumption expenditure of households in % of GDP**	59,15	57,56	58,36	61,35	59,84	59,33
PORTUGAL						
GDP (in millions of Escudos)	2815728,00	3523945,00	4420400,00	5174730,00	6002750,00	7139500,00
Share of wholesale retail in GDP (%)	18,55	19,03	18,49	-	-	-
Private consumption expenditure per head in US \$	1420,00	1546,00	1979,00	2427,00	2778,00	2948,00
Private consumption expenditure of households in % of GDP	70,33	67,58	64,74	64,16	64,83	-

** (including non-profit private firms working for the households)

*** (including restaurants & hotels in 1988/1989)

B - CLASSIFICATION OF EUROPEAN GROUPS

The first European distribution group is the German Metro, of which the annual turnover of 103 milliard Francs is divided between non-food specialized chains, the running of hypermarkets and department stores and wholesale.

20 European groups went over the turnover threshold of 40 million francs in 1989-1990. The first five groups total 32 % of the total turnover of the 25 first European groups.

RANK		1989-1990. Mds F	Countries	Type of organization	Main activity
1	Metro Gruppe	103,40	Germany	multiple stores	multiple
2	Rewe	102,00	Germany	Independent groups	Supermarkets
3	Leclerc	100,00	France	Independent groups	Hypermarkets
4	Intermarché	96,00	France	Independent groups	Supermarkets
5	Aldi	81,36	Germany	multiple stores	Discount
6	Carrefour	75,84	France	multiple stores	Hypermarkets
7	Edeka	73,78	Germany	multiple stores	Supermarkets
8	J. Sainsbury	72,57	United Kingdom	multiple stores	Supermarkets
9	Auchan	64,00	France	multiple stores	Hypermarkets
10	Karstadt	61,50	Germany	multiple stores	Department stores
11	Promodès	58,68	France	multiple stores	Hypermarkets
12	Marks & Spencer	55,28	United Kingdom	multiple stores	Department stores
13	Tesco	54,02	United Kingdom	multiple stores	Supermarkets
14	Vendex international	52,08	Netherland	multiple stores	Supermarkets
15	Ahold	52,00	Netherland	multiple stores	Supermarkets
16	Tenglemann	50,86	Germany	multiple stores	Discount
17	Migros	49,66	Switzerland	multiple stores	Food
18	Quelle	42,46	Germany	multiple stores	Mail order
19	Argyll	41,43	United Kingdom	multiple stores	Supermarkets
20	Asko	40,34	Germany	multiple stores	Hypermarkets
21	Gateway	40,03	United Kingdom	multiple stores	Supermarkets
22	Otto Versand	37,70	Germany	multiple stores	Mail order
23	Asda	35,50	United Kingdom	multiple stores	Hypermarkets
24	Coop AG	35,43	Germany	multiple stores	Supermarkets
25	Coop Italia	35,19	Italia	Consumer cooperative stores	Supermarkets

Source : Divers

Out of the 25 first European groups, 10 are German. Great Britain is in second position with 6 groups, just in front of France with 5 groups (but these groups have better ranks than the British ones). The Netherlands, Italy and Switzerland are far behind. Germany, France and Great Britain clearly dominate the European distribution sector. They are the largest EEC countries, the richest and those where the trade apparatus is most concentrated.

20 of the 25 first European groups carry out their main activity in the food area (most often in supermarkets). This crushing domination shows the differences in concentration between food and non-food sectors. Modern forms of trade have been able to penetrate the food area much more massively than the non-food area. There are only 2 more groups specialized in department stores that are in this list of leading firms. This shows the decline of such a form of distribution. To finish with, 2 mail order specialists, both of them German, appear on the list of the 25 first distributors.

21 out of the 25 leading European groups are multiple stores, that is to say firms of which the main activity is to run sales areas that belong to them (subsidiaries or branches). Three independant groupings (of which 2 are French) are however in the 4 first European groups. The only cooperative group is last in the classification.

C - ANALYSIS OF DISTRIBUTION STRUCTURES

Commercial structures are very unlike from one country of the Common Market to another. This heterogeneity is a consequence of the differences of economic developpement, geographical conditions, consumption habits and commercial regulations. Very summarily, it is in the richest states of the Community that the commercial apparatus is the most concentrated and that modern distribution is the most widespread. In the poorer states, independent trade still has strong position. We shall analyse the situation in the main EEC countries.

GERMANY

German distribution has concentrated a lot in the last twenty years. The number of businesses has fallen of a half whereas the shopping area has been doubled. This concentration occured through the breakthrough of food supermarkets. In 1990, West Germany totalled 1635 hypermarkets and more than 7700 supermarkets. Supermarkets

ALLOCATION OF SALES IN RETAIL TRADE ACCORDINT TO THE TYPE OF ORGANISZATION

COUNTRIES	Coop. stores	Department Stores & Mail order houses	multiple stores	affiliated stores	Indépendent stores	Total
Belgium	-	6	12	11	71	100
Denmark	20	6	16	33	25	100
Germany	5	11	23	40	21	100
Spain	1	4	14	4	71	100
France	2	7	29	19	43	100
Ireland	1	6	36	7	50	100
Italy	2	5	10	83	-	100
Netherlands	-	6	10	20	64	100
Portugal	4	3	32	8	53	100
United-Kingdom	5	11	23	40	21	100

Sources : Euromonitor Retail Database

Coop. = cooperative stores Multiples = hypermarkets included.
 Affiliated stores = chaînes volontaires and independent stores affiliated to a joint purchase part.
 Indépendents = non affiliated independant retailers.

PERCENTAGE OF RETAIL SAILES IN EACH TYPE OF STORE

COUNTRIES	Hypermarkets	Supermarkets	Department Stores	Mail order houses
Belgium	1,60		8,00	1,20
Denmark	5,00	29,00	7,00	1,00
Germany	9,00	14,30	5,80	4,80
Spain	7,50	-	12,00	1,00
France	12,90	10,90	5,00	2,50
Ireland	-	-	6,00	-
Italy	0,40	-	-	-
Netherlands	2,00	15,50	5,20	1,20
United-Kingdom	6,60	13,40	13,60	3,30

Sources : Eurostat et Eurostat

NUMBER OF STORES

COUNTRIES	Reference year	Number of stores
Belgium	1984	121 690
Denmark	1981	50 826
Germany	1985	326 773
Greece	1978	160 599
Spain	1988	291 835
France	1986	381 095
Ireland	1977	24 864
Italy	1988	862 334
Netherlands	1988	155 000
Portugal	1976	81 074
United-Kingdom	1984	342 022

Sources : Euromonitor

NUMBER OF HYPERMARKETS AND OF "SUPERSTORES" (1987)

COUNTRIES	Number	Inhabitants (000) per store
Belgium	88	112
Denmark	44	117
Germany	950	64
Greece	n.d.	n.d.
Spain	89	437
France	712	78
Ireland	n.d.	n.d.
Italy	44	1 303
Luxembourg	5	74
Netherlands	35	419
Portugal	n.d.	n.d.
United-Kingdom	475	120

Sources : Euromonitor et département Etudes BBL.

NUMBER OF FIRMS IN RETAIL TRADE AND TURNOVER (MIO ECU)

COUNTRIES	Reference year	Number of firms	Turnover	Turnover per firm	Number of inhabitants per store
Belgium	1987	123 519	29 744,80	0,24	12,70
Denmark	1986	29 500	15 133,20	0,51	5,80
Germany	1986	413 049	234 739,50	0,57	6,80
Greece	1984	184 892	-	-	-
France	1987	433 112	210 207,10	0,49	7,80
Italy	1986	934 845	-	-	-
Luxembourg	1986	3 750	2 173,50	0,58	18,00
Netherlands	1987	84 221	38 524,30	0,46	5,70
United-Kingdom	1987	240 941	145 822,60	0,61	4,20

Source : Eurostat

EMPLOYMENT FIGURES IN RETAIL TRADE

COUNTRIES	Reference year	Number of employees
Belgium	1988	355 596
Denmark	1988	145 464
Germany	1987	2 362 992
Greece	1984	301 318
Spain	1980	1 121 384
France	1987	1 864 984
Ireland	1988	100 157
Italy	1986	1 958 838
Luxembourg	1986	16 576
Netherlands	1987	495 033
Portugal	1988	409 282
United-Kingdom	1988	3 028 233

Source : Eurostat

are the most dynamic form of distribution (in particular when they are run on discount). The development of food supermarkets and hypermarkets was achieved at the expense of independent trade and cooperative stores. The latter only total twenty-five percent of the retail sales at present. Independent trade tried to counter this expansion by grouping themselves. The scarcity of big multiple stores in the non-food sector still leaves a space for independent traders, but structures in the D.I.Y. (do it yourself), clothing and houseware sectors are concentrating. Departement stores are losing ground but they are traditionnally very widespread in West-Germany with about fourty strores belonging to four specialized groups (Karstadt, Kauhof, Horton and Hertie). Mail order sale is also quite developped : Germany is the first mail order sale market in the EEC. The amount spent in mail order sale per unhabitant is twice as important as in France or Great Britain. Two groups (Otto Versand and Quelle) total 50 % of the sales. German mail order sale has been able to keep its' market shares. The German reunification will strongly altered the commercial landscape of the country. Privatization of East-German trade and the enriching of the population create numerous development opportunities for ex West-German groups. For exemple, during the first 4 months of 1991, Kauhof's funded turnover progressed of 23 %. Without the East-German activities, the increase would only have been of 11.5%.

GREAT BRITAIN

A strong drop in the number of sales areas has occured in Great Britain : 343,000 in 1986 against 475,000 in 1970. The commercial apparatus has thus undergone a strong concentration process. The first distribution group totals 25 % of the retail sales. Independent trade has been victim of the developpement of multiple chain stores. Hypermarkets have only encountered a limited success in this country, specially in the south, owing to the high cost of land in particular. In 1987, there were 475 hypermarkets in Great Britain. Supermarkets, by contrast, have achieved a strong penetration. In the food sector, independant traders have tried to adapt by associating themselves and by developping convenience stores. Specialized super- and hypermarkets have an important part in the non-food market. For example, with nearly 1300 super- and hypermarkets specialized in DIY, the market is practically saturated and considerable concentration processes are in action. Department stores, very widespread in Great Britain, are losing ground. Mail order sale is well set up since Great Britain is the second European Market. 5 houses total 90% of the sales. The structures of the commercial apparatus and the specificities of the British market result in the fact that the profit

earning capacity of distribution firms is the highest in Europe. This is both an opportunity for British groups in their internationalization strategies, and a threat of penetration by foreign competitors.

FRANCE

Food super- and hypermarkets have increased their share in the market from 16.3% in 1980 to 27% in 1989. They total 50% of the food market. In 1989, there were 797 hypermarkets and 6100 supermarkets and the rate at which they are opening is still quick. This progress is made at the expense of traditional forms of trade. The independent food distributors reacted by grouping themselves or by specializing in convenience stores. 2 independent groupings (Leclerc and Intermarché) are thus leaders of the French distribution groups, thanks to their strong presence in the area of hyper- and supermarkets. Franchising is very developed in comparison with other European countries, and was one of the means used by independent groups to stay on the market. Specialized super- and hypermarkets are progressing rapidly in the non-food sector through multiple stores, in particular in the houseware sector. Departement stores have lost shares in the market. Mail order sale, that had undergone a quick growth during the 70s, has been stagnating for the last few years and its share in the market is below 1.5% of the retail sales.

THE NETHERLANDS

Structures of the Dutch commercial apparatus are still very dispersed. Small and middle sized stores are predominant and independent trades total nearly two thirds of the retail sales. However, the 5 first Dutch groups total 26% of the sales. Hypermarkets are not very much developed and independent traders are still competitive. There are about 170 retail joint purchase groups. The Netherlands have about 40 departement stores but their shares in the market is dropping (5%). On the contrary, mail order sales are increasing (2% of the market). On the whole, the Dutch commercial structures are very much penetrated by foreign capital (200 foreign commercial companies).

BELGIUM

Independant trade is prevalent in Belgium, especially owing to regulations preventing the setting up of supermarkets. In 1987, there were only 79 hypermarkets and 1720 supermarkets. However, with 9% of the retail sales, the G.I.B. group has reached a position rarely equalled by other European leaders. The 5 first Belgian distributors total

17% of the sales. The development of groups is starting to win off market shares at the expense of small independent traders but the latter still have a strong position, in particular in the non-food sector. Department stores have progressed a little, owing to their breakthrough in the food market.

ITALY

Traditional trade is still predominant in Italy, in particular in the south of the country. Although the number of sales areas is dropping, the phenomenon is still recent and the drop is rather slow (850,000 stores in 1986 ; 922,000 in 1982). The weight of itinerant trade is still heavy. Since 1985, a very strong acceleration in the setting up of new hypermarkets has taken place. They were only 44 in 1987. Supermarkets are spreading rapidly (609 stores in 1971 ; 2352 in 1986). On the contrary, the rate of setting up of department stores is dropping since 1970. On the whole, hypermarkets, supermarkets and department stores totalled only 9% of the retail sales in 1987. Distribution is thus still dispersed and the first 3 Italian groups (Standa, La Rinascente and Selefin) only total 2% of the retail sales. Concentration should increase in the next few years.

SPAIN

Although independent trade is predominant in Spain, modern distribution has progressed significantly. 121 hypermarkets had been recorded in 1988, and their number has increased of about 10 per year in average between 1985 and 1988. This penetration of hypermarkets is mainly a result of the setting up in Spain of specialized French groups (Carrefour, Auchan, Promodès). Experts consider that the number of hypermarkets is maximum. The Spanish market is more favorable to middle sized sale areas, which explains the strong development of supermarkets (2356 stores in 1988). This breakthrough of modern distribution (significant especially in the food area) has negative effects on independent traders. Their number is dropping. Franchizing is spreading.

Beyond national specificities, there are a number of general evolutions of distribution structures in Europe :

- Drop in the number of sales areas.
- Progression of hyper- and supermarkets : the penetration of this form of trade is more advanced in the food sector but is developing rapidly in the non food area. This

progression is accompanied by the more growing part of multiple stores and, in certain countries, independant groupings.

- The setback undergone by independent traders and the setting up of adaptation strategies. Small traders are getting grouped more and more; at least in order to centralize their purchases, more and more often to set up a brand strategy. This tendency to get grouped concerns the non-food sector more and more. In certain countries, franchizing of small traders is increasing. Besides, small traders are aiming at emphasizing their specificities in order to counter the competition imposed by hyper- and supermarkets... For exemple, convenience stores are thus spreading all over Europe.
- Department stores and popular stores are regressing. They have suffered from the change in consumption habits and the increase of rents in town centers and have thus had to change their strategy on the market.
- Concentration. It has been operated through the drop of the number of sales areas and the appearance of powerfull groups. There are at least 40 European groups specialized in retail selling that total a turn over of over 25 milliard francs in 1989. The leading groups have an increasing share in the food sector of the market in Germany. The total market shares of Aldi, Rewe and Leibrand has increased from 16% to 23.3% between 1982 and 1988. In Great Britain, Sainsbury and Tesco have increased their share from 21,9% to 28,7% ; in the Netherlands, Heijn has increased its share from 16.9% to 34.2%; in France, Leclerc and Intermarché have increased theirs' from 13.5% to 28,8%.
- Internationalization of structures. Most European markets are penetrated by foreign distributors (European mostly). The most important groups, coming from countries where commercial structures are the most concentrated, are the most active as far as international activities are concerned.

D - NATIONAL AND EUROPEAN POLICIES AS REGARDS DISTRIBUTION

1) NATIONAL POLICIES

One can hardly speak of "national policies" in the EEC states as regards distribution. The authorities' main action in that matter is limited to a number of regulations, variable from one country to another, that determine the conditions to fullfill in order to enter and carry out a commercial activity.

The admittance to commercial activities is practically free in all countries, except in a few strictly delimited areas like chemist shops, distribution of weapons or alcohol, where licences or special qualifications are required. Yet, in a number of European countries, an authorisation is needed to open a supermarket or a hypermarket.

In Germany, the "Baunutzungsverordnung", edicted on September 15th 1977, limits the setting up of supermarkets when they cover over 1500 m² on the outskirts or over 1200 m² in town.

In Belgium, the Cadenas act of 1937 aimed at preventing the commercial structure of that time from changing. This law was repealed in 1961. Without the protection the Cadenas Act had given them, small traders suffered a lot from the market thrust of modern forms of distribution. In 1975, a new law was implemented to limit the setting up of supermarkets. According to this act, all projects aiming at establishing a sales area of over 1200 m² (or 3000 m² if the parkings and warehouses are taken into account) in an urban area or over 750 m² (or 1000 m² with the parkings and warehouses), have to comply with long and compelling proceedings. These proceedings hardly ever result in permission to build.

In France, since the Royer law of 1973 which was to protect small traders, all promoters of supermarkets of over 1000 m² in a town of less than 40 000 inhabitants, or over 1200 m² in a town of more than 40 000 inhabitants, must present their project for consent of the C.D.U.C. (Commission Départementale d'Urbanisme Commercial). If consent is refused, the promoter can appeal to the Minister of Commerce, who decrees after having heard the opinion of the Commision Nationale d'Urbanisme.

It is probably in Italy that the regulations as to the set-up of stores is the strictest. The law enacted on June 11th 1971 curtails the setting up of new stores of over 400 m². A decree of August 4th 1988 made the provisions of the law less constraining. However, several authorizations remain necessary in order to open a sales outlet of more than 400 m² in a town of less than 100 000 inhabitants, or of over 1 500 m² in other towns.

By contrast, there is complete freedom from that point of view in Spain, Portugal and Ireland.

National regulations also relate to opening hours. They are freely settled in Spain whereas they are strictly controlled in Germany (they can only open one Saturday each month.).

Lastly, distribution firms are likely to be exposed to competition regulations. For example, in France, article 38 of the order of December 1st 1986, dealing with freedom of prices and competition, imposes the obligation for firms to ask the Conseil de la Concurrence to notify their agreement to any concentration project involving 25 % of the sales on a given market (the national market or a considerable part of the national market) or representing a tax included turnover of over 7 milliard Francs. Practically, these regulations have never prevented French distributors from restructuring.

On the whole the legal frameworks of trade in EEC countries are quite heterogeneous. This is one of the reasons for which commercial structures are so different from one state to another. This feature is also taken into account when the strategy of a firm is elaborated, in particular as regards internationalization.

2) EEC DIRECTIVES

Distribution is the neglected part of EEC regulations. Although a Committee for Commerce and Distribution exists since 1978, no regulatory framework has been adopted. This results from the fact that the European commission considers that distribution is a local activity, and thus that it is up to the national authorities to regulate in that area.

The first Council of Ministers of Commerce was only held in 1989. Little resulted from it. The Council declared that their aim was to increase cooperation as far as national legislations are concerned and to promote a dialogue between the different professional trade federations and the unions representing the employees of the sector. The only real decision is to conduct a statistical survey of distribution in the EEC. It is urgent to do so...

Since there is no specific regulation, distribution firms must abide by the same European laws as industrial firms. In particular, they must comply with the same competition rules, and especially article 85 of the Treaty of Rome. This article forbids

agreements or actions that prevent free competition or are likely to affect trade between EEC members. The following actions are thus forbidden : common price fixing between competitors, agreements sharing out the market or restricting the output, or even linked sales clauses... Buying back shares in rival companies and other agreements resulting in economic concentration can also fall under paragraph 1 of article 85. This article applies both to horizontal and vertical agreements as well as to agreements between distributors and manufacturers.

Thus, for example, European law defines a framework for selective distribution. Such a form of distribution is permitted but only on strict conditions. The selecting of one's distributor can only be warrantable if the items, owing to their quality or their technicity, can only be sold by qualified retailers. If it isn't the case, the Commission considers that competition is restrained. The firms may however apply to the Commission for an exemption if they can prove that the new network really improves the distribution of the article, the consumer service and that the multiple obligations imposed on the retailer are really necessary.

The EEC Council of Ministers, on December 21st 1989, adopted a regulation relating to concentration control and that completed the meaning of article 85. EEC control applies to concentrations representing a world turnover of over 5 milliard ECUs (35 milliard Francs) and a European turnover of over 250 million ECUs (1.75 milliard Francs). Distribution firms, and in particular European joint purchase groups are particularly vulnerable, owing to the low level of these thresholds. For the moment, no concentration operation seems to have been prevented by the European Commission. As far as European joint purchase groups are concerned, The Commission has already been consulted in matters of purchases. No proceedings were taken but the Commission declares that it will remain vigilant. It appears in fact, that the EEC authorities have understood the importance, for economy, of the present restructurings in distribution. They may however have to decide on breaches to the prejudice of a certain number of manufacturers in matters of referencing ? Brussels will probably give a few explanations on her position towards distribution in a short time from now.

In waiting, the European legal framework remains little compelling for distribution firms, especially in comparison to national regulations. Few direct effects are thus to expect

from the great market of 1993. It may however have indirect consequences through its' effects on industry and finance.

E - THE MARKET PENETRATION OF NON-EEC CAPITAL

European distribution is hardly penetrated by non-EEC capital. It is striking to note the persistence of this phenomenon at a time when internationalization of European is increasing. The main explanation is the fact that the firms in retailing are deeply rooted in their economical and social environment. In order to succeed on a market, a distribution firm must learn to manage the employees according to the working habits in force, to adapt to national regulations, offer articles that are consistent with local consumption habits and sold in the right forms, and lastly, to face a competition that may be very different from what the firm is used to face on its' own domestic market. This explains why European distribution groups are in a better position to conquer foreign markets than non-EEC groups, in particular American or Japanese groups. American leading distributors repeatedly tried to penetrate the European market but had to withdraw owing to their difficulties in imposing their management methods. For example Sears Roebuck thus had to give up the Anspach Galeries and, more recently, JC Penny had to sell to GIB both the management and half of their holding in the companies of the Sarma-Nopri group. Besides, there is the problem of the necessary size of a distribution group, in order to carry out successfully an internationalization strategy. And on that point, either non-European distribution structures are often insufficiently concentrated, or they are already very busy with a big domestic market and thus are not induced to carry out a hazardous activities abroad.

The most successful example of a penetration in the common market by a foreign firm is probably that of IKEA, the Swedish firm specialized in furniture. At the end of 1989, Ikea was present in 20 states, most of which were big European markets. The Swedish group usually set up their stores directly. However, in Belgium, they set up a partnership with the GB-Inno group, owing mostly to the regulations relating to set up in the country. France and Germany are the places where they are best implanted. In 1990, their turnover in France totalled 2.2 milliard Francs with only 6 stores. Their share in the French market is only, however, of about 5 %.

Ikea's success on European markets relies on their ability to define a new way of distribution for furniture, well adapted to a portion of customers that has been insufficiently identified by local firms. To begin with, local competitors were helpless facing Ikea's success (although their breakthrough is moderate in general, it is considerable if one considers only the area of "furniture for young people."). Habitat, a subsidiary of the British group Storehouse, was one of the first to apply a similar sale concept (in the same way as Ikea, their furniture is manufactured through precise particulars of sales of the distributors). Specialized French firms reacted only later on. Whereas Ikea's first setting up in France dates back to 1974, it is only in 1978 that the Mobilier Europeen group (Atlas, Crozatier, Force Cuisine trademarks) launched their Fly brand. This trademark took years to get known by the public. Since then, other brands of the same type have appeared (Ambia, Storia), but they don't seem to be capable of competing with Ikea's leadership in this area. However, with the expansion of the sector, a number of hypermarkets, Carrefour in particular, are developing "kit-furniture" departments in their larger stores.

The second example of success (apparently) in implantation of a foreign firm is that of Toys'R'us, an American chain specialized in games and toys distribution. Although the penetration is recent, Toys'R'us already totals 28 stores in Great Britain, 18 in Germany, 10 in France and 8 in Spain. The American firm's aim is to set up 40 stores in each of the major European markets. In the same way as Ikea, Toys'R'us's breakthrough on the European market comes from the new form of distribution they brought on these markets where food hypermarkets or more traditional forms of trade are preponderant. Toys'R'us's innovation is to sell a very large choice of games the year long, in large shops and self services, with similar prices to supermarkets. With this concept (one cannot judge yet whether it is adapted to specificities of European markets or not but for the moment it appears to be successful) the American firm didn't really have to face a strong local competition (except a moderate competition on behalf of the Belgian Christiansen and the Germans Vedes and DHS). In France Toys'R'us's appearance started by causing concern, both to manufacturers, already under a strong pressure on behalf of the food distributors (practically 60 % of the market) and to the weak traditional trade. After nearly two years' presence in France, the local business actors are rather satisfied. It would seem that Toys'R'us stimulates the market in their area and that it has beneficial effects on their competitors... However, other forms of distribution are getting organized in order to counter the American group's

domination. In Germany, specialized chains have developed toy supermarkets of similar sizes, at discount prices and with a variety of services probably more adapted to the reality of the German market. In France, independant chains are developing whereas hypermarkets are trying to change their way of operating in that area.

Another recent example of a breakthrough in the European market is that of FootLocker, the leader in sports shoes in the USA (a subsidiary of Woolworth). They took over the British Freedom Sportline chain (8 stores) and set up their first store in Paris a few weeks ago. On such a market, very competitive and dominated by concentrated distribution, it is hard to imagine which innovation the American firm could make in order to take a lead.

To finish with, the presence of the Swiss leader, Migros, in a number of European countries can be noted. They have just opened their first store in France.

Foreign presence in the EEC is often achieved through holdings in the capital of European firms. For example, Sear, the American, took over, in 1988, 56 % of Freeman's capital, the British mail order house (10 to 15 % of the market). In 1990, the Swiss group Interdiscount took the French firm Nasa Electronique (warehouse items) on a hiring-management operation with the possibility to take over the firm in the long run. The Swedish investor Proventus increased their holding in Nouvelles Galeries to 19.1 % (French department store) in October 1990. In 1991, Proventus also increased their holding in the Bazar de l'Hotel de Ville (French department store) to 20.6 % and the authorities have given them permission to reach 33 % of the capital. In February 1990, the New-Zealander financier Ron Brierley increased his holding in the British chain of supermarkets William Low from 10.14 % to 17.08 %. The Japanese group AEN bought, in August 1990, 15 % of the capital of Laura Ashley, a British firm specialized in the trade of furniture textile.

Penetration of the European market will probaly become more and more difficult for foreign investors with the growing concentration and internationalization of European distribution. Firms wanting to enter the market will really have to innovate and in a way that is adapted to the local characteristics of the market. Either they will have to take over European firms, or they will have to settle an alliance.

II - Restructurations of European distribution

A - THE CAUSES AND TARGETS OF RESTRUCTURATION

European distribution is going through an intense period of restructuration. The main reason for this is the fact that supermarkets have come to a mature age in the richer states of the Community. In these countries, supermarkets (especially in the food sector) have undergone a quick growth during the last twenty years, especially by taking market shares from traditional forms of trade. Big sized groups have thus been set up and their problem now is to continue this quick expansion. Winning over new market shares has become more difficult : traditional forms of trade have already lost a lot of ground and the remaining firms have adapted in order to be more competitive. The market, and in particular the non-food market, is growing slowly. Besides, in most of the countries where supermarkets have been able to develop, the opening of new stores has become more and more difficult : when it isn't a problem of regulations, it's a problem of the lack of adequate sites.

Facing such a situation, three means of keeping their growth going are to be considered :

1 - diversification. It can only be achieved inside the stores themselves. That is the reason why hypermarket chains are getting more and more active on the non-food market. This is true especially in France, where hypermarkets are developing their DIY, sports items, beauty and chemists' products, jewellery or bookselling departments and even insurance, travelling or banking services. Success in these areas can only be achieved if the selling methods that were used in the food sector are reviewed. In particular, the firms must learn to back up the sale with qualified sellers, create, in their shops, a "boutique" atmosphere... and convince well-known brands producers to face the power of negotiation of big joint purchase groups and to risk both tarnishing their image and losing the outlet that specialized distribution constitutes.

Diversification is also carried out away from the main selling spots, by establishing new specialized trademarks, or by holdings in firms of other sectors of distribution. Although

a few cases of diversification in productive areas can be noted, they are often a result of past activities and are more and more often questioned (the French firm Casino for example is selling most of its' food production subsidiaries).

2 - External growth. With the fact that saturation of locations is nearing in a number of sectors of trade, buying back firms is a quick way to increase both one's activity and one's market share. This means of growth is particularly favoured when strict regulations make the set-up of new stores difficult and expensive. External expansion is also often used when a firm wants to diversify out of its' original trade. It is a way both to take a strong position quickly on the considered market, and to obtain a specific know-how. For the same reasons, buying back firms is frequently used for internationalization strategies, specially when the given market is strictly regulated.

3 - Internationalization. Extending abroad is a way to go beyond the limits that a domestic market imposes. Internationalization usually starts off in countries where distribution is less concentrated and where attractive development opportunities exist. Penetration of highly concentrated markets is more often achieved through external growth.

Traditionally, the Belgian and Dutch distributors are the most internationalized, owing to the narrowness of their domestic markets. This internationalization is quite clearly turned towards non-European countries (United States). International activities total roughly 8% of the sales in France and Germany. All through the eighties, the internationalization of German distributors was mainly turned towards German speaking states (Austria, Switzerland, Luxemburg) and The Netherlands, whereas French distributors were concentrated on Spain and America. There was thus an implied sharing of the European market between the main groups. Since the end of the eighties, the groups tend to confront each other frontally, by penetrating their competitors' markets. Thus the French firm Promodès has started penetrating the German market and the German specialists of discount are doing the same thing in France... The balance is starting to fall apart.

Beyond keeping the expansion growing, these strategies of diversification, external growth and of internationalization, also aim at improving competitiveness and profitability. They improve competitiveness for, by increasing the size of the firm, they

increase its' power of negotiation with regard to their purveyors and enable it to get better supplying conditions. A large size is also desirable in order to optimize the supplying logistics of the shops. Lastly, by dividing out the activities on a number of sectors and markets, each market having its' own short-term cycle and competition, these politics have a beneficial effect on profitability.

B - A FEW EXAMPLES OF FINANCIEL OPERATIONS

Here are a few financial operations carried out in the last three years, classified according to strategical options that determined them.

Diversification strategies

- Take-over of Eddie Bauer (clothing, USA) by Otto Versand (German leader of mail order sale).
- Take-over of Gillow (faith in furniture in G.B.) by ASDA (Hypermarket in G.B.).
- Cora (French hypermarket chain) takes over the Jardineries Clauses (trade of plants and germs) in 1990.
- André (manufacturing and distribution of shoes, France) bought more than 50% of Creeks' capital (clothing for young people, France) in 1990.
- Through their subsidiary Comco, Asko (food distribution, Germany) bought back in 1991 the Swiss firm Adia, second world firm for part-time working.
- Metro (Germany) created, in January 1990, a joint venture with Schömer (Austria, 51 % of Metro) to open car accessories in Germany.
- Tengelmann (First food distributor in Germany) bought Modea Bekleidungsmarkt and their 85 clothing discount stores in May 1990...

External growth strategies

- Holding of Otto Versand (German leading mail order house) in Sport Schek (mail order sale, Germany).
- Asda (food distribution) bought back about 60 hypermarkets from Gateway (a chain of supermarkets, U.K.) for £ 705 million in September 1989.
- Hygena (kitchen furniture, U.K.) was bought back by M.F.I. (British leader in furniture).

- The Galeries Lafayette (number one in department stores in France) took over the Nouvelles Galeries (French department stores) after a take-over bid in 1990.
- In 1990, Asko (food distribution, Germany) bought back a large number of Coop A.G. stores for 4.8 milliard D.M.
- Stinnes Bau Markt (D.I.Y., Germany) bought back more than 80 D.I.Y. stores from Coop A.G. (food distribution).
- In October 1990, Ahold (food distribution, Netherlands), through their subsidiary Gall and Gall, bought back from Allied Spirits and Wines Nederland the wines and spirits chain, Impdra. Ahold thus becomes the first Dutch distributor in that sector.
- Darnal Expansion (furniture, France) took over Pier Import (furniture, France) in January 1991...

Internationalization Strategies

- Otto Versand (German leader in mail order sale) took over 50 % of the Trois Suisses's capital (second mail order house in France)
- Joint venture between Otto Versand, Fine Art Developments (U.K.) and Sumitomo (Japan)
- 25 % holding in Empire Stores (5 % of the mail order sale market in U.K.) by La Redoute (French leader of mail order sale), in 1988.
- Take-over, in 1988, of Unigros (6th mail order house in Belgium) by the Trois Suisses.
- In 1991, the Trois Suisses took over Unia General de Investimentos (mail order sale, Portugal).
- Mothercare (child care items, British subsidiary of Storehouse) bought back Jacadi (child care items, France) in 1990.
- Promodès bought 459 Preko stores belonging to Dirsá (food distribution, Spain) and 47 Plaza hypermarkets belonging to the Coop A.G. group, in 1990.
- The German perfumer Douglas bought in January 1990 the Belgian company Elle et Lui and the Belgian group Superparfums, that is to say a total of 27 perfumeries.
- Saint Maclou (floor lining, France) bought back the chain of 27 stores belonging to Home Market (floor lining, Belgium) in January 1990.
- Marks and Spencer (department stores, G.B.) set up their first store in Spain in March 1990.
- Euromarché (hypermarkets, France) opened their first hypermarket in Portugal in March 1990.

- In June 1990, Quelle (mail order sale, Germany) founded a Spanish subsidiary in association with the Spanish firm Tabacalera S.A. and the Exterior Bank of Spain (51 % of Quelle).
- Arlaud (hypermarkets, France) opened its first hypermarket in Italy in June 1990.
- Prisunic (popular stores, France) opened its first store in Portugal in August 1990.
- Netto (supermarkets, Denmark) set up two discount stores in East Germany in November 1990.
- Virgin (records, G.B.) set up their first store in Japan in November 1990. It is run on a joint venture with the Japanese firm Marui.

C - ANALYSIS OF THREE MERGERS IN PARTICULAR

Let us describe in a more detailed way three of these operations of merger by amalgamation

- **Take-over of Pier Import by Darnal (France)** : In January 1991, the Touret brothers, 90 % owners of the Darnal Expansion company (furniture), bought back 68.6 % of Pier Import's capital from the controlling holding company, Pieres. Pier Import, specialized in furniture and exotic gifts distribution, had underwent an L.M.B.O. (leverage management buy out) in 1988. The commercial set-back of the trademark compelled the management to sell in order to meet the bank loan dates. The Touret brothers personally bought the holding (valued at 50 million Francs) in order not to bear on the Darnal group's performances. They then sold their holding to the group.
- **Take-over of Coop A.G. by Asko (Germany)** : On December 31st 1990, Asko (food distribution) bought 90 % of the capital of the Coop group, by buying back the holdings of D.G. Bank (67.5 %) and B.F.G. (22.5 %) in Coop. The remaining 10 % are in the public but Asko is meaning to set up a take-over bid for 500 D.M. per share. This take-over gives Asko 765 more supermarkets and a turnover of 4.2 milliard D.M. more. These stores will enable Asko to increase their presence in town centres, in particular in the North-East, the West and the South-West. This operation also has an income tax advantage : Coop's 2 milliard D.M. deficit over the last three years will be written off Asko's tax.

- **Take-over of the Nouvelles Galeries by the Galeries Lafayette (France)** : In the beginning of 1991, the chain of department stores totalled 3 main shareholders : the French textile group Devanlay (reference shareholder), the Swedish group Proventus and the group Galeries Lafayette. The Galeries Lafayette probably feared that Proventus should sell their holding to a foreign department store group and they thus offered to buy part of the holding (16.44 % of the capital) for a little than 800 million Francs. The Galeries Lafayette's holding was consequently increased to 39.24 % that is to say practically the same level as Devanlay (34 %) but Devanlay still had 47.68 % of the voting rights. However, the Conseil des Bourses de Valeurs compelled the Galeries Lafayette to set up a take-over bid on 1 560 039 shares (the 27.42 % that were necessary in order to total a 2/3 of the capital). his operation, that eventually didn't meet an opposition on behalf of Devanlay, costed the Galeries Lafayette 2.1 milliard Francs. Such a sum was considered by tradesmen of that sector as quite high in comparison with the Nouvelles Galeries' economic and financial health. However the Galeries Lafayette thus become the 6th distributors in France and the 4th chain of department stores in Europe. The group has very much increased their setting up in the country and, in this way, intends to limit the progression of foreign groups such as Marks and Spencer or C&A. Besides, with the Nouvelles Galeries, The Galeries Lafayette have inherited of 50.04 % of B.H.V.'s capital. Now, this Parisian store has estate assets of a strong strategical and sale value.

D - THE OPPORTUNITIES GIVEN BY RESHAPING

The first result of these restructuration operations is the increase of concentration in European distribution structures. This concentration has a number of effects on the functioning of distribution. The purchase power of groups has been geared down, and the strength relationship between distributors and industrialists has undergone a change. The latter, in agribusiness, have already reacted by concentration from a European point of view. There is now a race between commerce and industry to decide which will overcome the other. In this respect, a number of distribution groups are trying to compensate their delay compared to industrialists, as far as internationalization is concerned, by setting up cooperation agreements. Such agreements have increased in the last years. For example, in the food distribution sector, The French firm Casino, The English one Argyl and the Dutch firm Ahold created the European Retail Alliance (E.R.A.). The E.R.A. is considered to be a cooperation

organization as regards logistics, production, purchases and marketing. In the same way these three giants of distribution decided to join forces with Dansk Supermarked (Denmark), La Rinascente (Italy), I.C.A. (Sweden), Mercadona (Spain), Kesko (Finland) and Migros (Switzerland) through the Association Marketing Service (A.M.S.). In 1989, the Belgian group G.I.B., the German Rewe, the Dutch firm Vendex, the Swiss one Coop and the French joint purchase group Paridoc created Eurogroup. The four giants Metro (Germany), Makkro (Netherlands), Asda (G.B.) and Carrefour (France) founded the "super" joint purchase group Deuro-Buying. The union of a number of Spar stores of different countries, of a few other European food distribution groups and of Gedelfi (the German joint purchase group comprising Karstadt, Krementz and D.W.V.) gave birth to the "super" joint purchase group BIGS (Buying International Gedelfi Spar). The European Cooperative of Marketing, linking C.E.M. (Belgium), Comdad (Italy), Crai (Italy), Edeka (Germany) and U.D.A. can also be mentioned as well as the European Marketing Distribution resulting from the alliance between Selex (Italy), Selex (Spain), Markant (Netherlands), Markant (Germany), Uniarme (Portugal), Socadip (France) and Zev (Germany). With the setting up of such alliances, an international purveying system is being set up.

This concentration of the European distribution process is combined with internationalization of most of the important groups. As it has been said, both processes result from the same necessity : in order to prevent a take-over by a foreign group, distribution groups try to reach the critical size. But vice versa, internationalization is encouraged by concentration. Concentration leads to the constitution of groups of a sufficient size to carry out successfully an international growth strategy.

This concentration-internationalization process increases the intensity of competition between distribution firms. Not all of them have been able to adapt and some have disappeared. It is the case in particular of Coop AG in Germany or of Montlaur in France. The most threatened firms are those that haven't reached the critical size yet on their market. Are thus concerned small sized firms (who are the main target of groups wanting to expand externally) or those of which the activities are incoherent. Small groups often aim at focus strategies. Success of such a strategy is more and more questionable, especially in the food sector. This is why associations between small sized groups and leaders in food distribution are developing. In France,

Guyenne et Gascogne associated with Carrefour ; the SASM and the Docks de France have set up a crossed holding ; Arlaud signed a franchising agreement with Promodès at the beginning of 1991. In the same way, the family group Rally had to submit in July 1991 to opening their capital to financial investors. The ability of small groups to stay independant is questionable.

The present reshaping phase is still far from being finished. The international dimension of restructuring will increase. The problem then is whether the different European groups will be able to play a preponderant part quickly. This ability depends on the financial means of these groups. These means depend themselves on the size, the profit earning capacity and the access of groups to money market. Buying back through external growth is becoming more and more expensive. For example, in Germany, it was admitted that the selling price of a commercial firm (counting its real estate) was practically of a third of its turnover. At present, the negotiation price is nearly at the same level as the turnover... British groups benefit from a strong profit earning capacity. On the contrary, the low profit earning capacity of French groups makes them vulnerable, even though some of them have an easy access to capital... The differences of structures, regulations, history... in distribution of different European states will have a strong influence on the position their groups will be able to reach.

III - Analysis of a number of groups

A - SAINSBURY (Great Britain)

Created in 1870, Sainsbury is now the leading British distributor (12 % of the market). Their sales figures of £6930 million in 1990 thus make them the 8th world distributor.

Their operations are mainly concentrated on the food market, supermarkets in particular. Their only product diversification concerns D.I.Y., with the Homebase trade mark. This activity only represents 3.2 % of the group's turnover.

Sainsbury's competitiveness results both from their high productive capacity and the quality of their private label products. It is generally acknowledged that Sainsbury is at least 2 years in advance of their competitors as far as technological modernisation is concerned. 90 % of their stores have bar codes and laser scanners and the use of electronic fund transfer at points of sales is still growing (20% of the sales are paid by credit card). 55 % of Sainsbury's sales figures result from the sale of private label products. They are therefore very far in front of their competitors (for Tesco, the second distributor from that point of view, only 36.4 % of their sales are private label products).

Gains in productivity and the high percentage of private label products in the sales contribute to a good rate of return in the group. The margin ratio is high and is still increasing (18 % in 1986, 20 % in 1990). The net result has increased in average of about 25 % per year between 1986 and 1990. In 1990 the net margin of profit was of 4.5%.

This profit earning capacity enables Sainsbury to finance a swift expansion, the main strategic aim of the group. The growth rate has been increasing since 1987. Before 1987, Sainsbury would open in average 15 supermarkets a year whereas 20 new stores opened in 1989 and 30 in 1990. The average size of these new stores is increasing each year. In the same way, development of hypermarkets is emphasized since Sainsbury took over Savacentre in 1989 through the covering purchases of Storehouse. However, even though 2 new stores opened in 1990, the group only totals 8 hypermarkets for the

moment. On the whole, the sales figures progressed of 19.4 % per year in average between 1986 and 1990.

Together with the increase in activity, there is an intensification of the effort in communication. In 1988, the advertising budget of the group totalled £9.6 million. The average increase was thus of 13.2 % between 1985 and 1988. From this point of view, Sainsbury is superseded by Gateway whose advertising budget totalled £12 million in 1988.

Although Sainsbury's self financing flow is high, their fast growth goes together with an increase in their debts (they issued £200 million worth of convertible bonds in 1990). However, this indebtedness is equivalent to only a fourth of the fixed capital, that is to say one of the lowest levels in Europe.

The family structure of the capital is a clog on association with other companies. The only partnership at the moment is the 25 % holding the Belgian group G.I.B. has in Homebase, Sainsbury's subsidiary. The group is thus mainly money market financed. In May 1991, Sainsbury increased their capital to £489 million through the issuing of new shares. The parity ratio was of 312p shares for 10 former shares. The Sainsbury family's holding will drop from 46.9 % to 43 %, owing to the rights issues. This increase in capital is joined with a leasing operation for £135 million in March 1991.

The achievements of the British group thus appear to be outstanding and will probably not be impeded in the near future. However, in the long run, three features of the group may threaten their competitive position :

- a low internationalization rate. Sainsbury's international operations mainly bear on the United States. They started in 1983 with a minority holding in Shaw. The group then took over the American firm in 1987, and now owns 67 stores in the U.S.A.
- a low diversification rate. Their only product diversification concerns the D.I.Y. trade.
- The group is not very familiar with external group operations. No operation of such a type has been carried out since they repurchased Storehouse's shares in Savacentre in 1989 and took over Shaw in 1987.

Now, in order to remain of the leading european distributors, the ability to internationalize and diversify operations as well as to carry out external growth of the group has become a strict necessity. Sainsbury's lack of experience in those matters will probably question their management habits. Furthermore their entrepreneurial ability to adapt is doubtful.

SAINSBURY'S MAIN FIGURES

	1986	1988	1990
Turnover (taxes excluded) *	3 410	4 790	6 930
Market shares (%)	9,7	10,7	11,6
Employment (thousands of employees)	82	88	106
Added Value *	550	840	1 320
Investments *	250	440	690
capitaux propres *	660	1 030	1 530
Net result *	130	200	310
Sainsbury's store number	280	283	314*
Medium-size surface per store (m2)	1676	1930	2211
Medium-size surface for the new set-up stores	2743	3065	3232
Savacentre's store number	6	6	8
Homebase's store number	28	38	55
Shaw's store number	-	60	67

* (millions of Sterling pounds)

**Estimation

Sources : Points de vente 1991

B - ALDI (Germany)

The German chain of distributors, Aldi, is fully owned by the Albrecht family. Aldi's activity exclusively concerns running small discount supermarkets. In 1990, their total turnover was of 24 billion Deutschmarks. The firm is thus the third German distributor (behind Metro and Rewe) with 3.6 % of the German market, but 9.2 % of the German food market ; Aldi is the 5th world distributor.

Aldi played an important part in innovation by creating the concept of hard-discount : the stores are of an average size and are situated in the centre of town ; the products offered are for 90 % food ; the number of item on sale is low (about 400 to begin with) and concern basic products ; the layout of the stores is summary (the articles stay in their boxes) ; they minimize their labour costs which means that the customer service is minimum (long waiting at the cash registers...) ; and especially, their prices are very competitive and the items for sale are of acceptably good quality (their margin is of only 13 %).

While the concept could have seemed, at first glance, to appeal mostly to lower social classes, a recent survey showed that at least 73 % of the German households got their supplies (more or less often) from Aldi.

In order to carry out this hard-discount strategy, four management principles are essential :

- obtaining as much discount as possible on behalf of the dealers by ordering huge quantities and avoiding well known trademarks as much as possible. Private labels total 60 % of the turnover in Germany.
- rationalizing logistics : for example, no order represents less than an equivalent of 31 pallets.
- a strict control of brands : each new brand is tested in 4 or 5 stores of the area. The article must comply with strict rates of return and quantity. If the aims are achieved, the test goes on for one year, either on the initial market or in Aldi North or in Aldi South stores. Only then is the item sold on the whole of the distribution network.

- reducing labour costs : standard Aldi stores have only two employees. They see to both the cash registers and the stocking of the counters. Although their pay is good, Aldi employees are subject to a strong pressure as far as productive capacity is concerned. This results in the fact that labour costs only amount to 4.5 % of the sales figures. Results of the other German hard-discounters aren't as good (5.5 % for Norma, 9 % for Lidl.)

Aldi's quick growth on the German market led the group to early internationalization. It started with Austria in 1960. It continued with the Netherlands, Great Britain, the United States, France, Italy soon... Foreign markets are often penetrated by takeovers of local distributors; in Austria, Aldi bought back the Hofer chain which had difficulties, in the Netherlands they bought Combi back in order to penetrate the market. Aldi wanted to enter the British market by taking over Kwik-Save, the discounter, but apparently they didn't have the means of their ambitions.

Aldi is already well established in West Germany. German hard-discounters total 13% of the market (counting East Germany out). There are therefore expansion opportunities for Aldi, especially in East Germany (the first store was opened in September 1990) where the idea of discount will probably be successful. After dealing with the food sector, Aldi is taking an interest in the non-food market. The number of articles offered for sale in German stores is therefore increasing through non-food items. Internationalization opportunities are still many too. Aldi is still absent in many European countries and their penetration in France is low (32 stores at the end of 1991).

However, the success of internationalization is never unquestionable. Aldi's foreign strategy is the same as in Germany : they export a standard concept, that they hardly alter to adapt to the competitive world and to each particular commercial area. This lack of capacity to adapt to local specific features may limit their penetration. Aldi is thus undergoing a setback in Denmark (they are however still the first rate discounter) and their growth in Austria and the Netherlands is slowing down. Although their penetration of the French market is quick, it may be exposed to the greater requirements of French consumers, as far as quality is concerned. Aldi stores in France offer a strong proportion of German items, sometimes without even adapting the wrapping... Furthermore, once the first impact is past, there is often a reaction to this penetration on behalf of the local competitors. For example, in France, Carrefour is

giving a growing scope to their ED brand and Coop in Normandy have launched the Le Mutant brand... However Aldi still has opportunities. They have showed how, in France, they could arouse more interest than distrust on behalf of the dealers. By offering more local articles on the British market, they showed a rather good capacity to adapt.

C - CARREFOUR (FRANCE)

Carrefour, with an annual turnover of 75.84 billion Francs, is the third French distributor in 1990 behind Leclerc and Intermarché, independant groups. They are the first chain group in France. Their recent takeover of Euromarché (9th French distributor) puts them in first rank as far as French distribution is concerned. Their group turnover should be over 100 milliard Francs.

Created in 1959, Carefour opened the first hypermarket in France in 1963. The founder families and the Spanish group March have a majority holding.

Carrefour's activity is concentrated on running hypermarkets. Even before the takeover of Euromarché, with 73 stores, they were the first trade mark in France as far as their turnover was concerned. Carrefour are also developing their share of the market of supermarkets with the Ed trade mark (hard-discount). Ed is run by their subsidiary, Erteco.

The carrefour trademark has chosen to found its' strategy on discount (their margin ratio totals only 15.5 %). However, in the same time, they bring special attention to stress the specificities of their trademark, especially as far as customer service is concerned (waiting at the cash registers is minimum, financial services are offered) as well as promotion of private label items of the same quality as branded products.

The expansion aim of the management of the firm leads to go beyond the bounds resulting from an already considerable share of the market. Carrefour has therefore been very active in the past years in matters of diversification and internationalization. They are straining to enlargen the scope of their shops. Beyond the stress put on non-food items, often neglected by other hypermarkets (sports items, books...), Carrefour offers financial services (privative credit cards, saving...) The establishment in 1989 of the banking subsidiary, S2P, proves the group's strategic will to play an important part in

that area. In March 1991, Carrefour put up a joint venture with the French insurer Groupama in order to run counters that will open soon under the Carrefour trade mark and will offer Groupama products.

Carrefour also diversified their activities through a number of minority holdings in specialized commercial firms (But - furniture, Reno - shoeing, Castorama - D.I.Y.), Carpetland - carpets). Carrefour's strategy, when investing in sectors they don't usually work in, is to prefer minority holdings in leading firms in order to benefit from synergy and know-how without having to tie up huge sums of capital.

In 1989, 30 % of the sales figures originated abroad. The increase was very quick (20 % in 1988). Carrefour plays an important part in the Spanish (Pryca and Ad trademarks) and South American markets. But the French group is also well established in the United States and opened a hypermarket in Taiwan in 1990. The two stores Carrefour controlled in Switzerland have just been sold to Migros. Development potentialities progressively disappeared after years of refusals, on behalf of the Swiss authorities, to open new stores. Partnership with local firms is often the strategy chosen in order to penetrate foreign markets, although Carrefour then try to regain their independence, once they are solidly set up.

This diversification and internationalization strategy enabled a strong expansion of the group's activity (11.4 % per year in average between 1985 and 1990. They made very little use of external growth till now, favoring internal growth or partnerships (with Comptoirs Modernes for example). From that point of view, 1991 constitutes a breach in their strategy due to attractive opportunities, the rarefaction of good quality sites and the growing difficulty in getting opening authorisations. To begin with, Carrefour took over Montlaur (for one million Francs) with their 11 hypermarkets and their 3 supermarkets. This operation enabled Carrefour to compensate their low implantation in the south of France. Moreover, Carrefour bought, for 5 milliard Francs, an 83% holding in Viniprix's capital. (Viniprix controls 52.9 % of Euromarché.) The so formed group will probably reach the third rank as far as distributors are concerned.

Carrefour's net margin was of 1.8 % in 1990 and has been increasing since 1987. Even though this level is high in comparison with the other French groups, (especially owing to high interest income) it remains low compared to the profit earning capacity of

German and British groups and it constitutes a handicap for Carrefour in the European struggle. The recent buying back of shares weighs heavily on the balance sheet and debts now amount to 90 % of the shareholders' equity. However, the commercial health of Carrefour is excellent and it appears trustworthy for investors. In 1990, Carrefour is the French distribution group that benefitted most from the strong market capitalization.

D - LA RINASCENTE (Italy)

Created in 1931, La Rinascente first started their activity in the area of department stores. The group's activity is now very diversified and the annual turnover amounted to 4182 milliard liras in 1990 (tax included). La Rinascente is the second Italian distribution group (the third if cooperative stores are taken into account) but the first in the non-food sector.

The food area constitutes 56 % of La Rinascente's activity. The group runs directly 135 SMA and Sigros-Sagea supermarkets, 14 Citta Mercato hypermarkets and 8 Cash and Carry. In the non-food sector, the group is mainly present through its' 12 La Rinascente stores, its' 196 Upim popular stores, but also through 31 Croff stores, specialized in household items, and 14 G.B.S. bricocenters.

The aim of the management is to succeed in a process of quick development and modernization in order to make of La Rinascente a European sized group that would be capable of being a match in the coming competitive struggle. The aim is to achieve a turnover of 8,000 milliard liras in 5 years from now.

A considerable effort of investment will be made in the next few years. Although the number of department stores will be maintained for prestige reasons, the effort on popular stores will be lessened since this form of trade progresses little and is not very profitable. All the new stores will be franchised. The resources of the group will be concentrated on supermarkets and hypermarkets and on specialized non-food trade marks. An ambitious strategy of buying back has been put into action as far as supermarkets are concerned, in particular in the south of the country (where there is still a lot to do) through the takeover of Sigros. Since the end of the eighties, La Rinascente have renewed their concept of hypermarkets. The new shops have larger sales areas, are situated in more luxurious shopping centers and the variety of goods is mainly

concentrated on fresh food. In the non-food sector, the chain of bricocenters will be developed and it is planned to open larger sized shops. Besides, La Rinascente has just established a new trademark specialized in Hi-Fi and houseware.

This strategy of swift growth relies on numerous partnerships. To begin with, in order to hasten expansion, La Rinascente franchises a lot. They have already franchised 293 units. Franchising will continue to be a strong factor of the presence of the group in the area of supermarkets. But partnerships are also a means to acquire know-how. The appearance of La Rinascente on non-food markets was most often achieved through the takeover of firms that were already very skilled in the given sector (Croff Nuova in furniture, Morasutti in houseware and D.I.Y....). Thus, the new Hi-Fi and houseware trademark was established through a 49 % holding in Sogema, a company specialized in that area. La Rinascente is a member of the A.M.S. (Marketing Service Association). In order to increase the efficiency of their supermarkets, La Rinascente put up a partnership with Casino (65 % -35 %). A joint venture was created (Smafin) whose aim is to establish a chain of supermarkets in Italy and abroad. Besides, cooperation as far as marketing is concerned is to be set up. La Rinascente also put up a partnership with Parco, the Japanese leader in the fashion sector, who is very active in big commercial centers. Parco will open, in Japan, stores bearing La Rinascente and Croff trademarks and distributing Italian products. La Rinascente will use Japanese methods, as far as marketing and logistics are concerned, in order to organize their network.

The Italian firm is giving obvious proof of its' entreprising spirit and shows the will to play a preponderant part, in a country where trade is still fractioned, before the pressure of foreign groups becomes too strong. The average annual progress of the sales figures totals 13 % between 1987 and 1990. The profits are growing and represented 3.2 % of the turnover in 1990. Indebtness is low in the group. La Rinascente has the means of its' ambitions.

CONCLUSION

European distribution is undergoing a reshaping period that seems far from being finished. Supermarket and hypermarket trade will continue to spread, in particular in the southern countries, where independant traders are still dominating, and in the non-food sector. Multiple stores have already shown their ability to adapt their form of organization to modern forms of trade. However, the example of Leclerc and Intermarché shows that the decline of independant trade is not inevitable and that, if they get grouped and adopt modern sale and management techniques, independent traders can ambition to play an important part on the market.

With the drop of expansion opportunities and the internationalization of competition, the pressure of competition is becoming stronger. This competition will have beneficial effects on sale areas that are able to offer competitive prices, a large variety of items and quick and efficient consumer service. The price remains the major factor of competition on most EEC markets. The means to increase the competitiveness of distribution groups thus appears to be the capacity to reach a considerable size. This then enables them to increase their power to negotiate purchases (purchases are more and more often carried out through associations with other European distributors), to rationalize logistics and to finance technological modernization of their shops. But in the same time, the fact that a number of forms of distribution are now mature (hypermarkets in several EEC countries), leads to a more precise definition of segmentation, marketing and communication strategies. The public image of brands has become an important factor of the competition struggle.

In this competition context, independant non-associated trade and small-sized groups will have increasing difficulties to survive. They will have to develop focus strategies in sectors that have been neglected by big groups or in which these groups appear to be maladjusted. Proximity food trade and several non-food forms of trade seem to still offer opportunities for these small traders.

Structures will continue to concentrate in the different EEC countries. The major groups are strengthening (through internal and external growth) in order to intensify their

internationalization strategies. The latter have mainly been carried out on "easy" markets up till now, where widespread independant trade resisted little to the attack of modern distribution groups. At present, a new phase in internationalization is about to start, where major groups will have to confront each other on their respective makets. The next few years will still be characterized by important reshapings, that should lead to the development of a truly European distribution.

RIDER DEFINITIONS

The usual definitions, in EEC countries, of the various forms of trade are the following :

- **Hypermarkets** : sales areas of over 2500 m² and over a third of the turnover originating in the food sector.
- **Supermarkets** : sales areas of 400 to 2500 m² and over a third of the turnover originating in the food area.
- **Superettes** : sales areas of 100 to 400 m² and over a third of the turnover originating in the food sector.
- **Discount Stores** : food shops, most often superettes or supermarkets, of which the main feature is a limited number of food and non-food articles, sold with a low profit margin.
- **Convenience Stores** : food stores, most often superettes, in which the variety of items offered is composed mostly of ? items and that are open for longer periods than other trades.
- **Department Stores** : non-food and non-specialized businesses where the sales area is over 2500 m². Most often, popular stores are added to this definition. These stores are non-food and non-specialized trades in which the sales area is 400 to 2500 m².

Definitions of forms of trade may vary from one country to another and it is difficult to adopt one classification for the whole of Europe. The above classification can however be adopted except in the following cases :

- In the Netherlands, there is no distinction between supermarkets and superettes : both are counted as supermakets, with a sales area of 200 to 2500 m².
- In Germany, hypermarkets are defined as firms in which the sales area is over 1000 m² and supermarkets are those where the sales area is 400 to 1000 m².
- In Great Britain, hypermakets have a sales area of over 4645 m². Stores in which the sales area is of 2322 m² to 4645 m² are called superstores.

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