

## **CROSSROADS**

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### **France's answer to Wal-Mart faces some of the same difficulties**

IF FIRMS are supposed to learn from their rivals' mistakes, then America's Wal-Mart and France's Carrefour are doing a bad job. Over the past few years the world's two biggest retailers have made surprisingly similar errors. Both expanded too quickly abroad. Both dithered over their focus on low prices. Both toyed with discounters and with smaller versions of their giant shops. Now both are in trouble.



Wal-Mart's troubles are mainly strategic, but Carrefour is also struggling with uncertainty over its management and ownership. On March 7th the Halleys, the family in control of Carrefour, replaced Luc Vanderveelde, its chairman, with Robert Halley, a septuagenarian member of the clan. On the same day Colony Capital, a property-investment company, and Groupe Arnault, the holding company of Bernard Arnault, a French luxury tycoon, bought almost one-tenth of Carrefour.

The exit of Mr Vanderveelde, a former boss of Marks & Spencer, a British retailer, came after weeks of speculation about Carrefour's future. In mid-February the Halleys said Bernard Bontoux, another family member, would take over from Mr Vanderveelde as their representative on the board. Two weeks later the French

press reported rumours of the imminent departure of Jose Luis Duran, Carrefour's chief executive, and Eric Reiss, its financial chief.

Then came the surprise swoop by the Arnault group and Colony. "Mr Arnault is likely to do a Vincent Bollore," says Chris Tinker of ICAP, a specialist broker. (Mr Bollore is France's top corporate raider.) Mr Arnault and the property investors hope to extract value for investors from Carrefour's property assets, worth at least EURO15 billion (\$20 billion). Sale-and-lease-back deals, where a firm sells property and pays rent to occupy it, generate piles of cash. But Mr Duran dislikes the idea. "Mr Arnault will seek a board seat and try to influence the company's strategy," predicts Mr Tinker.

Interne strife is the last thing Mr Duran and Mr Reiss need as they try to revitalise the company. To focus on countries where Carrefour is doing well, they pulled out of Japan, Mexico, South Korea, the Czech Republic and Slovakia and may yet sell subsidiaries in Portugal, Switzerland and Thailand. They have also tried to re-establish the store's reputation for low prices in France, which accounts for half its sales. On March 1st Carrefour cut the prices of its own-brand products in France by 7-8%. There are hopeful signs: net profits rose by 58% in 2006, to EURO2.3 billion, though most of the increase came from the sale of operations in South Korea.

But investors grumble that the company's share price underperforms those of its European rivals by a large margin. The value of the Halley family's stake has fallen by half since 1999. Until the share price recovers, the Halleys want Carrefour to stay independent. That is why they fell out with Mr Vanderveelde, who had been in talks with private-equity groups about a buy-out of Carrefour without the family's consent. But in the longer run they might sell out. As founders of Promodes, another French hypermarket chain that merged with Carrefour,

they are not so attached to the retailer, and have already reduced their stake from 25% to 13% of shares.

Will anyone bid for the struggling firm? Carrefour's 1999 takeover of Promodes is a deterrent, since it was the beginning of Carrefour's problems at home. Shoppers who used to go to Continent, Promodes's flagship chain of hypermarkets, defected to E. Leclerc, a rival, because they thought its prices were lower. Today, Leclerc is France's leading hypermarket, with a market share of 17%, followed by Carrefour with 14%. "I don't believe in a takeover of Carrefour," says Jerome Samuel, a retail analyst at IXIS Securities in Paris.

As hypermarkets in Europe and America go through a rough patch, the biggest are the most exposed. In particular they face competition from ultra-cheap discounters, such as Aldi and Lidl, which control about 40% of Germany's retail market and plan to conquer the rest of Europe. Aldi is also making inroads in America. At the same time both retail giants are under threat from Britain's Tesco, which is challenging Carrefour's dominance in Europe and is setting up shop in America. Having made the same mistakes, and facing similar problems, will Wal-Mart and Carrefour now counter-attack along similar lines?