

A CRUMBLING CARREFOUR

Sufferings of a Global Retailer

► Kerry Allen



When it touched down in China in 1995, Carrefour went from strength to strength in becoming the largest foreign retailer in the country. It enjoyed success until 2009, when Carrefour was overtaken by Wal-Mart in terms of location, across China.

Since falling into second place, the hypermarket chain has only seen a steady decline in China, seemingly having lost its edge. Carrefour now faces greater pressure than ever from both international and local competitors with more long-term investment strategies, particularly in emerging markets like China, where competition is rife. Wal-Mart now occupies more than 200 stores since its entry in 1996, and Tesco having 94 since entering in 2004 with a steady expansion rate of 25 new stores per year.

Both the media and analysts have realized that the French retailer's struggles in China are reflected in their expansion operations abroad and in its native France, and now believe there are fundamental issues in the company's business model.

Legacy of failures overseas

Between 1994 and 2004 Carrefour entered an additional 23 countries, with varying degrees of success. It soon sold

off operations in 10 of those 23 countries, and completely exited from growth markets like Russia, South Korea, Thailand and Algeria. The retailer also intended to pull out of its Malaysia and Singapore markets, however failed to auction off its smaller businesses due to poor locations.

Brazil was another emerging market forecast to generate success, but since Carrefour's entry in 2007, it has failed to make progress in the country. The difficulties prompted a merger with a local player named Cia, but the deal fell through in July. Carrefour is now facing a very uncertain future in a high growth Brazilian market.

What's more shocking is the company's recent struggles in its home country of France, a market that used to be an all-but-certain pillar for its success. In 2007, LVMH CEO Bernard Arnault recently lost a staggering US\$3.5 billion from a high profile 9.8% investment in the French retailer. Sales in France and surrounding Europe have been poor as of late, and slow growth has led to a net loss of US\$345mn in the first half of 2011.

With sales faltering at home and in growth markets around the world, the company is realizing that serious restructuring is needed. China has been cited as a major market that will help turn the company's fortunes around.

Ultra competitive environment

Currently, Carrefour faces tough competition in China from Wal-Mart, Tesco, Metro AG, The Sun Art Group (RT-Mart and Auchan merger) and various emerging local retailers such as the Bailian Group. China's hypermarket sector is set to grow at an annual rate of 10.1% between 2010 and 2015, which leaves plenty of opportunity for each retailer to make significant gains. However, Carrefour has struggled to maintain a competitive position in China's developing retail segment, as it's failed to keep up with the latest trends. These include online shopping, proximity stores, and stores for smaller quantity buying both abroad and in China.

In order to stay competitive, Tesco brought its Tesco Express model to China, in order to meet the growing demand for small quantity shopping, and to compete with the rapidly expanding convenience store market. Local players like NGS and Lianhua similarly focus on the proximity store market, offering smaller locations with a decent selection of daily goods. Wal-Mart recently teamed with YiHaoDian to tap into the burgeoning on-line grocery market in China.

Carrefour has yet to begin evolving its retail formats, choosing to keep its traditional setup in poor locations. "It's very behind on the new channels for future growth," says Vincent Verder (Kantar Retail), contrasting Carrefour to Auchan, which in recent months has introduced both discount hypermarket stores and drive-in stores to pick up goods ordered online.

No logistics/supply chain integration

After more than 15 years, Carrefour is still the only

retailer not to have established a distribution center in China. "Carrefour's early success made their investors think that without serious investment in China, it was still easy to make money," says Planet Retail analyst Yujun Qiu. "However, it has changed as the competition got steeper."

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-Senior logistics MD

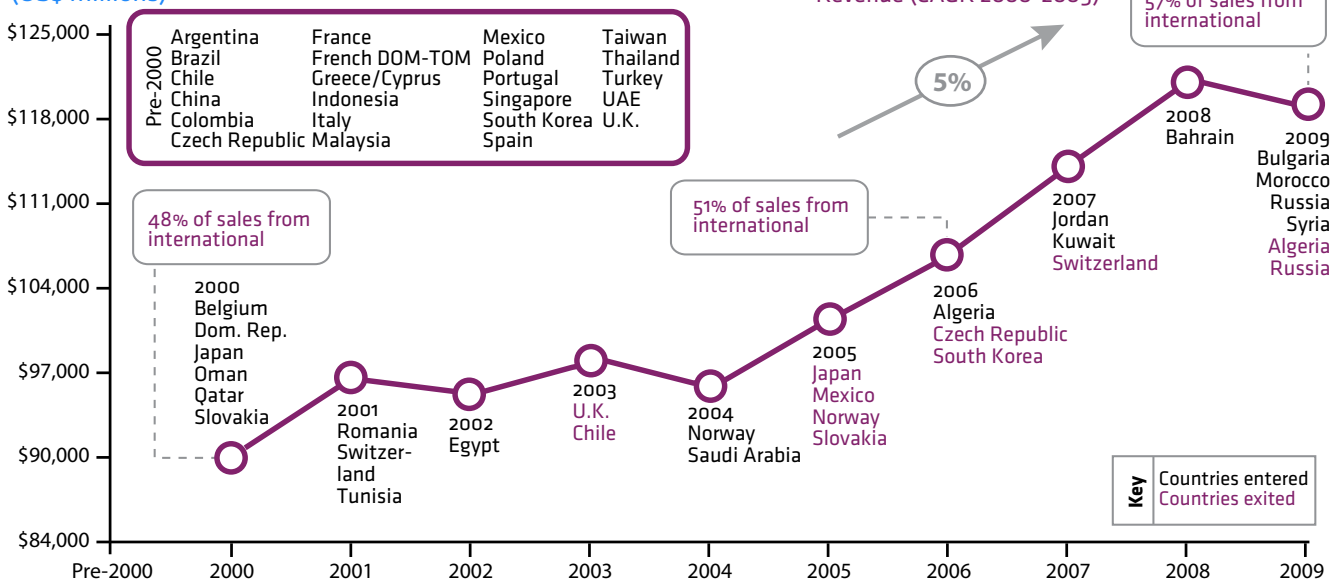
An anonymous director notes from working closely with retailers in the logistics industry that establishing any sort of a logistical network in China has not been a main concern for Carrefour thus far. "It is as though logistics are still seen as more of an expense than a method with which their business can grow."

As a result, Carrefour is heavily reliant on 3PLs for the transportation of its goods, which this director shows concern about. "Relying on 3PLs is maybe not enough. Even if Tesco and Wal-Mart have less store presence in China than Carrefour, some suppliers would prefer to use them because having a DC is more convenient."

The difficulty Carrefour faces managing these 3PLs while it continues to expand without a DC is lack of know-how to ensure safe-order execution. One senior logistics MD working closely with Carrefour who wished to remain anonymous stated, "Domestically, while there are no logistics in place, there are no clear strategies. A lot of confusion exists and everybody is waiting to see what

Carrefour's focus on a smaller portfolio of countries has led to several recent exits

Carrefour total revenue (US\$ millions)



Notes: Carrefour withdrew from Slovakia in 2005, it's remaining stores were converted to franchises in 2007. DOM-TOM is an acronym for France's overseas departments and territories. CAGR is compound annual growth rate.

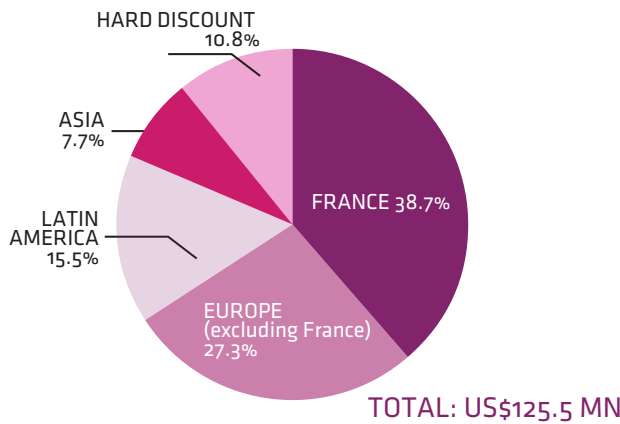
Sources: Carrefour website and annual and financial reports, 2000-2009

the new Carrefour China CEO will do to change that.”

No E-Commerce

With around 460 million internet users and growing, recognising China’s online consumer market is vital to any retailers’ development. Carrefour made an attempt to tap the online sector, but quickly lost out to competi-

Breakdown of consolidated net sales by operating segment



tors with a stronger long-term vision.

In 2006, Carrefour introduced their boostore.com portal to consumers in major cities like Beijing, Qingdao, Wuhan, Shenzhen and Guangzhou, however quickly reduced their market to focus solely on consumers spending RMB500 or more. The service is now only offered at two stores in Beijing and Shanghai, but at the time this article was written, clicking on the e-shop link on Carrefour’s Chinese site was met with an error message: “page not found”. No new developments have been attempted to improve the platform in China, which is likely due to its slow development on the international front.

Wal-Mart on the other hand, has recognised the potential of this market, and recently bought stakes in the established B2C firm YiHaoDian, and opened an e-commerce headquarters in Shanghai. “Online sales in China are growing rapidly and are projected to match

US online sales in the next few years,” stated Eduardo Castro-Wright, Wal-Mart Global e-commerce and Global Sourcing CEO. Adam Xu, Shanghai-based Booz & Co. Consultant, stresses the significance of retailers in China moving into e-commerce “Recent players like Yihaodian and (other) B2C retailers; their memberships are growing very fast... it’s a good model for certain segments so Wal-Mart is moving fast by investing now.”

Real estate issues

Carrefour has established itself by using a real estate-like strategy, whereby they lease space to vendors and charged a significantly higher rental fee. Carrefour’s prominent image made it very effective at attracting these vendors initially, as they were guaranteed high traffic, and analysts have speculated that this has helped generate the majority of their profit margin.

But as Carrefour nears the end of its 20 year lease agreement signed in 1995, the company will face a severe rise in operating costs. Analysts believe that the price increase will be passed on to the local vendors, but will they be willing to absorb the cost? Planet Retail also warns that the contract renewal will bring about threats from other retailers, particularly local ones, approaching the landlords to effectively steal the property, through bribery, politics, and local governments.

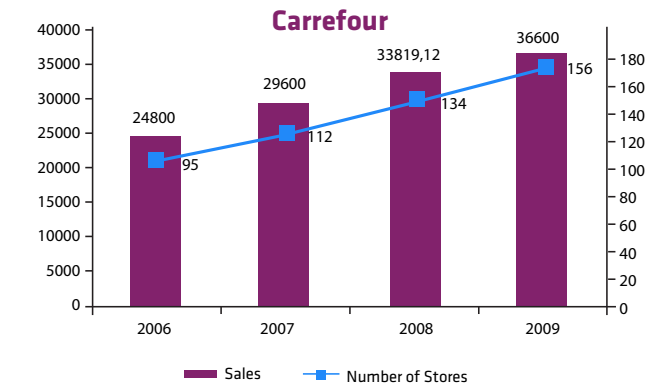
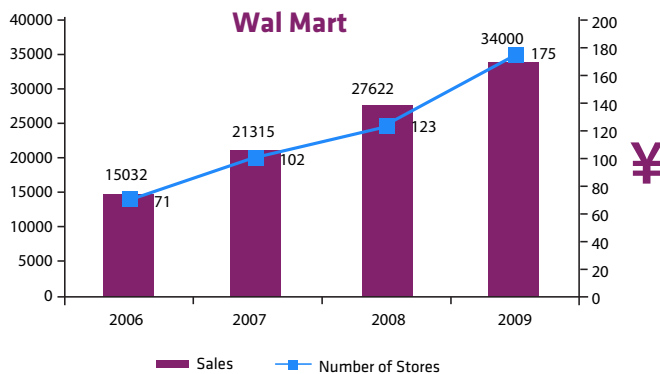
Additionally, local governments have transitioned away from favoring foreign enterprises, which has made it much more difficult for Carrefour to find suitable locations for its stores. An anonymous Carrefour source stat-

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-Anonymous store manager

ed that “it is now impossible for Carrefour to obtain locations in core business districts, particularly in places like Shanghai and Beijing”, a sentiment echoed by a former

Sales and Number of Stores of Wal-Mart (China) and Carrefour (China) 2006-2009, (RMB million; %)



senior executive, who believes the company’s location strategy is only getting worse. “When competitors have the best locations, for instance RT-Mart rents property in busy commercial areas in Shaoxing, Carrefour chooses cheaper, inferior locations.”

Management

Confusion and conflict within Carrefour China has meant that store managers are either reverting to the decentralised business model with which Carrefour initially drew success, or maintaining the CCU (city commission unit) model as instigated by Eric Legros (Carrefour China President 2006 – present).

CCU involves the implementation of a Pilot Store Manager within one of four China regions, who acts as a liaison between local suppliers and places purchase orders, procures goods, and manages promotions and merchandising.

Poor integration of the supply chain in combination with Legros’ CCU business model has been a big factor in Carrefour’s struggles in recent months, resulting

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-Anonymous store manager

in many store managers feeling frustrated. “Carrefour’s store managers used to have a lot of power in sourcing, pricing, layout in stores, negotiation with suppliers, and promotions, which made a single Carrefour store very flexible to changes from both consumers and suppliers” states Yujin Qiu (Planet Retail). “However, after CCU was inserted between headquarters and store managers, Carrefour store managers no longer have the capability to make timely adjustments.”

A source from a worldcrunch.com interview added that suggestions for change under Legros have been met with ignorance, and very little regard for others opinions. “He rarely listens to anyone... and so next time, the



Closed down Carrefour store in Changchun, northeast China

[local] manager will not bother to give his opinion, but just listen to him and execute whatever he wants.”

Moving forward

With no distribution centers throughout China, heavy reliance on 3PLs, a failure to evolve with retail trends, and reluctance from upper management to address the issues managers and suppliers are facing, the future for Carrefour in China looks bleak. All of their struggles at home in France and in emerging markets around the globe have only added to this dismal outlook. Rumors were even floating around that Carrefour might exit the market, to be taken over by China Resource Enterprise Ltd, a manufacturers and distributor of consumer goods from companies including Snow Breweries Ltd. and San-yo Compressor Co. Ltd.

However, Carrefour’s PR team quickly squashed those rumors, and media and analysts alike have signaled that massive restructuring is coming. “A plan is being put together for next year, and logistics are something that upper management has decided they will start looking into, something that’s part of the plan. With new management, things are going to change,” stated a store manager at Carrefour in China. □

	184	Locations in China
	10	Sold Operations (00-09)
	2	Retailer Ranking in China
	0	Distribution Centers