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Carrefour Finds Itself in the Cross Hairs; Possible Wal-Mart Bid Shows Challenging Environment the French Retailer Faces

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Abstract (Article Summary)

Wal-Mart's market capitalization of about \$263 billion (207 billion euros) is roughly seven times as large as Carrefour's 31 billion euros, or about \$39 billion, even though Wal-Mart's sales of \$256.3 billion for the year ended Jan. 31, 2004, are only about 2.5 times as large as Carrefour's 2003 sales of 79 billion euros.

Some industry watchers think that if Wal-Mart does set its sights on Carrefour or rivals in Europe, Carrefour might instigate a defensive merger with another European, probably French, retailer. Carrefour's merger with rival Promodes SA in 1999 was considered to have been motivated in part by Wal-Mart's acquisition of Asda that same year.

Carrefour invented the hypermarket in 1963. The concept of having everything from food to clothing under one roof proved so successful that it was the inspiration for Wal-Mart's supercenters, according to the autobiography of Wal-Mart founder Sam Walton. But unlike Wal-Mart, Carrefour didn't build its reputation in its home market as the retailer that offered the lowest prices, analysts say. Rather, Carrefour's claim to fame for years was a massive array of quality goods in one place -- at reasonable, rather than bargain-basement prices.

Full Text (711 words)

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London -- SHARES IN CARREFOUR SA of France, the world's second- biggest retailer, jumped last week amid renewed market speculation that larger rival Wal-Mart Stores Inc. was planning a bid.

The speculation, if nothing else, highlighted the predicament that Paris-based Carrefour is in. Some say it is vulnerable not only to a takeover, but also to increased competition from international competitors that are posting stronger domestic growth. Dogged by discounters and slow economic growth in its home market, Carrefour -- which established its everything-under-one-roof hypermarket more than 40 years ago -- has seen its market share in key areas slip and its shares, barring last week's jump, are trading around where they were at the beginning of 2003.

Wal-Mart's market capitalization of about \$263 billion (207 billion euros) is roughly seven times as large as Carrefour's 31 billion euros, or about \$39 billion, even though Wal-Mart's sales of \$256.3 billion for the year ended Jan. 31, 2004, are only about 2.5 times as large as Carrefour's 2003 sales of 79 billion euros.

Any merger or takeover, of course, could face big obstacles. A Wal- Mart deal, for instance, could run into culture clashes, integration headaches and antitrust concerns, some analysts said. Wal-Mart and Carrefour declined to comment on the market speculation, though a person familiar with the matter said that Wal-Mart has a renewed interest in scouting for a

European acquisition.

Wal-Mart, like Carrefour's fellow European powerhouse Tesco PLC of the United Kingdom, can base its global ambitions on a strong home market.

Carrefour's shares closed yesterday at 43.50 euros (\$55.19) on the Paris Stock Exchange, flat from where they started the year. Carrefour shares ended 2003 just about where they began, compared with a 16% rise for the Paris blue-chip CAC 40 Index, of which Carrefour is a component. When it reports 2003 earnings next week, analysts expect Carrefour to show net profit of 1.89 billion euros, up 11% from a year earlier, according to Reuters Research.

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Adding to the speculation over Carrefour's future were the December deaths, in a plane crash, of Paul-Louis Halley and his wife. Mr. Halley represented the Halley family group, Carrefour's largest shareholder with a roughly 11.5% stake, according to Carrefour's 2002 annual report.

Carrefour says the Halley family group still owns its stake.

The fundamental issue for Carrefour, though, is weakness in France. Carrefour has successfully expanded into many foreign countries, and analysts consider it top notch at adapting its stores to local shopping tastes and habits. But it still gets about half its 79 billion euros revenue from France, where a stagnant economy, weak consumer spending and fierce competition from low-price rivals have hit Carrefour's core hypermarket business hard.

"I would expect them to show good progress in France" before the stock really has a run again says Martin Schneider, senior fund manager responsible for consumer stocks at DWS in Frankfurt, Deutsche Bank AG's mutual-fund arm, a Carrefour shareholder. "They have to fix the hypermarket business in France."

Carrefour invented the hypermarket in 1963. The concept of having everything from food to clothing under one roof proved so successful that it was the inspiration for Wal-Mart's supercenters, according to the autobiography of Wal-Mart founder Sam Walton. But unlike Wal-Mart, Carrefour didn't build its reputation in its home market as the retailer that offered the lowest prices, analysts say. Rather, Carrefour's claim to fame for years was a massive array of quality goods in one place -- at reasonable, rather than bargain-basement prices.

Ann Zimmerman in Dallas, Jo Wrighton in Paris and Dennis K. Berman in New York contributed to this article.

A Big Push at Home Retail giant Carrefour is running an ad campaign in France in an effort to bolster business in its home market. Yearly percentage change in same store sales. 4Q 2003 Full year 2003 France -0.2% 1.4% Europe excl. France 3.7% 3.9% Latin America 2.1% 4.9% Asia 1.5% -0.8% Total 1.5% 2.5% Source: the company

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