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Wal-Mart Joins Rivals in Retreating From German Retail Market

By Maria Sheahan and Thomas Mulier

July 28 (Bloomberg) -- Wal-Mart Stores Inc., the world's largest retailer, is only the latest to run afoul of the sluggish German retail market.

At least six other chains have been driven out of Germany by slow sales and low margins in the last five years. Gap Inc., Laura Ashley Holdings Plc, Marks & Spencer Group Plc, HMV Group Plc, Kingfisher Plc and Gruppo Coin SpA all have fled. Wal-Mart is selling its 85 German outlets to Dusseldorf-based Metro AG.

The foreign companies have found growth elusive in an economy that barely expanded in the four years through 2004. Growth of the retail market, worth about 390 billion euros (\$496 billion), will be no more than 1 percent this year, according to the HDE consumer-goods group, held back by near-record unemployment and stagnant wages.

"German consumers are really watching their money," said Concepcion Moreno, who helps oversee about \$15 billion as an analyst at Petercam Asset Management in Brussels. "The market is all about hard discounters."

Wal-Mart is selling its German stores at a \$1 billion loss, a statement from the Bentonville, Arkansas-based company on Friday said. The outlets had revenue of about 2 billion euros (\$2.5 billion) last year, accounting for close to 3 percent of the parent's \$312.4 billion total.

The top four food retailers in Germany by sales are low-price supermarket operators including Aldi Group and Lidl, according to trade publication *Lebensmittel Zeitung*. As privately held companies, Aldi and Lidl don't have to publicly report financial results.

'Hopeless Battle'

The U.S. company "has to leave Germany," said Christopher Kummer, a professor at Webster University and director of the Institute of Mergers, Acquisitions and Alliances in Vienna. "It's a hopeless battle."

Metro is acquiring the stores to gain scale and increase bargaining power with suppliers. At the same time, it's removing a competitor to its Real chain of hypermarkets and cementing its position as Germany's biggest retailer.

Like rivals such as Rewe Group, Metro has tried to tap markets that are growing more quickly than its own. Earlier this month, the company agreed to pay 224 million euros for Poland's Geant hypermarket chain, after opening stores throughout central and eastern Europe.

KarstadtQuelle AG, Germany's largest department-store operator, has also expanded eastwards in order to halt a sales decline at the Quelle and Neckermann mail-order divisions. In March, it transferred most of its real estate in Germany, including 85 department stores and a dozen sporting-goods shops, to a venture with Goldman Sachs Group Inc.

Paying the Price

The Essen-based company still relies on its home market for 75 percent of revenue, and it's paying the price: KarstadtQuelle has failed to post a profit since 2003.

London-based Marks & Spencer, the U.K.'s largest clothing retailer, shut its German stores in 2001 as part of a withdrawal from mainland Europe. Maidenhead, England-based HMV, the biggest British operator of music and book stores, in January 2003 said it would close its three German stores. In 2004, San Francisco-based Gap sold its 10 German stores to Hennes & Mauritz AB.

Laura Ashley, a London-based home-furnishings retailer, said in April 2004 it had shut all its German shops. Kingfisher, which also is located in the U.K. capital and runs B&Q home-improvement stores, in January 2003 said it would close its Castorama chain's German outlets. Venice, Italy-based department-store company Coin announced the sale of its last German outlets in June 2004.

More H&M Shops

Germany is now H&M's biggest market, and the Swedish company is still opening stores in the country. Europe's second-largest clothing retailer has about 300 stores in Germany, accounting for a third of its revenue. Same-stores sales at the division climbed 2 percent in the six months ended May 31, excluding currency fluctuations.

Few retailers are counting on an improvement in the German market next year. On Jan. 1, the value-added tax will rise to 19 percent from 16 percent, putting more pressure on margins. Economic institutes including Hamburg-based HWWA have said the tax increase will hurt the country's economy by sapping consumer spending power.

``The real income of consumers will shrink," said Rainer Sartoris, an economist at HSBC Trinkaus & Burkhardt in Dusseldorf. ``Especially in the first quarter of 2007, spending will get worse."

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