

Crunching the numbers: Can Carrefour conquer all?

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Lars Olofsson joined French retail giant Carrefour at the beginning of January. In his three month's at the head of the company, he has developed a turnaround strategy that focuses the group's attention on improving its domestic operations. While the market has largely welcomed Olofsson's approach, a number of questions remain. Katy Humphries reports.



[view image](#)

Carrefour chief executive Lars Olofsson was not the bearer of good news yesterday (12 March) as he delivered the company's fiscal 2008 results.

In his first public remarks since taking the helm at the world's second-largest retailer, Olofsson told investors that Carrefour is underperforming relative to its competitors in terms of both sales growth and profitability. He warned that the retail giant needed to become "more agile and competitive" and insisted that the company must refocus its energies in order to "regain its leadership position".

The French retailer revealed that full-year net income had plunged 45% to EUR1.27bn (US\$1.64bn), dragged down by one-time impairment costs.

Operating income grew by only 0.3% during the 12-month period, rising to EUR3.3bn from EUR3.29bn the previous year. Significantly, operating profit fell by 3% in France, where the group generates 44% of its revenue.

Total sales rose 5.9% to EUR87bn. However, in the retailer's home market, sales were up only 0.9% as the group was forced to offer price discounts at its hypermarket business to fend off competition.

The message was clear: Carrefour is an ailing company. It has lost its leadership edge - especially in France and other developed European markets, notably Italy, Spain and Belgium. This has resulted in declining market share, lacklustre growth and unsatisfactory profit margins.

Olofsson said regaining momentum in its home market was Carrefour's "absolute priority".

The Swede revealed plans to invest EUR600m in France, which would be used to increase its own-label offering, lower prices and raise spending on advertising and promotional activity.

In the face of the global economic downturn and growth of the hard discounters, Carrefour has indicated its intention to improve its value image among shoppers - by both cutting prices and clearly communicating its value credentials to French consumers.

"Carrefour is seen as too expensive and it must address this by lowering prices - particularly at its hypermarkets - and clearly demonstrating to consumers favourable price comparisons," one Paris-based analyst suggests.

In Spain, Carrefour recently announced that it would slash prices by as much as 25%.

"In France, such aggressive pricing action is less likely as Carrefour would have to increase its volumes by almost 40% to keep profits level. While we probably won't see margins sacrificed to that extent, there could be a slight downward movement in margins for the near-term," the analyst tells just-food.

Carrefour is also looking to improve its value offering by expanding its own-label line. By the end of the year, the company intends to extend its own-brand product offering by 2,500 products, a spokesperson for the group tells just-food.

"We currently have approximately 8,000 Carrefour brand products. By extending the own brand offer we will be improving our value proposition for consumers," the spokesperson says.

Compared to its peers, own-label sales at Carrefour are relatively low. Currently, own-label sales account for about 30% of the company's sales in France, while private-label sales at French rival Casino account for about 50% of total sales.

Carrefour hopes to increase its proportion of own-label sales to about 40% during the coming year.

By boosting the level of own-label sales in Carrefour's sales mix, the company would likely see a benefit in terms of margins - as own label is more profitable than other brands.

There is also a hope that by making Carrefour-branded products a more prominent part of the company's offering it will foster a higher degree of customer loyalty.

Indeed, according to independent analyst James Amoroso, this is a crucial part of the retailer's strategy, and one that is likely to reap long-term dividends.

"It all comes back to the customer and branding. The real advantage of being big is leveraging that power. Carrefour will want to exploit its critical mass and economies of scale when it comes to marketing," Amoroso observes.

In order to strengthen the Carrefour brand, the company has looked to unify the diverse banners that it operates in France under the Carrefour umbrella.

Speaking at the company's results presentation, Gilles Petit, head of Carrefour France, said that the group has accelerated the implementation of its 'single brand' strategy, which was launched under former CEO José Luis Duran.

Petit said he will have completed the rebranding of all 900 Champion supermarkets to the Carrefour Market banner by the end of October, five months before the deadline set by Duran.

By developing a single, strong, visible group, Carrefour will maximise the impact of its increased marketing expenditure. The company is likely to see the benefits of campaigns promoting the Carrefour brand across all its formats - from c-stores, to supermarkets, to hypermarkets.

While Carrefour has identified a number of areas that are in need of long-overdue investment, the group has also indicated that it intends to generate cost-savings of EUR500m.

In the second half of 2008, Carrefour already made EUR150m in savings, half of which came from France.

Fuelling speculation that the company was preparing to cut jobs in its efficiency drive, Olofsson refused to respond specifically to questions concerning job losses.

"We must transform our great and complex organisation and return to a simpler and more fluid one," he said.

Carrefour indicated that it plans to improve the performance of its discount banners Ed and Dia, which are less efficient than competitors.

Outside of France, Olofsson said the company is "reviewing" its operations in Italy and Belgium. Declining to rule out the possibility of exiting these markets, Olofsson insisted that operations must improve, without detailing how this could be achieved.

In emerging markets, Carrefour will concentrate on areas with dense populations and a level of development that offers the greatest growth potential, focusing on Brazil, Russia, India and China. Carrefour is already present in Brazil and China and will open its first hypermarket in Russia this year.

However, Amoroso believes that Olofsson is wise to shift emphasis away from developing markets and back to Western Europe, a marked departure from the policy followed by his predecessor Duran.

"Carrefour was one of the very first European chains to expand internationally. It does need to continue what it started and stay ahead of the pack. But, by golly, Carrefour needs to sort out its domestic market," Amoroso suggests.

Looking to the coming year, Olofsson refused to give an outlook for 2009. Instead he stressed that the company's objectives were "profitable, sustainable, organic growth that outpaces that of the market, and [improves] our margins".

Meanwhile, industry-watchers looking for movement on the controversial issues of asset disposals and property spin-offs will have left yesterday's presentation disappointed.

Olofsson has laid out a clear strategy for how to tackle some of Carrefour's difficulties in France. However, a number of questions remain and it is now likely that investors and pundits will be kept waiting for answers at least until the group's next set of results, which will be released in June.

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Seneca House, Buntsford Park Road, Bromsgrove, Worcs, B60 3DX, UK.

Tel: Intl +44 (0)1527 573 600. Toll Free from US: 1-866-545-5878. Fax: +44 (0)1527 577 423.

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