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United Arab Emirates

Retail Food Sector

Carrefour Expands Its Presence in Food (and Non-food) Retail in the Gulf

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Report Highlights:

French Retail Giant, Carrefour, has moved aggressively into the retail of food and non-food products in the United Arab Emirates and will open a location in Qatar in November 2000 with another store opening slated for Oman in late 2001. Other Arabian Peninsula markets are definitely in the cards for this retailer as consumers go more and more for low prices and everything under one roof.

BEWARE THE FRENCH HEGEMONY IN INTERNATIONAL FOOD RETAIL

In 1998, the French food/non-food retail giant, Continent, began operating in the UAE with the opening of its first hypermarket in the emirate of Dubai, with a second opened in Ajman in 1999. In 2000, it has opened new stores in the emirates of Abu Dhabi and Ras Al Khaimah. With the merger in France of Continent (Promodes) and Carrefour, the Carrefour name has supplanted that of Continent here in the United Arab Emirates (UAE) as is the case globally. In addition to the four stores in operation in the UAE, one is scheduled to open in November 2000 in Doha, Qatar and four more are being built to open in 2001 in the following locations: Abu Dhabi (2nd location), Sharjah (UAE), Al Ain (UAE) and Muscat, Oman. Thus far, the stores in the UAE are owned 75% by Dubai corporate giant, Majid Al Futtaim and 25% of the business is retained by Carrefour.

Product Sourcing

For virtually all products whether food or not, sourcing is done through local importers and distributors. Under the prevailing UAE agency laws, retailers generally source goods as follows:

- 1) Consolidated good shipments from abroad
- 2) Parallel imports brought in by companies for which a fee must be paid to the recognized agents of a brand, when the agency was registered prior to 1997,
- 3) Through local agents registered with the Economic Department as the sole representative in the marketplace for a given product.

Carrefour's plans in the Gulf as in Europe and elsewhere, especially in view of its building a critical product volume mass, is, according to a company spokesperson, to move to direct imports with a heavy dose of its own brand product line. Presumably, this will mean a displacement of a range of products currently produced in a variety of countries by an increasing share of products from France and other producers supplying Carrefour private labels. .

How Carrefour Makes Its Money

By all appearances, Carrefour is deft at getting as much out of its suppliers as possible. As with marketing in a hypermarket setting in general, the goal is to sell as much volume as possible, at a price as affordable as possible to consumers while keeping overhead to a minimum. Being the lowest-cost seller or close to it for thousands of products, Carrefour's operating style has changed the agent/retailer relationship in the marketplace. Not only is a 1,000 Dirham listing fee (\$270) charged to suppliers for each new sku that Carrefour agrees to sell, but demands are made that suppliers provide free goods for an agreed-upon number of cases sold. Of course, special display locations such as end-of-aisle also command a premium, and suppliers are expected to contribute to special promotions where giveaways including automobiles have become part of the Gulf retail landscape. Many local suppliers to Carrefour may complain that the retailer exceeds normal practice in terms of what it attempts to extract from its suppliers. But in view of the volumes generated, these same suppliers realize that they are further ahead doing business with Carrefour than without as the unusually large volume of business being done makes lower per

item margins more palatable.

Size, Customer Flow and The Retail Mix

The Carrefour locations in business and soon to open in the UAE and adjoining countries are hypermarkets. Square meter floor space ranges from 6,800 to 14,000 with bigger stores understandably placed in larger population centers like Abu Dhabi and Dubai. Average store space is about 9,600 square meters.

Carrefour officials interviewed for this article were reluctant to discuss current levels of customer traffic at its different locations, but in 1999, the Dubai location was said to have done an average of 14,000 receipts/day at an average of 125 Dirhams/receipt or \$34/receipt. If these numbers are somewhat accurate, there's no question that this particular location is at the top end on a customers/store basis. Carrefour's customers in the UAE come from all levels of the income scale and all nationalities represented in the UAE, but the average customers are lower to middle class Arab and Indian subcontinent expatriates.

As for the food/non-food retail mix, Carrefour officials declined to disclose a specific break down, but a greater percentage of sales is thought to come from non-food items. A reasonable estimate of the food to non-food sales mix is 45:55. With the number of skus carried in excess of 40,000 and a product range from computers and televisions to bicycles to almonds and ice cream, most all of what a consumer would buy on a regular basis is available.

Some of the Competition

In terms of existing food retail operators which have branched out to countries within the region and beyond, T. Choithram & Sons and Al Maya Lal's, two Indian family-held companies, have been involved in merchandising food products from West Africa to Azerbaijan for more than 50 years. The Spinney's chain which was formerly a part of the UK's Inchcape group but which was sold in bits and pieces is now building a number of additional UAE stores. Probably the most direct competition for Carrefour in the UAE is the EMKE Group which operates a number of retail outlets in the UAE, Oman and in some of the other GCC countries and the consumer co-operatives, including the largest retailer in the capitol, Abu-Dhabi Co-ops in addition to Dubai's Union Co-ops.

Coming Up: The Spread Continues

Though Carrefour would only say that expansion into other neighboring markets is still at a rumor stage, it is likely that it will build stores in Saudi Arabia, Kuwait and Bahrain in the next two years and openings in Lebanon, Syria and Egypt would not be unexpected. Casino, a smaller French international retail player, is working on its first store in the region, a Geant hypermarket in Manama, Bahrain. This store is scheduled to open in late 2001. Other than Carrefour and Casino, there are no large scale EU-based or North American retail groups establishing a presence in the GCC markets at this time.