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Unhappy retailers have unique problems

By Tony Barber

All happy European retailers are alike, but each unhappy retailer is unhappy in its own way. Adjusted for modern times, Leo Tolstoy's formula for families in *Anna Karenina* applies neatly to Tesco of the UK, France's Carrefour and Metro of Germany.

Each must navigate through Europe's debt crisis and depressed consumer environment. Each confronts profound changes in the retail industry that are reducing margins and making it harder to retain the loyalty of customers. Each, too, is stumbling because of management errors, such as incautious expansion abroad and weak central controls.

But this is where the similarities stop. Tesco, for example, faces a unique problem of trading hour restrictions in South Korea, its second most important market, as well as heavy losses at its Fresh & Easy operations in the US. At Carrefour the experienced Georges Plassat, recently appointed chief executive, has made haste to bury his predecessor's hare-brained scheme of pouring €1.5bn into a renovation of the company's hypermarkets.

As for Metro, its challenges are in a league of their own. Once the world's third-largest retailer, Metro suffered the humiliation last month of being ejected from Germany's blue-chip Dax-30 index because of its slumping share price. Two weeks ago Metro slashed its full-year profit guidance by 16 per cent, an announcement made doubly unfortunate by the group's expression of confidence a few months earlier that it would ride out any second-half turbulence in trading conditions.

Worse, a comprehensive plan to sell Metro's most feeble divisions and revamp the rest has been kicking around for four years, but nobody knows if Olaf Koch, the chief executive, really believes in it. Come to that, few understand why Mr Koch, who lacks retail experience having worked in the car industry and private equity before joining the group four years ago, is in his job in the first place.

At the start of this year he moved up from chief finance officer to replace Eckhard Cordes, the former Daimler executive hired as CEO in 2007. But the departure of Mr Cordes threw more dust than light on Metro's strategy for renewal. No sooner had the Haniel and Schmidt-Ruthenbeck families, Metro's two main shareholders with 50.01 per cent of the company, declared their confidence in Mr Cordes than he disclosed that he was packing his bags. Few verdicts on a publicly listed company are more damning than that investors' perceptions of the management have hit rock bottom. Yet such was the trenchant conclusion of a study of Metro's prospects published last week by Deutsche Bank.

Metro differs from Tesco and Carrefour in that it is more obviously a hodgepodge of businesses in need of sharper focus. Before Mr Cordes's arrival, Metro ran wholesale outlets, department stores, supermarkets, a fashion chain and much else. He restored some cohesion to the group by selling the Extra supermarket chain and the Adler fashion stores unit. But he was not around long enough to carry out the deeper changes required to persuade investors that Metro is not in irreversible structural decline.

Two millstones around Metro's neck are the Real supermarkets and Kaufhof department stores, which account respectively for about 17 per cent and 5 per cent of group sales. Disposing of them in order to concentrate on Metro's larger cash-and-carry and consumer electronics businesses is an appealing solution. But Mr Koch is discovering, as Mr Cordes did, that it is easier said than done.

The non-German supermarkets, located in Poland, Romania, Russia, Turkey and Ukraine, are producing respectable results and could surely find a buyer. But they account for only 110 of Metro's 426 Real stores. The rest are in Germany and are chronic underperformers.

Like the Kaufhof stores – and, dare one say it, much of German retailing in general – the Real supermarkets are old-fashioned in style and indifferent in standards of service. Metro appears disinclined to invest in their modernisation. Neither does it want to sell them for a song. The result is stagnation.

In recent times a similar lack of imagination beset Metro's Media-Saturn consumer electronics unit. It did not even sell its wares online in Germany until 12 months ago. Another challenge for this division, which accounts for more than 30 per cent of group sales, is the pressure on margins from the promotions and price cuts of hard-pressed competitors.

Metro is not to blame for all its woes. But it exudes disarray just when it needs to rebuild the confidence of customers and investors. Tesco and Carrefour are plotting their painful path to recovery. Metro needs to follow their example fast.

Tony Barber is the Financial Times' Europe editor

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