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Carrefour: the new Kmart?

The newly appointed CEO of Carrefour, M. Georges Plassat, has given himself three years to rebalance the Carrefour Group. Describing Carrefour as a "duck without a head"[i] – and thus no vision –, he is certainly aware of the challenge he is up to. The fall from grace of Kmart of the US is a frightening reminder of the potential urgency of Carrefour's refashioning.

Founded by "five-and-dime" low price retail genius, Sebastian S. Kresge, the first discount store with the name Kmart was opened in a suburb of Detroit in 1962. With the logo "No frills! Just discounts," the tone was set. Kresge targeted the discount-hunting shopper and set out to be the consolidator and leader of the fragmented discounter market.

With a laser-like focus on low cost and an aggressive opening schedule of very large stores, nothing seemed to stop Kmart. By 1966, it was the leader of the discount store segment; by 1970, it surpassed Woolworth, its long-time rival in low price variety stores; by 1980, it reached 80% of the US population with stores in nearly all of the largest metropolitan areas. The "Blue Light Special" promotion tactic became a hallmark. Shoppers would be looking in the large stores for employees who would switch on a blue rotating light that was mounted on a pole on a stockroom cart to know where merchandise was on sale. This was hard-core discounting.

To further fuel its sales growth, Kmart decided to reach for higher margins by selling more upscale items with national brands; Martha Stewart lent its name and designs to Kmart; snacks moved to the back while jewelry was moved in; Kmart started advertising in *Vogue*, and even one of Charlie's Angels pitched in; stores were refurbished. Advertising costs went up. At the same time, it opened smaller and hyper stores, bought and sold a drugstore chain, launched and closed a chain of designer cloths outlet stores, acquired a building products chain, a bookstore chain, etc.

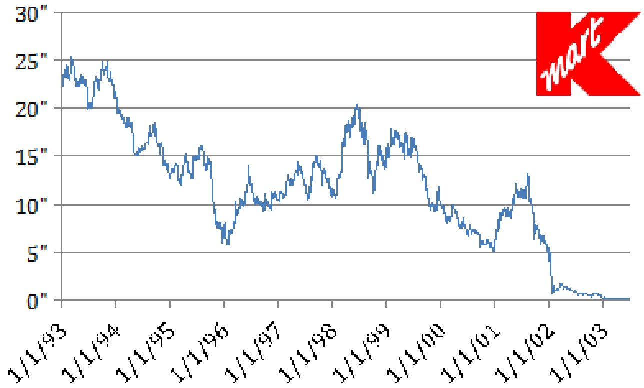

Figure 1: Share price (US$) of Kmart from 1993 to bankruptcy

Meanwhile Wal-Mart was happy to occupy and grow in the very low price space that Kmart was abandoning, and bargain hunters followed Wal-Mart in droves. Target was expanding with a differentiated, yet mass appeal. And suddenly, Kmart found itself stuck in the shrinking middle of the market, being no longer a real discounter nor acquiring a real differentiation appeal in the mass market. Its complex portfolio of retail activities further blurred its strategic vision. By the end of the nineties, the many turnaround efforts had fully disoriented Kmart; by 2002 it filed for bankruptcy.

The largest general retailer in the US had completely lost its way. While its operations were far from setting the standard for efficiency, Kmart's downfall was strategic: to seek the impossible of being all things to all people – no unique customer proposition; no strategy focus. While this may be feasible as long as focused competitors are not around, this is unforgivable when world-class competitors move in.

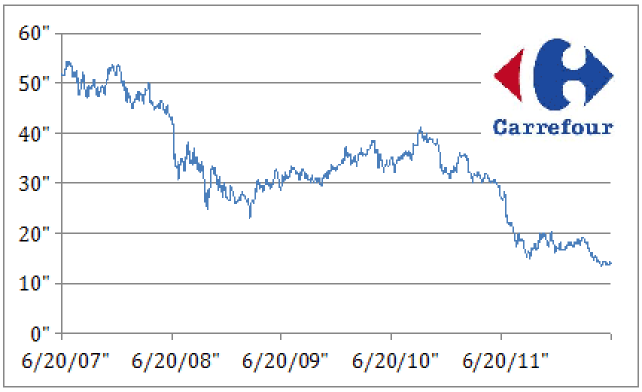

Figure 2: Share price (€) of Carrefour 2007-2012

Carrefour fortunately does not face Walmart in many of its markets, but the Aldi's and Lidl's of retail have very happily taken the low price space that Carrefour abandoned while it sought to increase its margins. The face of discount is different in the US than in Europe, but it remains focused discount. M. Plassat is rightly concluding that Carrefour is unfocused and in search of a vision – Carrefour's ambition to be "the preferred retailer wherever it operates"[ii] cannot be achieved. For investors, this may seem a scary "déjà-vu." M. Plassat may not have three years to restart Carrefour.

[i] Le Monde, 20 June 2012

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