The Carrefour Group — the First 25 Years

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Abstract

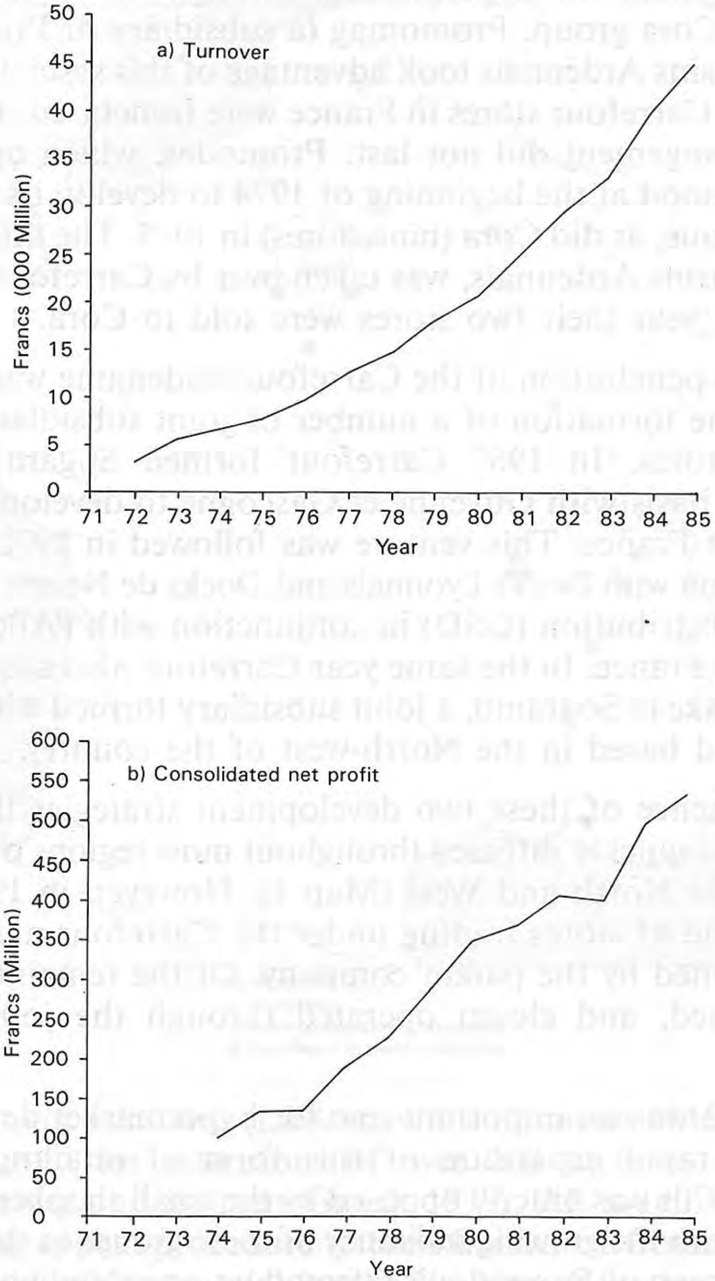
The Carrefour group has been responsible for introducing several innovative concepts to the French retail sector — most notably the hypermarket and "no-name" products. This article charts the development and strategy of Carrefour over the first 25 years of the company's existence.

Introduction

The death of Marcel Fournier, in January 1985, saw the passing of one of the leading figures in French retailing. In collaboration with the Defforey family, Fournier guided the Carrefour group to its present position as the most successful hypermarket chain in France. Since its creation by Fournier and Louis Defforey in 1959, the group has grown to achieve a 1985 post-tax turnover of 44,169 million francs and a net profit of 520 million francs (see Figure 1). In addition, during the past 25 years, the Carrefour tradename has appeared in no fewer than ten countries spread over three continents.

The group acquired its tradename from the site of the first store opened by Fournier and Defforey in 1960. This 650 sq m supermarket was located at the crossroads (carrefour) of the rue du Parmelan and rue André-Theuriet in Annecy. However, it was in 1963 that Carrefour first made its mark on French retailing. The previous year Fournier attended the Club MMM seminar held at Dayton, Ohio, and became convinced that the retail techniques championed by Bernard Trujillo would provide the way forward for Carrefour. Early in 1963, Carrefour opened the first hypermarket in France in the small town of Sainte-Geneviève-des-Bois outside Paris. This venture proved to be an instant success,

Figure 1. The Carrefour Group: Financial Performance



with the store achieving a turnover of 18.6 million francs in the first six months of operation, and 40.1 million francs by the end of the first year (Toussaint, 1984). Later, Carrefour was to maintain its reputation as the leading hypermarket retailer in France, by opening the first stores with a sales area of over 10,000 sq m at Vénissieux (Lyon) in 1966, and with over 20,000 sq m of sales area at Vitrolles (Marseille) in 1970.

Store Development in France

In order to establish a national identity in what was essentially a strongly regionalised retail market, and to develop a reputation that would be closely associated with this new form of retailing, Carrefour initiated a franchise system for hypermarkets through its buying subsidiary, Samod. The Cora group, Promomag (a subsidiary of Promodès), and Grands Magasins Ardennais took advantage of this system, and by 1973 a third of the Carrefour stores in France were franchised. However, this franchise arrangement did not last. Promodès, which operated three stores, left Samod at the beginning of 1974 to develop its own "Continent" tradename, as did Cora (nine stores) in 1975. The third franchisee, Grands Magasins Ardennais, was taken over by Carrefour in 1975, but the following year their two stores were sold to Cora.

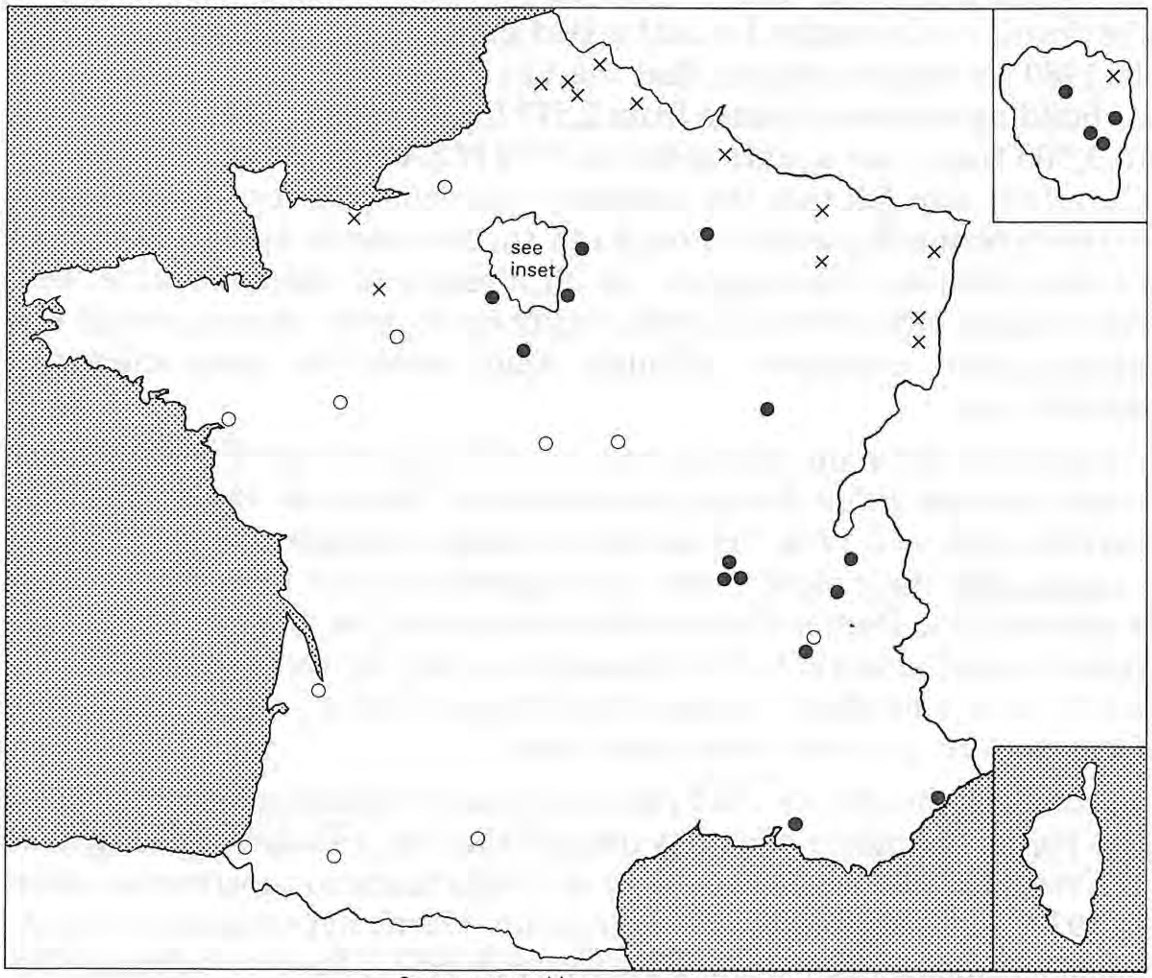
Initial spatial penetration of the Carrefour tradename was also achieved through the formation of a number of joint subsidiary companies to operate stores. In 1967 Carrefour formed Sogara on a 50:50 shareholding basis with Guyenne et Gascogne to develop stores in the South-west of France. This venture was followed in 1972 by the creation of Soracma with Docks Lyonnais and Docks de Nevers, and Grandes Surfaces et Distribution (GSD) in conjunction with l'Allobroge in the South-east of France. In the same year Carrefour also acquired Decré's 49 per cent stake in Sogramo, a joint subsidiary formed with Comptoirs Modernes and based in the North-west of the country.

As a consequence of these two development strategies the Carrefour tradename was quickly diffused throughout most regions of France, particularly in the North and West (Map 1). However, in 1973 less than half (18) of the 43 stores trading under the Carrefour name in France were fully owned by the parent company. Of the remaining stores, 14 were franchised, and eleven operated through the joint subsidiary companies.

The year 1973 was an important one for hypermarket development in France. The rapid expansion of this form of retailing in the late 1960s/early 1970s was bitterly opposed by the small shopkeeper organisations. Faced with the growing militancy of these groups in the early 1970s, plus the approach of Pompidou's referendum on extending the membership of the EEC in 1972, and the parliamentary elections of 1973, the government appeared to give way to some of their demands (Eatwell, 1982). These concessions culminated in the introduction of the Loi Royer in December 1973. As Fournier commented in the national press at the time "...One says that it will act to regulate an economic and social problem. I rather have the impression that one wishes to regulate an electoral problem" (Doyere, 1973).

Part of this legislation changed the role of the advisory urban commercial planning commissions established in 1969, effectively providing these bodies with the power to refuse applications for retail developments of

Map 1. Carrefour Hypermarkets in France 1973



Stores operated by:
x Franchise
o Joint subsidiary companies
● Carrefour (parent company)

over 1,500 sq m of sales area (1,000 sq m in communes of less than 40,000 inhabitants), and for extensions of over 200 sq m to existing units (Beaujeu-Garnier and Bouvert-Gauer, 1979). Although the legislation allowed for an appeal procedure to the Minister of Commerce, the law provided considerable potential for the blocking of hypermarket applications, particularly as small retailer or local business representatives dominated these commissions (*LSA* 506, 1974).

The continued growth in the number of hypermarkets and hypermarket floorspace in France, and the increased dominance of the hypermarket sector by large retail firms, suggests that the Loi Royer has had little effect upon long-term growth. However, the legislation undoubtedly had short-term implications and encouraged changes in the strategies employed by retailers to achieve organisational growth (Burt, 1984, 1985). The impact of this legislation is reflected in the changing development strategy of Carrefour.

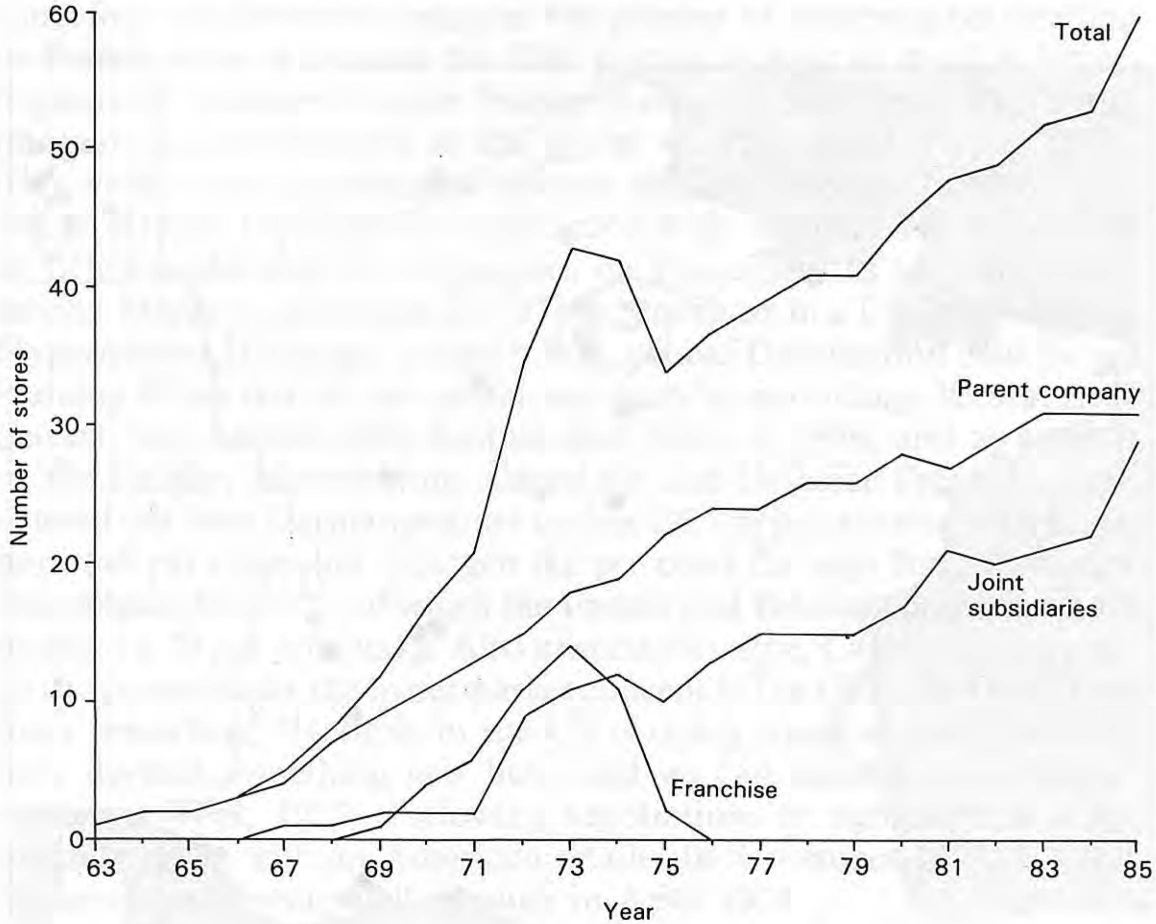
One of the major impacts of the Loi Royer was to raise the costs of development through delay, increased application and appeal costs, and the creation of a market for authorised sites (Rochard and Peretie, 1981). In 1980 Carrefour claimed that the Loi Royer had increased the costs of building a store in France from 2,577 francs per square metre in 1972, to 3,500 francs per square metre in 1979 (*LSA* 757, 1980). In addition, Carrefour also felt that the company was penalised for its ascendancy in the hypermarket sector through low success rates in applications made to the planning commissions. In an attempt to outmanoeuvre these restrictions, since 1974 Carrefour appears to have placed greater emphasis upon expansion through joint subsidiary companies and acquisition.

Analysis of company reports and store listings provided in the French trade journals *Libre Service Actualités* and *Points de Vente* show that between 1963 and 1974, the parent Carrefour company opened 19 hypermarkets. Of these stores, only one appears to have been the result of a takeover, the former Galeries Parisiennes store at Antibes which Carrefour acquired in 1973. Over the same period, twelve stores were opened by joint subsidiary companies, and only one of these, the former Centor store at Lescar, was taken over.

In contrast, the 1975 to 1985 period presents a different picture. During this period the parent company opened a further 16 stores, closed a store at Créteil in 1979, reduced the store at Villeurbanne to supermarket status in 1977, and transferred the Châlons-sur-Marne hypermarket to a subsidiary company SCI Croix Dampierre in 1981. However, in reality only eight of these stores were new openings; the others were existing stores that were either absorbed or acquired from joint subsidiary companies. In 1975, the three Soracma hypermarkets were absorbed into the parent company, as was the Venette Superstore hypermarket in Compiègne during 1977. These moves were followed at the beginning of 1980 by the absorption of the hypermarkets at Givors (from Givors Investissements) and Rambouillet (Bel-Air), and in 1982 by the absorption of the store transferred to SCI Croix Dampierre a year earlier. Finally, in 1983, the hypermarket at Gennevilliers, which was operated through SEMGS in conjunction with Roger Flament, was absorbed by the parent company.

The increased importance of joint subsidiary companies in maintaining Carrefour's growth is illustrated by their activities over the same 1975 to 1985 period (see Figure 2), during which these companies opened 25 stores, five of which were later absorbed by the parent Carrefour company. GSD opened another two stores, one of which was the former Géant Perso hypermarket at Châteauneuf-les-Martigues acquired from Soprodis in 1977; Sogara opened three stores including gaining full control of the Sochadis "Rendez Vous" hypermarket at Soyaux in 1977 and

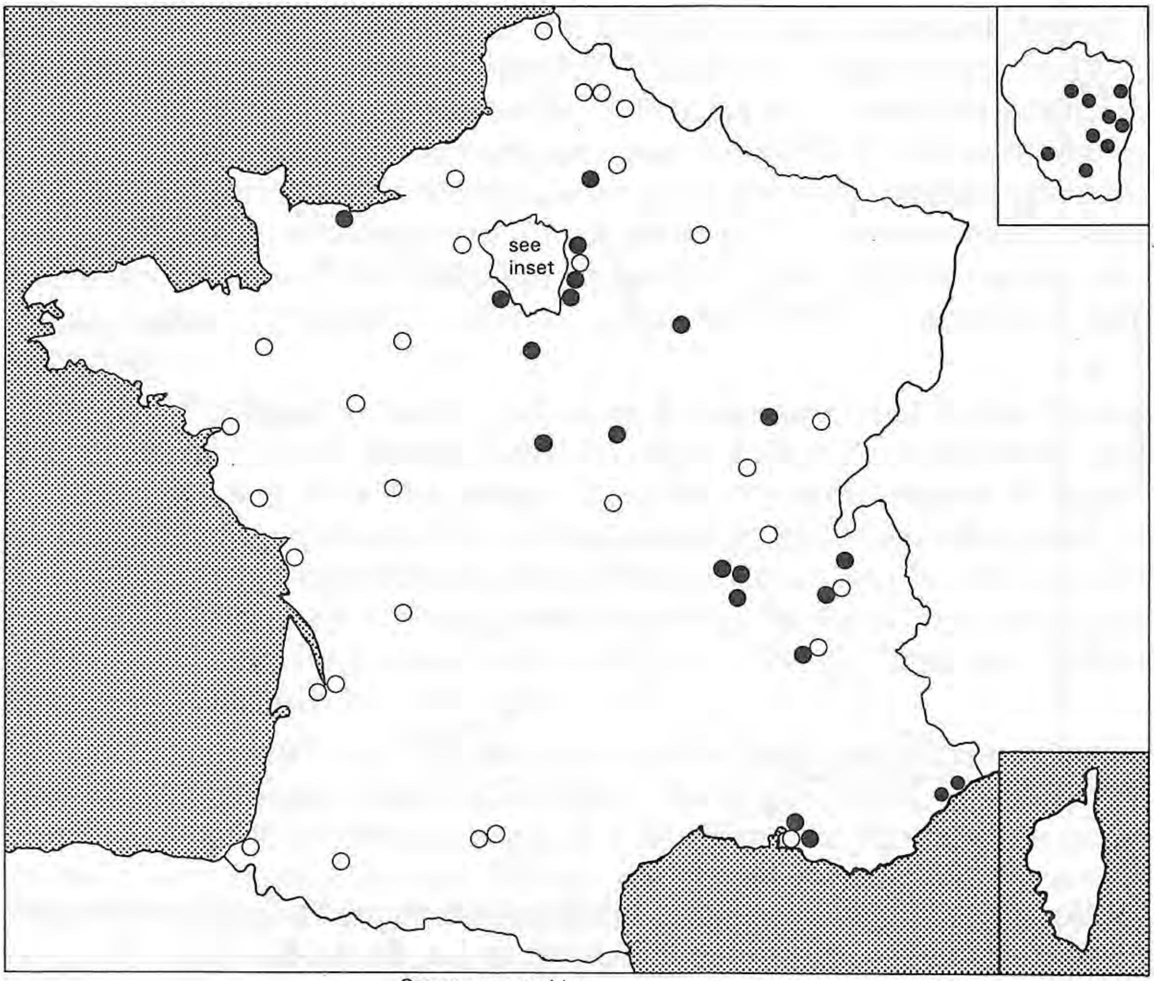
Figure 2. The Ownership of Carrefour Hypermarkets in France 1963-85



the Socoran store at Angoulins; and Sogramo opened a further two stores — one through a subsidiary, Sodisor, at La Roche-Sur-Yon. The collaboration with Comptoirs Modernes in Sogramo was taken further with the creation of a new subsidiary Superest to control three stores at Champs-sur-Marne, Viry-Noureuil, and Evreux. Other stores were opened through new subsidiaries DCP at Chasseneuil-du-Poitou in 1980, GML at Crèches-sur-Sâone in 1981, and Francadis at Miserrey-Saline in 1984. Finally, in 1985 Carrefour formed a joint subsidiary, Carcoop, with the ailing Co-operative Movement to take over the operation of seven "Rond Point" hypermarkets. This latter development provided Carrefour with access to the North of France, an area where they had not previously been represented.

These developments show that, since 1974, Carrefour has expanded in France primarily through the operation of joint subsidiary companies, and the subsequent absorption of stores operated by some of these ventures. Carrefour further consolidated the ownership of their French stores in 1984 by acquiring a 19 per cent share in Comptoirs Modernes, their partner in the Sogramo joint venture, and in March 1986 acquired full control of the GSD joint subsidiary. It would seem likely that this

Map 2. Carrefour Hypermarkets in France 1985



Stores operated by:
o Joint subsidiary companies
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approach to further development will continue as not only does this strategy spread the initial costs of development, but also applications for development made in conjunction with local or regional retailers were thought likely to be viewed more favourably by the planning commissions. By 1985 Carrefour operated 60 hypermarkets and four supermarkets in France (Map 2), and 48.3 per cent of the hypermarkets were controlled through joint subsidiary companies. The formation of Carcoop marked the beginning of renewed expansion for the group within France. During the early 1980s the number of new store openings had fallen to around one per year, but this collaboration added seven stores to the Carrefour portfolio, and a further five new stores are scheduled for completion during 1986.

The International Perspective

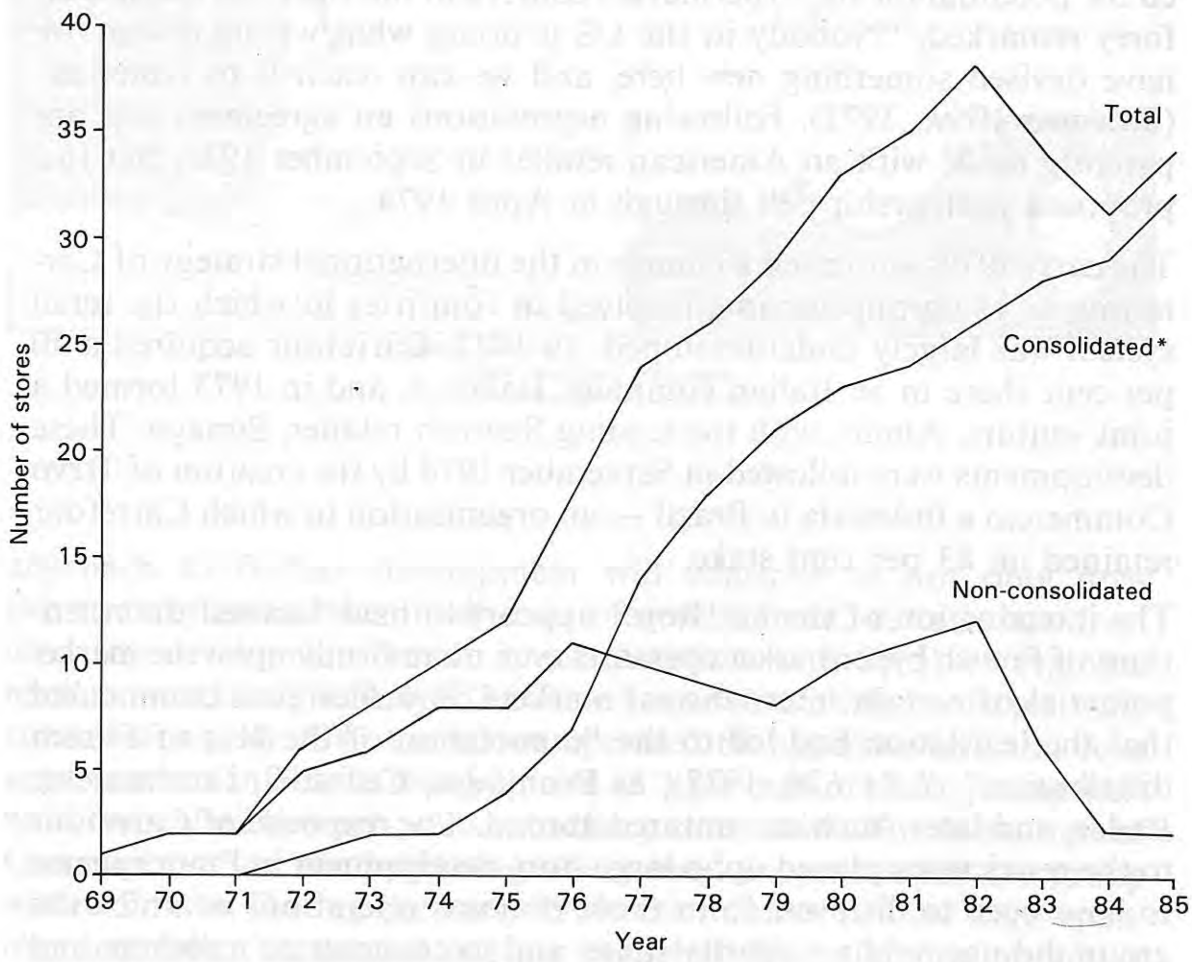
Carrefour reinforced its image as the pioneer of hypermarket retailing in France when it became the first French retailer to develop hypermarkets in countries outside France during the late 1960s. The initial international involvement of the group was concentrated upon countries which already possessed modern retailing systems. In 1969, Carrefour created Distrimas in conjunction with Delhaize Frères Le Lion in Belgium, formed Hypermarchés de Participations with the Swiss retailer Mercure, and retained a 10 per cent share in a UK joint venture, Hypermarket Holdings, in which Wheatsheaf Distribution held the remaining 90 per cent of the capital. An Austrian subsidiary, Verbrauchermarket, was formed with Kastner and Öhler in 1976, and as a result of the Belgian joint venture, Carrefour and Delhaize Frères Le Lion entered the West German market during 1977 in partnership with Kaufpark (48 per cent) and Stüssgen (12 per cent) through Inter-Kaufpark Handelgesellschaft — in which the French and Belgian companies both retained a 20 per cent stake. Also around this time, Carrefour recognised the potential for the hypermarket concept in the USA. As Denis Defforey remarked, "Nobody in the US is doing what we are doing. We have devised something new here, and we can teach it to America" (*Business Week,* 1973). Following negotiations an agreement was apparently made with an American retailer in September 1973, but this proposed partnership fell through in April 1974.

The early 1970s witnessed a change in the international strategy of Carrefour, as the group became involved in countries in which the retail system was largely underdeveloped. In 1972, Carrefour acquired a 50 per cent share in an Italian company, Italmare, and in 1973 formed a joint venture, Almar, with the leading Spanish retailer, Simago. These developments were followed in September 1974 by the creation of Trevo Commercio e Industria in Brazil — an organisation in which Carrefour retained an 83 per cent stake.

The introduction of the Loi Royer appears to have focused the attentions of French hypermarket operators even more firmly upon the market potential of certain international markets. Fournier even commented that the legislation had led to the "exportation of the best of French distribution" (*LSA* 626, 1977), as Promodès, Cofradel, Euromarché, Radar, and later Auchan, ventured abroad. The response of Carrefour to the restrictions placed upon large store development in France seems to have been to disinvest from those overseas operations in which the group did not hold a majority share, and to concentrate resources and new investment upon the less developed retail markets, where the potential for future growth of the hypermarket concept was greatest.

In 1978, the group sold its holding in Distrimas which by then operated three stores to Delhaize Frères Le Lion (*LSA* 666, 1978), as dominant home competitors, market saturation, and legislation introduced in 1975 restricted the future growth potential of the hypermarket concept in Belgium. Disinvestment from Germany occurred in 1979, and the following year Carrefour sold its 50 per cent share in Verbrauchermarkt which operated a 16,950 sq m store in Vienna. Similarly a venture in South Africa involving two stores operating through OK Hypermarkets (PTY) Ltd was disposed of in 1978. More recently, in 1983, Carrefour sold its 10 per cent share in Hypermarket Holdings which operated six stores in Britain to its partner Wheatsheaf (Dee Corporation), and in 1984 the group sold its share in Euromercato to Standa (*LSA* 922, 1984). Euromercato, which controlled four hypermarkets in Italy, had been created in 1980 by the merger of the Italmare subsidiary with the hypermarket operations of Standa.

Figure 3. The Ownership of Carrefour Hypermarkets Outside France 1969-85

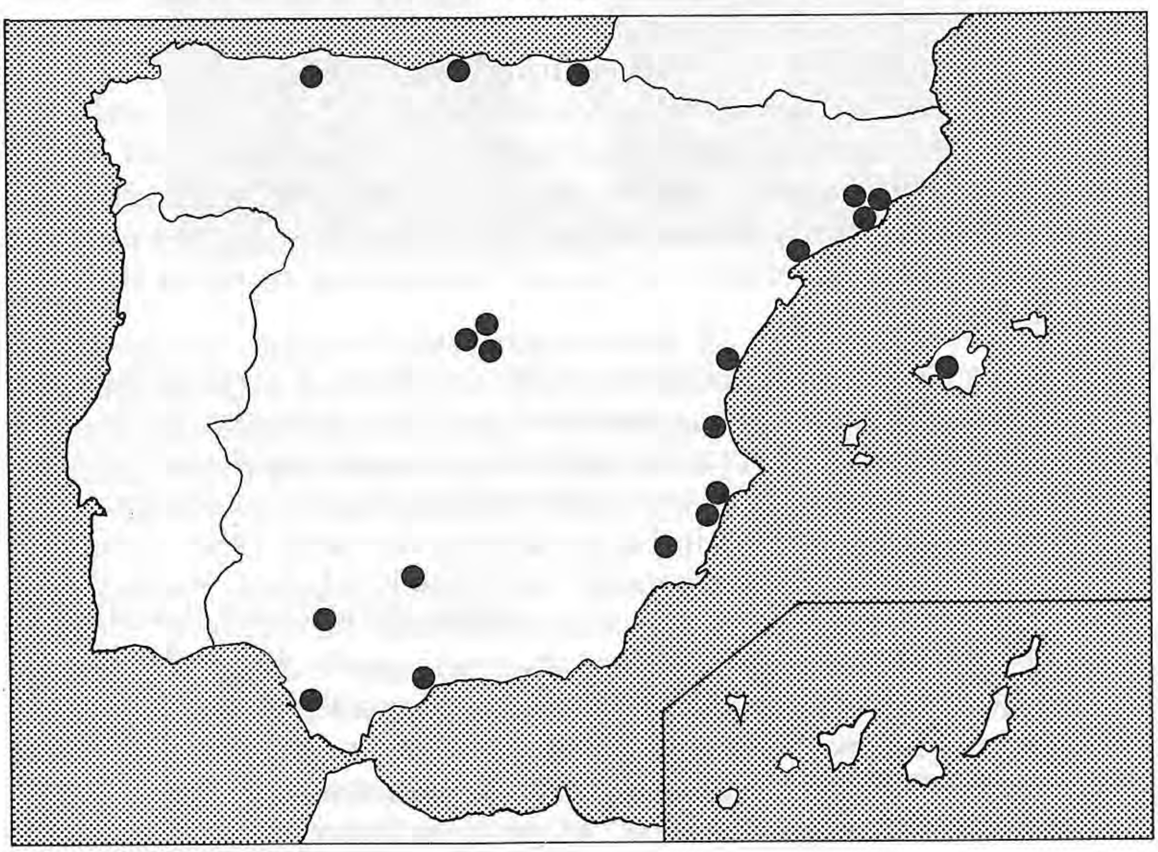


* Consolidated — Stores operated by companies in which Carrefour have at least a 50% shareholding

The capital raised by these disinvestments has been reinvested in those countries where the potential for future hypermarket growth has been perceived as greatest, and in those ventures in which Carrefour holds a majority interest or, most importantly, controls the management of the subsidiary. In 1975 the Carrefour group operated twelve stores outside France, only a third of which were controlled by subsidiaries in which Carrefour held at least 50 per cent of the capital. By 1985, this proportion had risen to 94 per cent of 34 stores (Figure 3). The vast majority of the investment made abroad by Carrefour since 1974 has been concentrated in Spain and Latin America, particularly Brazil, and in 1982 the group opened its first store in Argentina.

Carrefour's Spanish adventure has taken place through a number of subsidiary companies. The partnership arrangement with Simago in the Almar subsidiary was repeated in the formation of Promotora de Hipermercados in 1975, and reinforced by the purchase of the 44 per cent share held by Euromarché in Iberica de Hipermercados in 1978. In addition, Promoto de Hipermercados acquired the Spanish interest in Grandes Superficies, a company formed in 1975 by Sogara and the Banco Condal and Rovira. As a result of these activities, by the end of 1985 Carrefour was established as the leading hypermarket operator in Spain, controlling 20 stores through its various subsidiaries (Map 3).

Map 3. Carrefour Hypermarkets in Spain 1985



Carrefour has devoted considerable effort to adapting and integrating its hypermarket operation in Spain, including the regionalisation of buying to cater more efficiently for distinct regional tastes, and the adoption of a Spanish tradename (*LSA* 839, 1982). Owing to the piecemeal historical development of the chain, the group's hypermarkets originally traded under a variety of names including "Carrefour", "Pryca" and "Hiper", but it was decided to adopt the Spanish name "Pryca" (Precio Calidad: Price and Quality) throughout the whole group to encourage integration.

In Brazil, Carrefour has experienced similar success, with the Trevo Commercio e Industria subsidiary (now renamed Carrefour Commercio e Industria) opening approximately one store per year. However, high rates of inflation have hindered the financial performance of this subsidiary, and for certain stores problems of packaging and supply of goods have arisen. The third Carrefour hypermarket, opened in Brasilia in 1977, received 80 per cent of its stock from São Paulo, some 1,300 kilometres away (Grobscheiser, 1977)! However, in spite of these difficulties, Carrefour has made considerable investment in the Brazilian market in which it operated ten stores at the end of 1985. The group's commitment to expansion in South America was reaffirmed following the opening of two stores in Argentina in 1982 and 1984 (Map 4).

A further dimension was added to the international strategy of Carrefour when the company acquired a 20 per cent stake in the Costco Wholesale Corporation of Seattle during 1985. Costco, formed in 1983, operates twelve discount warehouses in the West of the USA. Although this deal involved an agreement whereby Carrefour would not extend their shareholding interest for five years (*LSA* 968, 1985), the group are using the opportunity provided by this investment to examine the American market carefully with a view to opening stores in the USA at some later date.

Essentially, since the introduction of the Loi Royer, Carrefour has consolidated and increased its investment abroad, concentrating upon countries where the retail structure remains largely underdeveloped. In these countries the conditions favouring the modernisation of the retail sector resemble those existing in France during the early 1960s, when self service and the hypermarket concept were rapidly adopted. Furthermore, Carrefour have not been prepared to undertake the role of a "sleeping partner" and have concentrated on those countries in which management control has been achieved. The importance of overseas investment to Carrefour can be illustrated by reference to the store profile of the group. In 1970 Carrefour operated only two stores outside France which accounted for 11.8 per cent of the group's floorspace. By 1975 the

Map 4. Carrefour Hypermarkets in South America 1985

twelve stores outside France represented 26.3 per cent of the group's floorspace, and in 1985, 34 stores accounted for 32.7 per cent of floorspace. Similarly, the share of total group turnover accounted for by these stores has risen from 7.8 per cent in 1976, to 15.2 per cent in 1980, and to 20.2 per cent in 1985.

The Search for Diversification

In common with many other large retail groups in France during the late 1970s, Carrefour sought opportunities in other retail sectors. In April 1977, Carrefour obtained a 47 per cent share in the leading DIY multiple group, Castorama, and formed a joint subsidiary company, Castorama Expansion, to develop DIY stores adjacent to Carrefour hypermarkets. Castorama had been formed in 1969 from the company owned by Christian Dubois, and had a similar impact upon the DIY sector as that of Carrefour upon the food market. The first Castorama outlet, a 5,000 sq m store at Englos (Lille), opened in 1969, brought a new dimension to a retail sector traditionally dominated by small specialist retailers (*LSA* 919, 1984).

Later in 1977 both Carrefour and Castorama acquired an 18 per cent shareholding in the Californie group, a retailer of building materials operating in spatially complementary markets. This group was fully absorbed into Castorama in 1978. This particular diversification into DIY retailing has had considerable benefit for Carrefour, for as Denis Defforey observed in 1978, it was generally thought that planning permission was easier to obtain for a complete commercial entity, rather than for single isolated units (*LSA* 666, 1978).

Carrefour has also attempted to diversify from its hypermarket operation into other sectors of the food market. One of the group's first attempts at diversification was the 1978 acquisition of a 20 per cent share in the Dutch company Fradema, which controls 90 per cent of Métro-France, a cash and carry operation. However, the major diversification undertaken by Carrefour in the food market has been into limited-line discount food outlets. In September 1978 Carrefour acquired a 45 per cent shareholding in Erteco, a company trading primarily in the Paris region as "Archi-Bas". Erteco had been formed in 1975 by the Radar group and Simon Bertaud, the entrepreneur behind the concept. The intervention of Carrefour saw a restructuring of the share capital leaving Bertaud with 10 per cent and Radar with 45 per cent. A new executive committee was also created, Carrefour and Radar generic product ranges were introduced into the stores, and the company tradename was changed to "Ed" (Epicerie Discount: Discount Grocery Store).

The physical expansion of Erteco was rapid, with the number of stores rising from 18 in 1979 to 75 by the end of 1982, but was not without difficulty, largely attributed to the costs of operating the single supply depot at Rungis (*LSA* 886, 1983). The company made a loss of 20 million francs on a turnover of 650 million francs in 1982. In an attempt to improve the performance of the chain, Carrefour assumed the management of the company in July 1983 and appointed a new managing director to control the operation.

Despite these problems, Carrefour showed their faith in the concept and future potential of Erteco by acquiring Radar's shareholding in October 1983. Carrefour decided that following the rapid growth of the Erteco chain during the early 1980s, the emphasis should be switched to management aspects rather than further physical expansion. In particular

Carrefour sought to improve supply and stock control throughout the chain, to establish a range of "Ed" products, to raise the average size of stores from 320 to between 450 and 500 sq m, and to increase the range of goods carried in stores (*LSA* 949, 1984). The announcement of these plans suggests that Carrefour view their diversification into this type of operation as part of the long-term strategy of the group. In 1985 the Erteco subsidiary made a significant operating profit for the first time.

In addition to the problems encountered with Erteco, Carrefour's other ventures into specialist retail sectors have met with limited success. A 10 per cent stake in Meijac, a freezer centre chain established in 1979, was raised to 34 per cent in 1982, but then disposed of a year later. Similarly, a 37 per cent shareholding held by Carrefour and Samod in Disport — a chain of sports goods shops — was sold at the end of 1982. Finally, in 1980 Carrefour formed a restaurant subsidiary, Brapa, but poor returns on high investment costs led to this venture being closed in 1985, with five cafeterias being sold and the other four integrated into the supermarket operation.

The diversification of Carrefour into other retail sectors has met with varied success. Although Castorama has performed well, Carrefour merely holds a share in this company, which continues to act as an autonomous group with its own management. In contrast the other subsidiaries have posed problems. The experience of these ventures suggests that in the future Carrefour will concentrate resources upon its hypermarket activities rather than upon diversification, a strategy reaffirmed by Jacques Defforey in 1983, "We have no intention, in 1983, of raising our participation in companies involved in specialised activities, and those which we do not have complete control. And perhaps we will progressively disengage from them..." (*LSA* 890, 1983).

Operational Aspects

Certain tenets of the Carrefour operating philosophy have survived throughout the first 25 years of the company's history, and the management believe that these aspects have had much to do with the firm's continued success. The group regards itself first and foremost as a specialist in the development of hypermarkets, and is firmly committed to the concept of decentralised management. Although financial control is highly centralised, and the performance of individual stores is closely monitored, in most other aspects of operation the company is decentralised.

Each store is operated as a profit centre and the store manager has complete responsibility for the performance and operation of the store, which must meet sales objectives established annually by the company. Even the Samod buying subsidiary, created in 1967 for the purchase of "bazar" and textile goods, is not a buying centrale in the traditional sense, but acts more as a selection agency for these types of goods, recommending which lines should and should not be adopted. The store director is then free to decide which goods his or her store should carry on the basis of this advice, and is fully responsible for these decisions.

The decentralisation of authority within the Carrefour organisation is intended to provide scope for flexibility, allowing store managers to respond to local factors and environmental conditions. The group does not pursue a national price policy, allowing individual stores to react to local competition and to take advantage of any additional discounts that they can obtain from suppliers. Denis Defforey regards the group as a "confederation" of individual stores operating within certain common denominators (*LSA* 930, 1984b). Through this approach Carrefour aim to benefit from "the delegation of responsibility and federation of effort".

A further indication of the decentralised nature of Carrefour is the size of the head office staff, which in 1973 numbered only twelve — headed by the company President, Marcel Fournier, and the two joint Directors-General, Jacques and Denis Defforey. The remaining nine personnel consisted of a finance director, two counsellors (one responsible for internal management, who established and monitored sales objectives, and the other responsible for social and administrative affairs), four supervisors, who each co-ordinated personnel, supply, and short-term management problems for five to six stores, and two secretaries. All other operating functions were contracted out to external agencies (Toussaint, 1984).

In 1978, Carrefour appeared to accept the limitations placed upon further expansion in France through the opening of new stores, and decided that future improvements in the group's performance should be achieved by the development of store operation and management (*LSA* 668, 1978). To realise these improvements, Carrefour reorganised their senior management structure, creating a Group Directorate and an Executive Directorate.

The Group Directorate, consisting of Marcel Fournier and Denis Defforey, assisted by a finance director, a general affairs director and a marketing director, was to involve itself with short and medium-term issues (*LSA* 666, 1978). Whereas the 14-member Executive Directorate headed by Jacques Defforey and Bernard Fournier, and composed of seven regional directors, three merchandise directors, an administration/management director, and a social affairs/personnel director, was to formulate the long-term strategy of the group and instigate the diffusion of these strategies to the store network (Bataille, 1978).

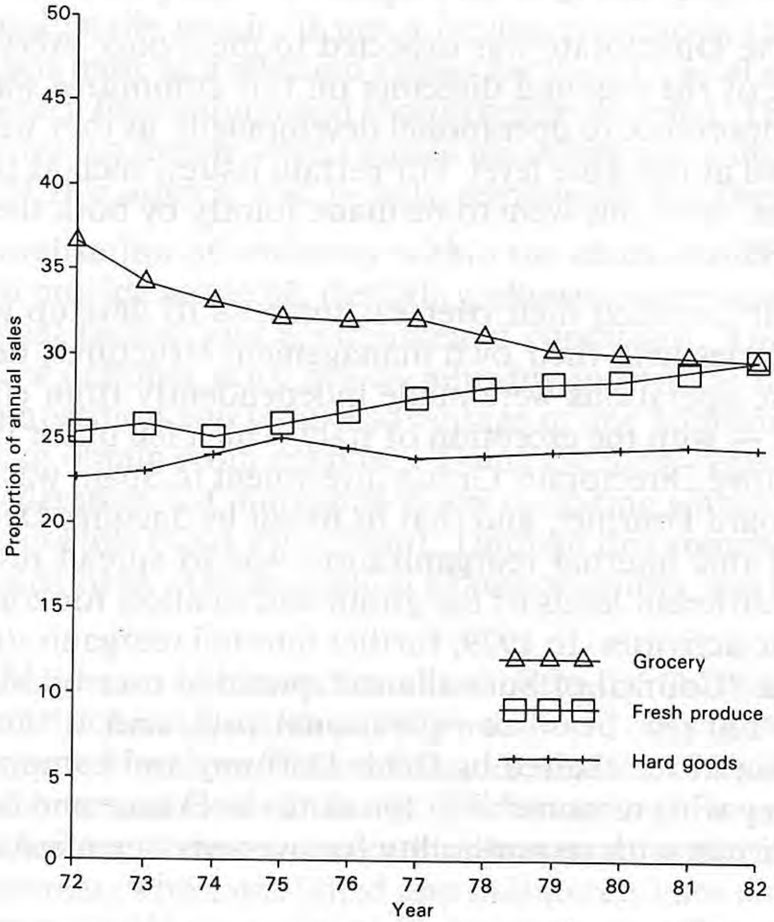
The Executive Directorate was expected to meet once every fortnight, and the role of the regional directors on this committee was regarded as of vital importance to operational development, as they were the ones most involved at the store level. For certain issues, such as the opening of new stores, decisions were to be made jointly by both the Executive and Group Directorates.

As Carrefour intended their overseas interests to develop as independent subsidiaries with their own management structures, decisions involving these operations were made independently from either of the Directorates — with the exception of Italy, which fell under the auspices of the Executive Directorate. Group investment in Spain was to be overseen by Bernard Fournier, and that in Brazil by Jacques Defforey. The intention of this internal reorganisation was to spread responsibility throughout different levels of the group and to allow for concentration upon specific activities. In 1979, further internal reorganisation saw the creation of a "Council of Surveillance" presided over by Marcel Fournier, who withdrew from an operational role, and a three-member Strategic Committee chaired by Denis Defforey and composed of Jacques Defforey with responsibility for stores in France and Samod, and Bernard Fournier with responsibility for overseas operations (*LSA* 757, 1980).

During the early 1980s, with low volume growth in food retailing in France, attention was focused upon the buying power of the large retail groups. The majority of hypermarket operators in France combined their purchasing power through buying centrales such as Paridoc, Socadip, and DiFra. According to Denis Defforey, Carrefour found themselves paying more for goods than their competitors, and responded with the formation of the Arci-Association "mega-centrale" early in 1984 (*LSA* 968, 1985). This new grouping combined the buying power of Carrefour with that of Auchan, Sogara, Casino, Promodès, Métro, and Comptoirs Modernes, and provided Arci with a combined retail turnover in the region of 100,000 million francs (*LSA* 920, 1984). Competitors responded to this initiative, and in March 1984 the Socadip and Paridoc centrales combined their buying power in the formation of Contact (*LSA* 926, 1984), and DiFra and the Co-operative Movement's centrale, the SGCC, announced a similar partnership (*LSA* 930, 1984a).

In addition to attempts to improve the group's overall buying power, Carrefour has been quick to respond to changing consumer demands, particularly the increasing emphasis placed upon fresh food, and has adjusted the product assortment carried in its stores accordingly.

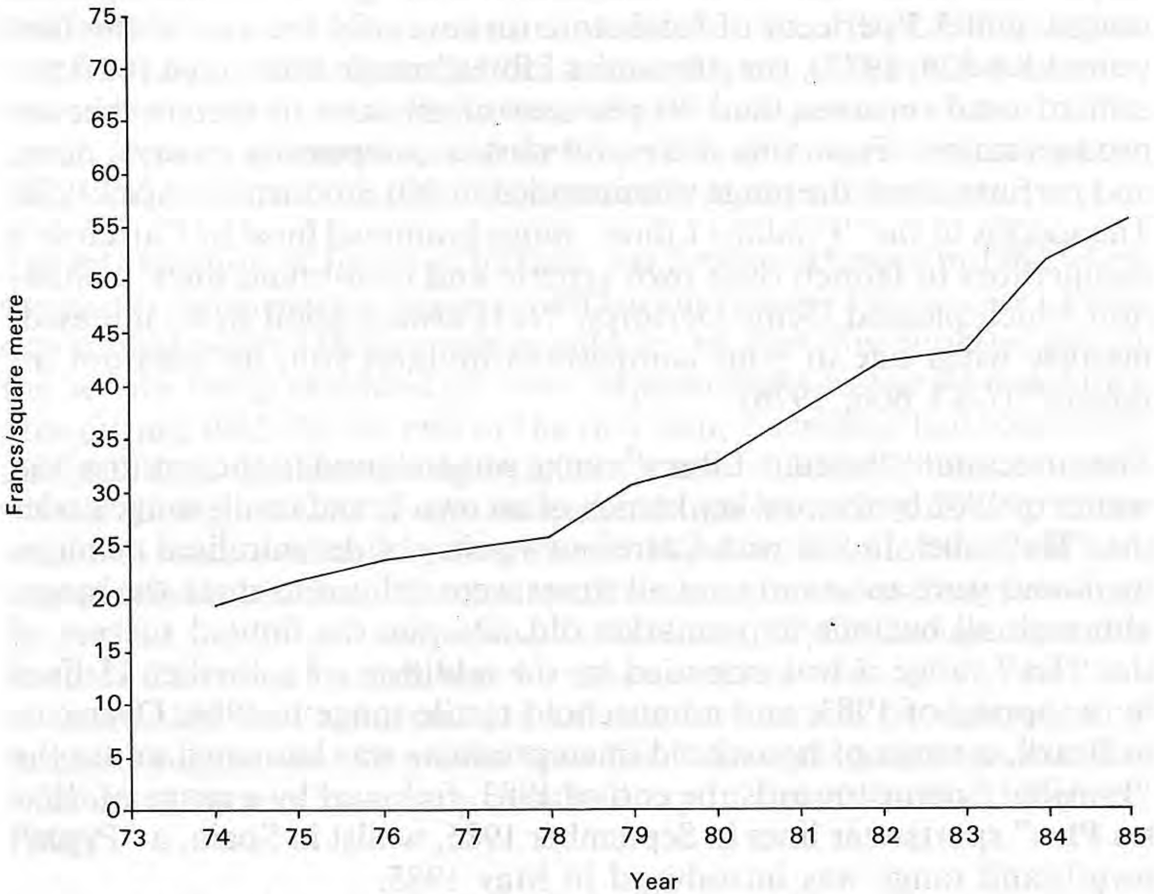
Figure 4. Carrefour: Sales by Product Range 1972-82



As Denis Defforey remarked in the company's 1984 report, "In 25 years consumers have changed. All of us in Carrefour are conscious of this, we adapt ourselves, we innovate, we progress." One result of the careful monitoring of consumer behaviour and the operational response, has been a steady rise in the proportion of the group's sales accounted for by fresh produce since 1970, as Figure 4 shows. Similarly, distribution costs are constantly under review at the family of goods, and even individual goods, levels. Reflecting the success of some of these adaptations in operating policy, space productivity throughout the group has risen consistently from 19.4 francs/sq m in 1974 to 55.5 francs/sq m in 1985 (Figure 5).

The careful attention paid by Carrefour to changing market conditions is further reflected in the hypermarket opened at Etampes in August 1983 (*The Grocer,* 1983). This store was deliberately adapted to suit the economic recession of the early 1980s. The store design was kept simple, with no false ceilings or automatic energy control installation, and few decorative elements. Operating costs were kept down by simple and functional fixtures and a basic presentation of merchandise with

Figure 5. Carrefour: Space Productivity 1974-85



no special displays. The only exception to this low-cost approach was the fresh food department, in view of the increased importance of this department to store sales.

In addition, considerable effort and resources have been channelled into personnel management, and Carrefour pride themselves upon their staff relations and training programme. In 1984 the company training budget was 2 per cent of the payroll, nearly twice the legal requirement, as to Carrefour "training is a standing concern because it guarantees the company's future". Amongst the innovations introduced by the group are a biennial employees' convention, and an annual review of working conditions and contracts. Quality circles and competitivity groups have also been introduced to enable Carrefour to benefit from the "intelligence and creativity" of their staff.

Carrefour again proved to be one of the leading innovators in French retailing in 1976, with the launch of their "Produits Libres" range of products. This development, the first of its kind by a hypermarket operator in France, proved to be an important publicity and marketing coup for Carrefour, and the range performed better than expected. The initial impact of the 50 goods in the original range was spectacular

(*LSA* 580, 1976), and in the first ten days of sales they accounted for 12 per cent of the turnover achieved by all the goods in their specific ranges, and 3.5 per cent of total store turnover. By the end of the first year (*LSA* 626, 1977), the "Produits Libres" range accounted for 4 per cent of total turnover, and 40 per cent of all sales in their respective product ranges. From this successful start encompassing grocery, drug, and perfume lines, the range was extended to 200 products by April 1978. The success of the "Produits Libres" range prompted most of Carrefour's competitors to launch their own generic and own-brand lines, a situation which pleased Denis Defforey, "It is always good to be imitated, because when one of your competitors imitates you, he does not innovate." (*LSA* 666, 1978).

The successful "Produits Libres" range was followed in the autumn and winter of 1982 by the low-key launch of an own-brand textile range under the "Tex" label. In line with Carrefour's policy of decentralised management and store autonomy not all stores were obliged to stock the range, although all but one hypermarket did. Despite the limited success of the "Tex" range it was extended by the addition of a further 15 lines in the spring of 1983, and a household textile range in 1984. Overseas, in Brazil, a range of household linen products was launched under the "Bonjour" name towards the end of 1983, followed by a range of "Extra Plus" sportswear lines in September 1985, whilst in Spain, a "Pryca" own-brand range was introduced in May 1985.

The most recent development in the own-brand strategy of Carrefour has seen the launch of a range of 40 goods under the "Carrefour" tradename. The intention is to replace the "Produits Libres" range with the "Carrefour" own label over the next three years (*Distribution d'Aujourd'hui,* 1985). To reinforce the quality image of the Carrefour brand, early in 1986 the company launched a series of "produits concertés" which were only to be stocked if consumers approved the range. If any product failed to be approved by less than 80 per cent of consumers it was to be removed from the group's stores. In March 1986, Secodip interviewed 66,000 consumers and tested 87 of these products, only one of which failed to reach the required standard. Those goods that were approved had a red triangle added to their packaging to represent collaboration between Carrefour, suppliers and consumers (*LSA* 1014, 1986; *LSA* 1021, 1986).

Carrefour has also added financial services to its retail operation. In 1981 an in-store credit card, the "Carte Pass", was introduced in a six-store pilot. By the end of 1982, 20,000 cards were in use and the card accounted for between 6 and 7 per cent of sales (*LSA* 930, 1984b). In 1983 the "Carte Pass" was extended to 40 stores, and was used by

143,000 customers and by 1985, 247,000 customers held "Pass" cards. The "Pass" card is operated through a subsidiary SPP (Société des Paiements Pass) which showed a net profit after tax of 15.9 million francs in 1985 (Lévy, 1986). During 1985 a new partner, Cetelem, became involved in the credit card operation and took a 40 per cent share in SPP. In the future the intention is to develop SPP as an autonomous operation, and to introduce payment terminals at store checkouts.

The introduction of financial services was further extended in 1984 when the Ecully hypermarket began to sell car insurance. The success of this experiment, with 1,000 contracts sold in the first five months, led to the service being extended to other hypermarkets in the Rhône-Alpes area during 1985. By the end of the first year, Carrefour had sold 3,700 car insurance policies through eight stores — 1,700 of them at Ecully — and in August 1985 it was announced that home insurance policies would be made available in these stores. However, despite the initial success of this innovation, its overall performance has been disappointing. At present the 75 per cent owned subsidiary, GAC (Groupement des Assurés Carrefour) which was formed to control this activity has announced that further expansion of this service will be delayed, and rumours suggest that Carrefour have been having negotiations with the Allstates insurance company, a subsidiary of Sears Roebuck (Rebeix, 1986).

With regard to the adoption of new technology, Carrefour admitted in 1978 that the group was unlikely to be among the pioneers of EPOS technology in France, as at the time they thought the technology was too expensive for the benefits that it provided. Tests have however been conducted at the Gennevilliers store, but management believe that at present such information technology is not necessary (*LSA* 1027, 1986). Similarly, Carrefour have expressed reservations concerning the introduction of EFTS systems, sharing the general belief among large grocery retailers in France that bank charges for transactions are currently too high (*The Grocer*, 1984). The group along with Auchan, Casino and the Paridoc centrale have withdrawn from national trials to investigate their own EFTS networks.

However, Carrefour have been more receptive to new technologies concerned with advertising and promotional activities. As *LSA* (942, 1984 and 947, 1984) has reported, the group has acted as the major locomotive for a Minitel experiment in the Compiègne region. Four thousand Minitel terminals have been installed throughout the region, and Carrefour have taken 80 of the 300 pages on the information system to advertise their store at Venette. The data on this system are updated daily, and provide current prices, details of current and future promotions, information on the activities of the commercial centre, and details of the services offered by the Carrefour store. The cost of this system for the consumer is that of a phone call, as a special number provides access. Following the success of this pilot scheme, Carrefour are planning to equip their remaining stores with this facility as soon as the expansion of Minitel allows.

The image of Carrefour as the leading innovator in French retailing is one of which Carrefour are understandably proud, and the group has taken steps to preserve this reputation. In 1984 the group's advertising expenditure amounted to 90 million francs, compared to 63 million in 1983. As TV advertising by retailers is prohibited in France, Carrefour has taken advantage of other methods, one element of which is the monthly *Carrefour Journal* produced for each of its stores. This eight-page news-sheet, which accounts for around 20 per cent of the group's advertising expenditure, is delivered free to approximately 560,000 households (*LSA* 940, 1984).

Carrefour have made efforts to reduce the role of promotions in their advertising strategy, believing that too many of these activities can prove detrimental (*LSA* 685, 1978). Instead emphasis has been placed upon more sophisticated promotional strategies and in particular upon the construction of a Carrefour image which stresses the qualitative aspects of the organisation (Clauteaux, 1981). However, price competition still remains a central element of the group's operating philosophy. In the annual survey of retail prices conducted by the Consumers' Association and published in *Que Choisir?* Carrefour was recognised as offering the cheapest prices in France in the 1984 and 1985 reviews.

Discounting has been central to the group's operating strategy in Latin America, and in France it is in relation to this aspect that Carrefour's advertising strategy has been at its most innovative. In 1979, Carrefour first tangled with the thorny issue of the legality of comparative advertising, when the group launched an "economic indicator" to reinforce the discount element of the Carrefour operation (*LSA* 701, 1979). This index was derived from the price of a shopping basket of 200 brand name products, chosen each month by the Ifop-Elmar agency (without prior consultation with Carrefour) from goods featured on the Insee consumer price index. The cost of this shopping basket in the Carrefour store was then compared with the cost of the same goods in the stores of the group's four main competitors in the region in question, and the results were published locally.

The issue of comparative advertising was again to involve Carrefour in late 1983. On 21 November, the Carrefour hypermarket at Chartres published a double-page advert in *L'Echo Républicain* comparing the store's prices over 150 product lines with those of its four major competitors in the area, a Rallye hypermarket at Luce, Leclerc at Luisant, and Intermarché stores at Mainvilliers and Coudray-Chartres (*LSA* 912, 1983). This advert was supported by a special edition of the store's *Carrefour Journal* and adverts were carried on buses in the town.

This publicity coup prompted furious reaction from competitors. The two Intermarché stores responded by sending their employees to the Carrefour hypermarket to purchase the goods featured in the adverts, which were then resold at the same prices in the Intermarché stores! Intermarché, along with Rallye, also published statements in the local press denouncing the one-sided character, and the deception of this operation, and Rallye produced a comparative price list of their own.

This campaign came as a complete surprise to the retail trade, as Carrefour had been moving towards a softer marketing approach with the emphasis upon quality. Once again Carrefour had succeeded in pulling off a major publicity coup, to the chagrin of their rivals. Other groups began to follow the Carrefour lead, producing their own versions of the campaign, and a major publicity battle ensued between Carrefour with the slogan "Carrefour invents comparative pricing" and Leclerc who responded with "Edouard Leclerc does better" and denounced "the crossroads of illusion" (Betts, 1983).

The comparative advertising campaign encroached upon a grey area of the law, and a series of lawsuits were brought against Carrefour and other retailers. Some opponents argued that the campaign was potentially misleading and therefore contravened article 44 of the Loi Royer which forbade "advertising of any form which makes false statements, or which is likely to induce an error", whilst others referred to article 422 of the Penal Code which prevented the use of other tradenames and brand names without prior approval of the parties concerned (*LSA* 915, 1984). In all the campaign is thought to have cost Carrefour four million francs in legal fees, as Arlaud (at Bourges), Auchan, Mammouth (at Montesson), and Leclerc took Carrefour to court (Hager, 1984).

In addition to the role of discount prices, quality is an important element of the Carrefour operating strategy. Carrefour claims that it is a multispecialist, specialising in each product range that it stocks. To emphasise the qualitative aspects of the group's image, and to capitalise on the successful publicity coup achieved by the comparative advertising campaign, Carrefour launched a similar comparative quality campaign early in 1984 (*LSA* 924, 1984; 925, 1984). This development can be seen as part of the overall long-term strategy of the group to emphasise quality. This new programme revealed the results of laboratory tests conducted by the ATS (Assistance Technique Scientifique) in

Marseille on own-brand washing powders and washing-up liquids produced by the major retailers. Future plans involved similar tests for shampoos, coffee, oils, chocolate, and fresh produce.

Summary

Over the past 25 years the Carrefour group has developed into one of the leading food retailers in Europe. This position has been achieved through the exploitation of one type of retail outlet, the hypermarket. Attempts to diversify into other specialist retail markets and to develop other types of outlet have proved problematical, and with the exception of the Erteco chain, further investment in diversification is thought to be unlikely. Spatial expansion, both in France and overseas, has been based upon a strategy of initial development through joint subsidiary companies in conjunction with local or regional retailers, followed by the acquisition of these stores or the joint ventures themselves. After searching for development opportunities in most European markets during the early 1970s, the international strategy of Carrefour has focused upon the Spanish and Latin American markets, although future development may well involve expansion in the USA.

Within France the company has remained a leading innovator in the food sector. Store layout and product assortment have been adapted to changing consumer needs, Carrefour has introduced "no name" products to the French market and financial services to its stores, and the company has shown originality in its promotional activities. The cornerstone of the company's operating philosophy has been the decentralisation of management, and development of personnel, in support of the corporate ethic of the Carrefour group: "Carrefour's future, independence and steady growth are based upon people. Every person, every day, endeavours to bring a more harmonious response to the multiple expectations of the Company's partners." This approach to management appears to have served Carrefour well during the first 25 years of the company's existence.

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