Shopped around

WHEN Carrefour, the world's second-biggest retailer, reports its third-quarter results on October 23rd, everyone will be looking to see how it did in the *rentrée scolaire*, the period when French families back from their holidays stock up on food and kit for their children going back to school. It is an important time for French retailers, and if Carrefour has done badly, its board may decide to fire its embattled chief executive, José Luis Durán—either right away or at the end of the year.

Under Mr Durán, Carrefour has fallen short of analysts' expectations for the past three years. Its share price has fallen by 50% since the beginning of the year. In recent months it has been hit particularly hard as European shoppers have traded down to cheaper goods from discounters such as Aldi and Lidl, two German chains. Carrefour's French hypermarkets—which sell everything from food to televisions—are struggling against smaller supermarkets for groceries and specialist retailers such as IKEA or Fnac for other goods.

But some analysts question whether the retailer's poor performance is Mr Durán's fault. Carrefour's fundamental problem, they say, is that it has kept prices too high for too long, causing it to lose ground in France, Belgium, Poland and Turkey.

When Mr Durán took over in 2005, says Philippe Suchet, a retail analyst at Exane BNP Paribas in Paris, he launched an aggressive price-cutting campaign in order to regain market share—with some success. Then in 2007, when it became clear that Carrefour's founding Halley family would retreat from the firm, Bernard Arnault, the chairman of LVMH, a luxury-goods company, and Colony Capital, an American private-equity firm which specialises in property, stepped into the vacuum. They jointly bought a 9.8% stake through a holding company, Blue Capital, which became Carrefour's largest shareholder.

Soon afterwards, says Mr Suchet, Carrefour's pricing changed to become "merely competitive, rather than aggressive". This may have been because the activists were primarily interested in spinning off Carrefour's property assets, rather than regaining market share. They planned an initial public offering of its property arm. The proceeds would have been used to buy back Carrefour's shares, creating a large short-term gain for the shareholders, but the firm would have had to pay rent to the new company, thereby increasing its costs.

To pull this off, the shareholders needed Carrefour to maintain high profit margins in order to absorb the extra cost of rent, which meant keeping prices high. In the second quarter of 2008, as economic fears were mounting across Europe and discounters were seizing market share, Carrefour decided not to repeat a series of price promotions it had introduced in France in the same period in 2007. As a result, its hypermarkets lost 60 basis points of market share. The property scheme has been shelved. The timing of Carrefour's pricing changes, says Mr Suchet, "seems to suggest that the new shareholders have had an influence on its price strategy."

Blue Capital denies this. "We never intervene in pricing at Carrefour as we consider that it is not the role of the board," says a spokesman for the holding company, which has lost an

estimated €1 billion ($1.4 billion) on its investment so far. To be sure, Carrefour's problems began well before Blue Capital bought into the firm. And its property was poorly managed—something that has since improved, thanks to Colony's expertise in the field.

Will the board now allow Carrefour—under Mr Durán or a new boss—to slash prices to protect its long-term future? For the activists, a price war must be an alarming prospect. Cutting prices means an immediate drop in margins, and market-share gains could take years to materialise. But given the direction of consumer confidence, they may have little choice.

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