French retail groups Galeries Lafayette and La Redoute close to merger, target international expansion

By Marion Deslandes - 1 September 2017

By the start of 2018, department store group Galeries Lafayette will finalise the acquisition of a 51% stake in French mail order/e-tail company La Redoute, creating a corporation worth €4.5 billion. Their joint target is to reach a revenue of €5.5 billion from 2020, each benefiting from the other’s strengths to promote growth. But to what extent will the two groups actually merge, and what synergies are to be expected from the operation? In a press conference held on 31st August, the two companies’ directors have addressed these questions.

The main objective is clear: the creation of a genuine omni-channel leader, the top retail player on the French apparel market in terms of value, ahead of Kiabi and H&M. Each partner will however preserve a degree of independence. "No job cuts are planned, nor will there be a physical merging of the two corporations," said Nathalie Balla. With Eric Courteille, she undertook to engineer the recovery of La Redoute in 2014, after it was bought by the Kering group (then known as PPR).

Mutually beneficial returns are a real possibility. "The two retailers will remain independent, they are both iconic brands, but there will be nothing preventing them from exploring possible synergies, whether in terms of product range, data-sharing or customer information," said Eric Courteille, who hastened to cite as examples the recent equity acquisitions involving e-tail and brick-and-mortar operators, such as Amazon's with Whole Foods or Conforama's with ShowroomPrivé.

"Premiumisation for both"

The Galeries Lafayette group will undoubtedly benefit from the digital savvy of La Redoute, which has jettisoned its
large printed catalogue and now generates 91% of its sales online. "Galeries Lafayette must accelerate its
digitalisation," drummed on Nicolas Houzé, General Manager of the department store, which was founded in Paris
125 years ago. "For example, take a key element such as delivery: La Redoute is a force in this crucial last phase,
it will help us improve in this respect." Nicolas Houzé's objective is for online sales by Galeries Lafayette to
account for 10% of overall sales by 2020. Conversely, the Galeries Lafayette's expertise in running physical stores
will help the former mail order company's retail expansion, which for the time being is focused solely on the home
decoration segment.

Indeed, the home decoration segment seems to be a major factor in the two groups' convergence. It is a segment
in which La Redoute has grown by leaps and bounds, and it now accounts for 48% of the group's revenue.
Consequently, retail corners featuring AM.PM., La Redoute's furniture brand, are expected to sprout up across
Galeries Lafayette stores, initially in France and later perhaps also internationally. It must be said that the two
groups are already working together, since a first AM.PM. shop-in-shop was opened in 2015 inside the Galeries
Lafayette-owned BHV Marais department store in Paris. "We also wish to establish shared home decoration
showrooms," said Nathalie Balla. The segment is on the up, a trend which is at odds with the general performance
of the apparel sector, and will be an important growth driver for the new entity: the target is for the home
decoration and furniture range to expand from 20% to 25% of the two groups' combined revenue by 2020.

Product-wise, there are no substitutions on the horizon: the focus is on complementarity, also due to the partially
different price positioning of the two groups. "Galeries Lafayette is higher up the fashion price ladder. In its
boulevard Haussmann [store in Paris] it brings together mainstream, accessible luxury and luxury labels, while La
Redoute is focused on entry-level and mainstream ones," said Philippe Houzé, President of the Galeries Lafayette
group's executive board. "We will assist in the price positioning upgrade La Redoute is working on. Both sides are
engaged in the premiumisation of their range." In practical terms, "we could perhaps see the Galeries Lafayette's
own fashion label available for sale at La Redoute," said Nathalie Balla. "And we could also improve our own
label's range, in terms of quality and style, and even add to our Brand Boutique, the directional multibrand corner
stemming from the partnership between Brand Bazar and La Redoute, by featuring new brands currently available
at Galeries Lafayette."

International ambitions

Another focus of the two groups' joint expansion is the international arena. "We already operate seven stores
outside France, we are ahead of schedule," said Nicolas Houzé. "A store will open in Shanghai by the end of this
year, and we are keen to find other locations in China." As for La Redoute, which has a physical presence in six
countries and generates 30% of its revenue outside France, in 2016 it broadened its online footprint by inking
deals with Azoya for China and CFAO for Africa, while the home decoration range was recently launched online
internationally. Retail-wise, La Redoute "is targeting further international expansion within the next two years."
"Before then, we will gain a firmer foothold in France with two La Redoute Intérieurs stores, in Lyon and Carré
Sénart," said Balla.
For the 2017 fiscal year, La Redoute has confirmed its profitability target, and expects to hit the €1 billion mark by 2021. A figure which Philippe Houzé cited as the threshold for the acquisition of La Redoute’s remaining 49% stake, eventually making Galeries Lafayette its sole shareholder.

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