

THE WALL STREET JOURNAL

As of 12 p.m. ET Euro 14153 ▼ 117% Yen/US\$ ¥79.01 ▲ 2.78% Yen/AS ¥83.04 ▲ 0.75% Oil 88.62 ▼ 3.60% Gold 1662.60 ▼ 0.05% 10-year Treasury ▲ 28/32 yield 2.496% 3-month Libor 0.26939



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BUSINESS & FINANCE

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In Japan, Two Powers Weigh Deal For Tie-Up

By Juro Osawa and Kenneth Maxwell

TOKYO—Two Japanese heavy-weight conglomerates—Hitachi Ltd. and Mitsubishi Heavy Industries Ltd.—are considering merging major industrial businesses, such as electric power and railway machinery, Hitachi's president said Thursday.

Such a tie-up would blend crucial business lines for two of Japan's largest companies. Hitachi ranks fourth and Mitsubishi Heavy 49th among Japanese companies, according to this year's Fortune Global 500 list. But a deal between the two giants—each with proud, distinct corporate cultures and histories dating to the turn of the century—appears fraught with difficulties, reminiscent of other ambitious merger plans that have come to nothing, despite growing pressure for much-needed consolidation in fragmented sectors of Japan's sluggish economy.

The relentless rise of the yen has only added to the pressure. And in an unusually public report, the headquarters of both companies issued statements contesting the comments of Hitachi's president soon after he made them.

Leaving his suburban Tokyo home Thursday morning, Hitachi President Hiroaki Nakanishi confirmed a Nikkei report about the merger talks, saying an announcement could be made as early as Thursday. However, official statements from both companies denied any agreement had been reached, and said no statement was due.

A person familiar with the matter said the pair had been headed for an announcement before the denial, while Japanese media reported later that an accord on exploratory talks was still in the works, and could come as soon as Friday.

It was a rare public flip-flop in Japan, where deals are regularly floated early in proceedings, and can easily run into problems, but usually behind closed doors.

Should the deal succeed, it could be a watershed, creating one of the largest global competitors in several key sectors. Hitachi, Japan's largest maker of electrical machinery, has been under particular pressure to curb unprofitable lines.

Hitachi has been reorganizing to strengthen what it calls its social-innovation segment. This includes traditional infrastructure projects such as electric power, industrial systems and railways.

Both Hitachi and Mitsubishi Heavy have nuclear-power-related operations, an area that faces an uncertain future.

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Rio Warns of Growth Risks

Net Rises, but Miner Sees Threat From Sovereign-Debt Troubles in the U.S. and Europe

By Robb M. Stewart

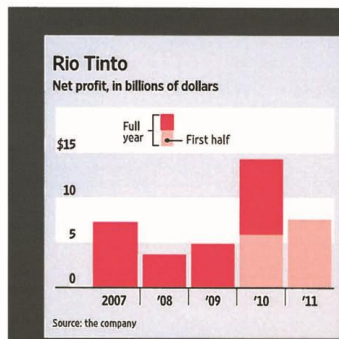
MELBOURNE—Rio Tinto PLC, one of the world's largest mining companies, cast uncertainty on a bullish outlook for its commodities and said it is concerned over sovereign-debt risk in the U.S. and Europe as well as rising costs.

The warning Thursday came as the Anglo-Australian company said its first-half net profit rose 30% to a record and it increased its share-buyback program to US\$7 billion.

Chief Executive Tom Albanese said the company remains positive for the remainder of 2011 and into 2012, even as the mining industry struggles to bring new production of metals and minerals onstream. But he added that tightening credit in developing countries and the threat of a financial crisis arising from U.S. and European sovereign-debt problems could threaten Rio's outlook by destabilizing commodity markets.

"I could paint a very rosy picture," Mr. Albanese said in an interview. "It would be easy to say, 'Ignore what is happening in Greece, our markets are fine.' But we have to be realistic."

Rio said its net profit rose to \$7.6 billion in the six months to June 30 from \$5.8 billion a year earlier, despite the impact on mining production from torrential rain and cyclones that buffeted Australia's



Rio Tinto Group CEO Tom Albanese



eastern and western states at the start of the year.

The earnings also reflected an \$810 million foreign-exchange hit over the same period, as the Australian and Canadian currencies strengthened against the U.S. dollar.

Sales for the first half rose 21% to \$31.76 billion, driven again by the company's iron-ore operations.

In a measure aimed to please investors, Rio said it plans to increase

its share buyback to \$7 billion, from \$5 billion, and complete the program by the end of March 2012. Many investors have criticized Rio and other miners recently for not returning enough of the benefits from a global boom in mining and commodities demand.

Mr. Albanese's remarks about the possible impact for commodities from sovereign debt could add to concerns over global growth. U.S.

lawmakers this week narrowly avoided a default by agreeing to raise the government's borrowing limit by \$2.4 trillion and cut \$917 billion in federal spending. At the same time, uncertainty over the high debt of Italy and Spain highlighted Europe's economic problems.

"There is a heightened element of uncertainty. It is positive the U.S. debt-ceiling crisis seems to have

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Yoox Delivers for E-Shoppers in China

By Laurie Burkitt

BEIJING—When China's online luxury shoppers click to spend more than \$4,000 on a Maison Martin Margiela leather jacket or over \$3,000 for an Alexander McQueen dress on fashion website thecorner.com.cn, they will have an option the online store doesn't make available to any other customers around the world.

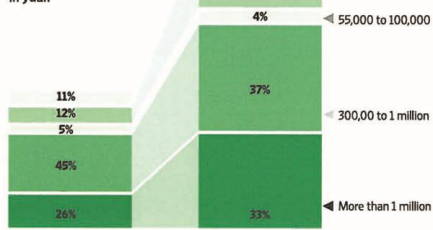
FedEx Corp. delivery men will wait on the doorsteps of Chinese consumers while they inspect their purchases, try them on for size, and decide if the products are worthy of keeping or sending back.

Luxury Internet-retail company Yoox Group SpA and FedEx custom designed the service, which will start up in September to accompany the launch of thecorner.com.cn, Yoox's online designer fashion store.

Yoox, based in Milan, is aiming to appeal to China's high-end buyers, who are driving the world's fastest-growing luxury market and are getting accustomed to being pampered each time they open their wallets. The goal is to draw more of that luxury spending online. It is also part of a larger trend of retail-

Growing Wealth

Share of luxury goods consumption in China by household income, in yuan



Note: 1 billion yuan = \$155 million

Source: McKinsey Insights China

ers offering special perks to impress upon China's consumers they are priority No. 1.

"China's luxury buyers started decades later than the rest of the world, but in many ways, they are not only catching up but are sur-

passing the others," said Federico Marchetti, founder and chief executive of Yoox, which runs thecorner.com.

Thecorner.com sells collections from rising designers to consumers in more than 50 countries including

the U.S. and countries across Europe. It may offer the standby service designed with FedEx in other countries if it proves successful in China, Mr. Marchetti added. Yoox.com, another of the company's online stores, launched in China in December. Yoox and FedEx declined to specify the financial details of their arrangement.

Long gone are the days when setting up a store in China was enough to attract the attention of that nation's big spenders. China's luxury lovers are now among the world's most sophisticated, Mr. Marchetti said, adding they are well versed in their knowledge of brands.

They have also grown more demanding, said Chloe Reuter, who runs ReuterPR, a Shanghai-based public-relations firm. "The crucial question is: How can a brand go above and beyond to offer an unforgettable experience?"

Luxury brands now have to up their ante with star-studded events and China-centric offers to win the affection and loyalty of the market, which is poised to become the world's largest luxury market by 2020. China is estimated to account

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CORPORATE NEWS

# U.S. Shoppers Warmed Up to Discounting in July

By KAREN TALLEY

NEW YORK—U.S. retailers tried to lure shoppers out of the hot weather through deep discounts in July, having moderate success. But as an early indicator of back-to-school demand, the sales picture was less certain.

The goal for the month was to get ready for fall, and a lot of summer merchandise was relegated to markdown racks as retailers brought in products for the school-buying season. While several chain stores such as Macy's Inc. and Target Corp. posted upbeat results last month, others including Kohl's Corp. and Gap Inc. struggled.

Complicating retailers' efforts was July's extreme heat, which encouraged shopping for warm-

weather clothing but may have hindered purchases for fall. It was the warmest July nationally since Planalytics, a weather-tracking firm, began following temperatures in the U.S. in 1960.

In addition, balancing the two seasons was complicated by fall merchandise coming in at higher prices in some cases as increased cotton costs hit.

"Retailers certainly are dealing with higher costs and are taking steps to avoid shocking consumers," said Alison Paul, U.S. retail leader at Deloitte. "But there is no question prices will have to be raised."

The 25 retailers tracked by Thomson Reuters reported 4.4% growth in July same-store sales. The figure is off of a relatively modest 2.8% gain a year earlier.

Target posted a 4.1% rise in same-store sales, at the high end of the mass merchant's range. Back-to-school sales "are off to a solid start," with the company also feeling well-positioned "as we head into the 2011 holiday season," Chief Executive Gregg Steinhafel said.

Macy's posted a 5% rise in same-store sales, higher than the projected 4.1%. Sales in stores and online "continued to be strong" at Macy's and the company's high-end Bloomingdale's unit, Chief Executive Terry Lundgren said.

J.C. Penney Co. reported July same-store sales of 3.3%, beating expectations for 2.3%.

Kohl's delivered a rare downside surprise, showing a same-store sales decline of 4.6% when a 3.4% rise was expected. The company may

have been a victim of starting its discounting earlier in the month to try and get a leg up on competitors, analysts said. Kohl's nonetheless raised second-quarter guidance, citing assistance from inventory and expense management.

Since July is the last month of the second quarter for most retailers, a number of them telegraphed their results for the period.

Gap projected a fiscal second-quarter profit that exceeded analysts' expectations, although the casual-apparel retailer reported July same-store sales declined by 5% when a 0.7% drop was expected.

Off-price retailer TJX Cos. lifted its second-quarter outlook after posting a 4% rise in July same-store sales, when 3.5% was projected.

Limited Brands Inc. posted a 6%

rise in July same-store sales, when 4.2% was expected. The operator of Victoria's Secret and Bath & Body Works raised its earnings projection to a range of 44 cents a share to 46 cents a share, from 38 cents a share to 43 cents a share.

But it is unlikely any retailer can expect a completely smooth ride ahead. During July, gas prices remained elevated, home prices stayed near their lows, unemployment rose and the debt-ceiling debate in Washington had some negative impact late in the month.

"All of this has put the consumer in a tenuous mood going into the back-to-school season," said Patrick McKeever, retail analyst at MKM Partners.

—Caitlin Nish  
contributed to this article.

## A Retailing Comeback

Once-Dowdy Department Stores Regain Momentum in the U.S.

By ELIZABETH HOLMES  
AND ANN ZIMMERMAN

It seems department stores aren't dying after all.

The sector, long derided for dowdy merchandise, maze-like stores and crumbling facades, is making a comeback. Macy's Inc., Nordstrom Inc. and Kohl's Corp. are posting solid sales gains even as consumers remain cautious and manufacturing costs rise—and they are poised to continue the streak this fall.

Attributes previously viewed as problematic are now working in department stores' favor: scale, and a complex business model that involves a web of third-party vendors and in-house lines.

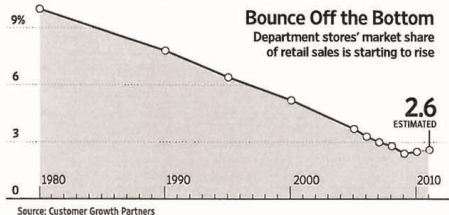
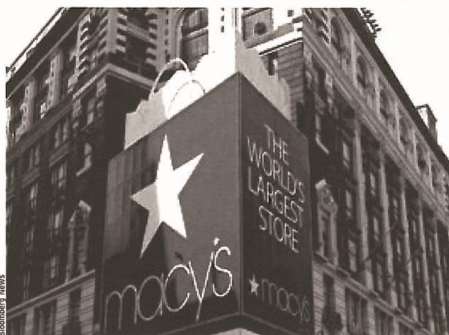
While those once left department stores vulnerable to more focused competitors, they now afford more flexibility in picking and sourcing merchandise. The complexity also gives chains the ability to lure customers in with targeted markdowns without resorting to the storewide discounts that kill pricing power and profit.

Department stores have expanded market share after almost a decade of contraction, according to data from Customer Growth Partners, a retail consultancy. "The mid-tier department stores are unabashedly doing better," said Craig Johnson, president of Customer Growth Partners.

Their recovery means more trouble for once high-flying specialty chains like Gap Inc., Aeropostale Inc. and Talbots Inc., which find themselves squeezed between inexpensive "fast fashion" retailers on one side and department stores on the other. In some categories, it also means tougher competition for big-box stores such as Wal-Mart Stores Inc. and Target Corp.

"We can move things around and adjust," Macy's Chief Executive Terry Lundgren said in a recent interview. "If it happens to be a cycle where women's dresses are not selling well, we can move to sportswear."

The recovery is broad-based but isn't uniform. J.C. Penney Co., which has struggled with uneven monthly sales as it works to modernize its business and upgrade its merchandise, announced an early retirement program Wednesday aimed at helping boost profitability.



The sector's improved performance is evident in sales at stores open at least a year, which strip out new store expansion to measure a retailer's underlying growth. On that basis, department stores have seen sales rise 4.5% through June, according to Thomson Reuters, up from 3.9% in all of 2010 and much better than their average of a negative 0.1% over the past decade.

Discount stores have seen faster sales growth than department stores over the past year and a half, according to Thomson Reuters. But the numbers don't include Wal-Mart, which if no longer reports monthly sales. If Wal-Mart's numbers were included, the sector's growth rate would be lower, since the discount giant hasn't posted same-store sales growth in the U.S. for the last two years.

Department stores are the second most popular destination this back-to-school season behind discounters, according to a survey from the National Retail Federation.

About 57% of families with school-aged children and 48% of families with college-age students are planning to shop at department stores, each up a few percentage points from last year.

Part of the success has come from a renewed push to line up exclusive collections, a change from the prior "homogeneous" offerings, Mr. Johnson said. Goods that can't be found anywhere else, especially those branded with well-known or celebrity names, makes the store a destination. It also helps a department-store chain avoid the pricing wars that come with selling commoditized goods.

Kohl's has clothes from Vera Wang and MTV reality TV star Lauren Conrad. Macy's lineup includes Madonna, while J.C. Penney has merchandise from Mary-Kate and Ashley Olsen.

Unlike Target's short-run collection from famous designers, most department-store collaborations are long-term deals.

## Yoox Aims to Pamper E-Shoppers in China

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for at least 20% of anticipated \$547 billion worth of luxury purchases by that year, according to investment research group CLSA Asia-Pacific Markets.

Events that were once reserved for established fashion centers—New York, Paris, and Tokyo—are now popping up in China. Jewelry designer Cindy Chao in late July brought "Sex and the City" actress Sarah Jessica Parker to help her show off her \$400,000 bracelets to prized and would-be customers. Around the same time, Ferrari gave customers private driving lessons in Shanghai with professional Formula 1 drivers.

Also in July, Prada invited some of its Chinese customers to a fashion show in which runway models presented sister-brand Miu Miu's winter collection, while guests sat at dinner tables, feasting on lobster tail and passion fruit panna cotta.

Service providers are also working to distinguish themselves in the increasingly crowded luxury market. At Hilton Worldwide Inc. hotels, China's high-end world travelers can have access to customized Chinese services that include front desk workers fluent in Mandarin, Chinese-language television channels, and their own breakfast menu of friend dough sticks and rice porridge known as zhou (pronounced like "joe"). Starwood Hotels Resorts Worldwide now globally offers in-room tea kettles, slippers, and translation services.

"In a country where everything has been built within the past five to 10 years, just being new isn't enough," Starwood CEO Frits van Paaschen said in a recent interview in Beijing.

Thecorner.com.cn will feature a 24-hour call center and instant-messaging fashion advisers who can answer questions about fabric, quality, style and sizing. Mr. Marchetti expects to have many queries since thecorner.com.cn is unveiling for the first time in the China market clothing from designers such as Alexander Wang, whose dresses have been worn by First Lady Michelle Obama, and Haider Ackermann, whose works have been shown off by pop star legend Lady Gaga.

To ease concerns about counterfeit products—still a big issue in China—Yoox is attaching to each product a radio-frequency-identi-



Fashion offered by Yoox online.

fication, or RFID, tag to track products from warehouse to doorstep to make sure nothing is swapped out for fake lookalikes. Consumers know that if it doesn't come with the RFID tag, which looks like an extra price tag, then it isn't the real thing.

Products ordered on thecorner.com.cn in China also come with the shopping bag of the brand and in an reusable, extra-durable gift box made of sturdy cardboard with a magnetic clasp, as Chinese buyers like to flaunt their purchases, Mr. Marchetti said.

Still, luxury services may not be enough to convert high-end customers to online shopping, said Yuval Atsmon, a principal partner at consultancy McKinsey Co. in Shanghai. "While everything online is growing very quickly, including spending on some luxury goods, most consumers will continue to buy in stores," Mr. Atsmon said. A McKinsey survey of more than 1,500 consumers in 17 Chinese cities showed 44% of luxury shoppers prefer to learn about products in physical stores.

And even offering additional services may not be enough to win some shoppers for whom price trumps all. Jin Yunduan, a 46-year-old shopper in Beijing, said she normally buys her luxury products on Wooh.com, a Beijing-based online retailer that launched in 2006, because it typically has less-expensive prices and calls her when new products arrive.

"I don't really need a FedEx man to stand at my door," Ms. Jin said. "I just want to know I'm getting the best prices."

