Metro Cash & Carry

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Retail Scenario in India & Ecosystem

Ecosystem Aware
Global Supply Chain Management

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retail sector in India

- The sector has grown from a level of US $201 Billion to a market size of US $425 Billion in 2010.

Source: Economist Intelligence Unit, Euro monitor, Aranca Research
Food and groceries account for the largest share in Retail

- In 2011, ‘Food and Grocery’ accounted for nearly 59.5 per cent of total revenues in the retail sector in India;
- ‘Clothing and Fashion’ followed with a share of 9.9 percent
- In 2011, 48 per cent of total household income in India was spent on food and groceries

Source: Indian Retail Market September 2011, Deloitte Aranca Research
Products in Indian Retail

THE UNIQUE INDIAN MARKET

Fresh food, ethnic apparel and mobile electronics will be key categories for organised retail in 2015.

**FOOD**

- 30% share of fresh fruits, vegetables and perishables
- One of the only markets where men’s apparel is much larger than women’s

**APPAREL**

- Disproportionate share of telecom/mobile phones

**ELECTRONICS**

- Break-up of consumption pattern in per cent

Source: McKinsey analysis
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Global Supply Chain Management

Stakeholders of Retail Chains

- Mandis, commission agents, farmers, mills – Groceries
- Apparel: manufacturers, distributors, brands
- Manufacturers of household items (crochety)
- Furniture – timber factories, carpentry firms.
- Manufacturers (local, international) & distributors of Electronic goods & household appliances –
- Books, magazines – distributors, book companies
- Medical and pharmaceutical goods – agents, distributors, or manufacturers
- Each commodity has a different supply chain and related issues.
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Metro Cash Carry in India
Metro Cash and Carry Model

- **Traditional wholesaling:** Highly specialized assortment of merchandise delivered to customers on credit
- **Metro C &C is a self-service wholesaler:** Sells a wide range of food & nonfood goods at large warehouses on immediate cash payment. Transportation taken care by customers (self-service) Featured high quality goods
- **Target customers of self-service wholesalers:** Business customers & institutions; SMEs including hotels, restaurants, bars, café etc.; Food retailers; Government & non-profit institutions, etc
- **Value generated for Government with tax collections** (informal transactions in retail account for 97%)
Currently, apart from Metro Cash & Carry, South Africa’s ‘Shoprite’ and home grown ITC’s Chaupal ‘Fresh’ have set up shop in this format.

Competition is likely to hot up in a few years
- Entry of the world’s biggest retailer Wal-Mart’s entry in the country with its Sam’s Club chain of stores.
- Reliance is betting big on BtoB business, being carried through ‘Rangers Farm’ cash and carry wholesale format
Where Can MCC Create Value?

- Serves as a B2B intermediary reducing waste and introducing quality
- Transaction facilitator: provides infrastructure connecting buyers and sellers: restaurants, hotels, Kirana shops with farmers and FMCG players
- Aggregator & Distributor: One stop shopping for buyers and provides the small suppliers the reach
- Quality Guaranteer: MCC assures buyers of the quality of goods, standards of hygiene & weights and measures
- Advisor: MCC provides market information
Organized Supply Chain Player: Initial Impact

- Direct linkages between customer and producer – both food and non food.
- Enhanced distribution reach, especially for SMEs and Farmers.
- SMEs benefit from reduction in supply chain costs (both inputs and distribution).
- SMEs benefit from access to technology and systems.
- Improvement in general level of quality (food and non-food), hygiene and food safety.
Why MCC has Problems in India
Why is MCC struggling in India?

- Despite a compelling value proposition and a tremendous need for an intermediary like itself, MCC is struggling in India.

- For businesses seeking a national presence, it is important to investigate what policy spheres are under the purview of the central government and what is up to local discretion.

- In India, the central government oversaw FDI, while state governments had sole control of several other areas, including agricultural marketing.

- Metro entered India, in May 2004, the BJP-led coalition at the center was voted out by a Congress Party-led coalition. Karnataka state government, in turn, changed hands and a BJP-led coalition replaced a Congress government.
Bangalore Wholesalers Protest against MCC

- Oct 20, 2003 Chairman and CEO, Metro AG, opened of Metro Cash & Carry Distribution centre in Bangalore
- Bangalore Traders Action Committee and Swadeshi Jagran Manch activists protesting against opening of Metro centre at APMC Yard
- The Bangalore Retailers’ Combine released half-page ads in local newspapers, comparing Metro to a modern-day East India Company.
- To most Indians, the imagery evoked was that of two centuries of exploitation.
Lessons learnt from Russia and China
## Metro in China and Russia

<table>
<thead>
<tr>
<th>Action</th>
<th>Russia</th>
<th>China</th>
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</thead>
<tbody>
<tr>
<td>Speed of entry</td>
<td>22 stores in first five years</td>
<td>8 stores in first five years, then 17 in the next few years thereafter. Slower ramp up because lacked a patron like the Mayor of Moscow in Russia</td>
</tr>
<tr>
<td>Joint venture</td>
<td>Not present. Perhaps not needed with local government patron</td>
<td>Retained JV with SOE Jinjiang Group even after rules for requiring it were relaxed</td>
</tr>
<tr>
<td>Local politics</td>
<td>Mayor is the only authority. He is supportive for Metro’s help in cleaning up the local black market</td>
<td>Tension between central and local government authority, but more authority (and clearer power structure) than in India</td>
</tr>
<tr>
<td>Local competition</td>
<td>Fragmented</td>
<td>“Fog of competitors”</td>
</tr>
<tr>
<td>Management team</td>
<td>Expatriate management</td>
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Entry Into India
Metro’s Entry Strategy In India

● Metro C&C entered the Indian wholesale market by opening two stores in Bangalore (Year 2003)
● Opened a new store in Hyderabad in 2006 (no stores added between 2003-06)
● Strong growth signs: institutional voids, rising living standards, urban migration, 34% increase in consumer spending from 2001-05 etc.
● Value proposition: to play a master role in filling institutional voids – the absent market infrastructure, connect the suppliers with the market etc.
Entry Strategy

- MCC entered India alone
- MCC had no strategy to involve locals and Miscalculated the risks in India.
- Absence of a local partner prevented the company from the benefits of local knowledge, connections and relationships.
- With no joint partner or an institution supporting it, it should have evaluated its entry strategy more carefully considering all the risks possible.
Risks faced by MCC
### Analysis of Metro’s approach

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<th>Action, Logic &amp; Comments</th>
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<td><strong>Location</strong></td>
<td>Bangalore. High tech city with large expatriate and internationally savvy population. It is distant from national power centers. Opening two stores in one city lead to greater risk of being exposed to local events.</td>
</tr>
<tr>
<td><strong>Ownership structure</strong></td>
<td>Wholly owned; no joint venture. Joint venture partners with social and political connections would have benefited MCC.</td>
</tr>
<tr>
<td><strong>Management team</strong></td>
<td>MCC country head was a local. MCC’s logic probably that company should take advantage of local management talent since local knowledge is more important than previous ties with company. Needed other mechanisms to ensure integration between India operations and HQ.</td>
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### Analysis of Metro’s approach

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<td><strong>Product range</strong></td>
<td>Limited by APMC Act precluding MCC from sourcing directly from farmers. Nothing they could do about this since it is a political and Government decision.</td>
</tr>
<tr>
<td><strong>Store operations</strong></td>
<td>Two large state-of-the-art stores with superb cold chain, similar to its stores in highly developed markets, have been made thinking that APMC act will soon go.</td>
</tr>
<tr>
<td><strong>Government Relations</strong></td>
<td>Mostly in Delhi; and none in Bangalore. MCC misread potential local political opposition</td>
</tr>
<tr>
<td><strong>Public Relations</strong></td>
<td>Market education to diffuse opposition and media relations were missing.</td>
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MCC: Growth Plans did not materialize

- The food business expected a boost from the €5.8 billion Golden Quadrilateral Highway, which would connect Delhi, Mumbai, Kolkata, and Chennai by the end of 2006 with 5,846 kilometers of four- to six-lane expressways.
- Tens of thousands of restaurants were expected to dot these roads, all of which were potential Metro customers.
- However, construction is years behind schedule.
Risks faced by MCC

- MCC underestimated the delay and risk involved with bureaucratic procedures.
- In India’s decentralized political system, national directives need not be implemented by states. Local political support is crucial for rapid growth.
- The APMC act became a constraint. Cold chain networks planned became liabilities.
- Metro faced a stumbling block: It was legally barred from purchasing fruits & vegetables directly from farmers.
MCC: Managing growth under Constraints

- MCC’s product offerings still dependant on how the APMC act is going to be amended
- Adjust its store format to reflect local needs – and local real estate price constraints?
- Build an “Ecosystem” for its business in India by educating farmers and retailers, and improving government and public relations?
- Navigating India’s complex political environment
- Communicate MCC value proposition to masses through the media, lobbying, and other means
What should be MCC’s approach going forward?