Impact Factor: 3.37

Metro cash and carry India in Rough water

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***Abstract*: in 2003 India had the largest density of retail population in the world with around 12 million retail outlets of which about 2% were in the organization sector. The $200 billion retail market was moving at 5% annually wich was mainly attributed to the rise in the annual incomes and shift in wants and desires. The foreign investment promotion board in India played an important role for foreign direct investment (FDI). To safeguard the interest of wholesalers and retailers.**

***Keywords*: Foreign direct investment (FDI), Foreign institutional investment (FII), Gross domestic product (GDP), foreign investment promotion board (FIPB), department of industrial policy and promotion (DIPP), maximum retail price (MRP).**

Published in IJIRMPS (E-ISSN: 2349-7300), Volume 2, Issue 6, November-December 2014

Objective

1. To understand the retail scenario in India
2. To comprehend the regulatory environment in the Indian retail market
3. To study the challenges faced by metro cash and carry when they entered the Indian market

Introduction

In 2003 metro a German distributor and retailer started its operations in India as a cash and carry business in order to cater to the needs of the retailer. The group started two stores in India (Bangalore city) with an investment of aroung $40 million. The store was about 110000sq.feet in area and carried 15000 to 17000items and operated with margins of about 5-20%

Since its entry it was facing many problems from the wholesalers, retailers and farmers. The retailers claimed that metros business had been characterized by a back-door entry into retail business as there were many business customers who purchased goods for personal consumptions. The wholesellers alleged that metro model created monopoly by eliminating competition and with the margins of 5-20% the whole sale stockiest and traders were loosing their volume of sales, further farmers opined that a new phase of bonding labor would emerge by way of contract farming wherein they would be under the mercy of metro. In view of the allegations against metro the government of Karnataka decided to review the trading license which was granted to metro way back in December 2000 by the foreign investment promotion board(FIPB). In this regard the government ,which was asked to conduct an enquiry into the actual activities of the company in India by the department of industrial policy and promotion (DIPP).

The Indian distribution setup:

The Indian distribution sector was in a very nascent stage accounting for less than 15% of the total GDP compared to around 25% in the developed countries. A typical Indian distribution setup included manufacturer, wholesaler, retailer and end consumer. For instance, Indian manufacturer usually followed a three-tier selling and distribution structure distributor, wholesaler and retailer. So a company operating on all Indian basis would have anywhere between 400-2300 distributors and around 250000-750000 retailers. These middlemen operated with margins ranging from 4-15% and by the time the product reached the end consumer he would have paid exorbitant price. The presence of large number of intermediaries resulted in fragmented supply chain and bulk of the business. Was churned out through unorganized retailers and wholesalers.

Metro cash and carry worldwide:

Headquartered at Duesseldorf (Germany), Metro AG was the fourth largest retailer in the world with annual sales of 51.5billion euros (US$59.7) in 2002 with around 2300 outlets in 28 countries. The metro group represented comprehensive competency in retailing internationality and a high level of innovation. The six sales divisions of the METRO group operated independent of the market , each with specific sales concepts. Metro /makro cash and carry, the world leading self service wholesale store: real (hypermarkets). Extra (suoermarkets), media market/Saturn(the leading consumer electronics centers in Erope); praktiker (home improvement) and Galeria Kaufhof(department stores).

Metro cash and carry in India:

As a part of Metro's international expansion, Metro prepared intensively for its entry into the Indian market by studying the trade structure since economic liberalization in the early 1990. Two feasibility studies were conducted in 1995 and 1999respectively with detailed analysis of customer structure in several major Indian cities and qualitative analysis of the Indian market. When it first studied the Indian market in 1995, metro decided to stay out as it thought that the market war not ready as there was absence of variety of product or business customers to sustain the supply chain that Metro would offer. so again in 1999 metro conducted another study found out that the market in India. Soon in 2000 India's FIPB approved Metro's plan to open business activities in Indian. At this stage the company decided to establish two centers of Metro cash and carry in Bangalore. This was followed by a period of intensive preparations involving the Metro team in India as well as senior executives from the German, British, Vietnamese, Chinese and Romanian operations. They opined that India would become a long term investment destination from a strategic point of view.

Operations:

Metro started its two stores in Yeshwantpur(october2003) and Kanakapura(November 2003) with 110000square feet area with 7500 food articles and 10000 non food articles in the assortments . it mainly catered to medium sized businesses such as retailers, hotels, restaurants and caterers. About 90% of the foods offered originated from local producers and suppliers. The business model was based on large volumes from bulk buyers and not small volumes from a large number of retail buyers. As harsh said "you cannot expect individual consumers to go to far off place from the city centers just to buy a few numbers. We target bulk buyers who are looking for quality , continued supply and a wide variety of products under one roof at a most reasonable price"

The idea was to bring together producers, farmers, agricultural cooperatives and manufacturers with the community of traders, retailers and small to medium business enterprises under one roof. Unlike the traditional wholesaler, Metro did not extend any credit to its customers or supplied goods at the clients doorsteps. However, it offered convenience to the distributors by offering them everything under one roof and in bulk. This prevented the distributors from piling up their stocks which freed the capital and the retail space. Metro offered huge price differentials ranging from 5-25% and sold somewhere between 30-45% less than the government set maximum retail price (MRP). This was possible because of the cost saved on logistics and intermediaries.

Future of metro in India:

Despite of the size and the potential that existed in the Indian distribution system, because of the unfavorable policy environment and Metros experience, there were many players who have either postponed or still evaluating their entry into the Indian market.

For Metro it was the general lack of understanding of the cash and carry model and the tendency to define wholesale trading as sales in large quantities that created problems. In this regard, as Harsh stated, since there were many small retailers and businesses in India it was the role of the wholesalers and the distributor to break up bulk shipments as there were many wholesalers who were willing to sell in small units. So, it was the customer to whom the product was sold that mattered rather than the quantity sold which defined the wholesale trade.

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