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By AVEEK DATTA

METRO CASH & CARRY INDIA

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BY **AVEEK DATTA**

Arvind Mediratta, managing director and CEO, Metro Cash & Carry India

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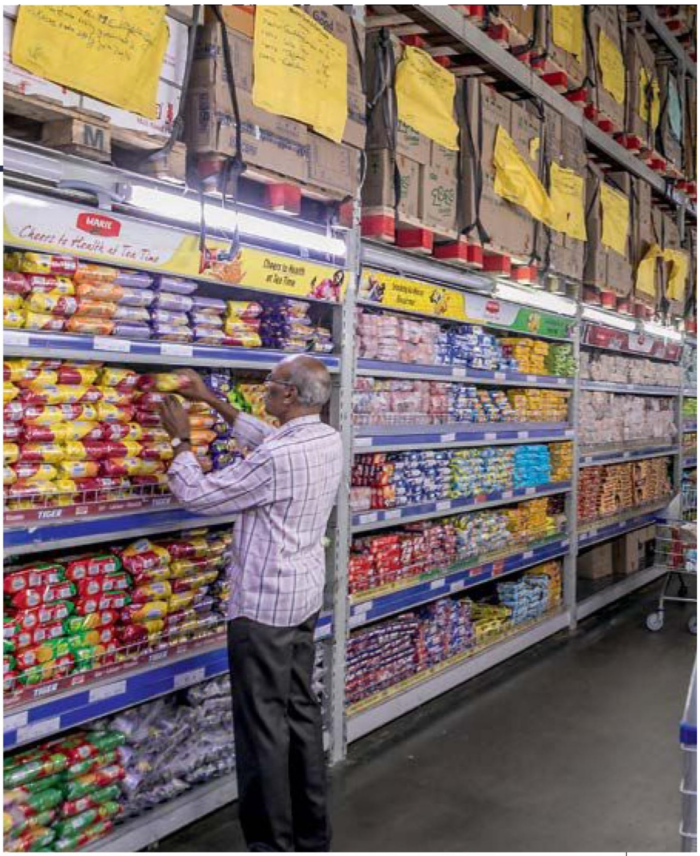
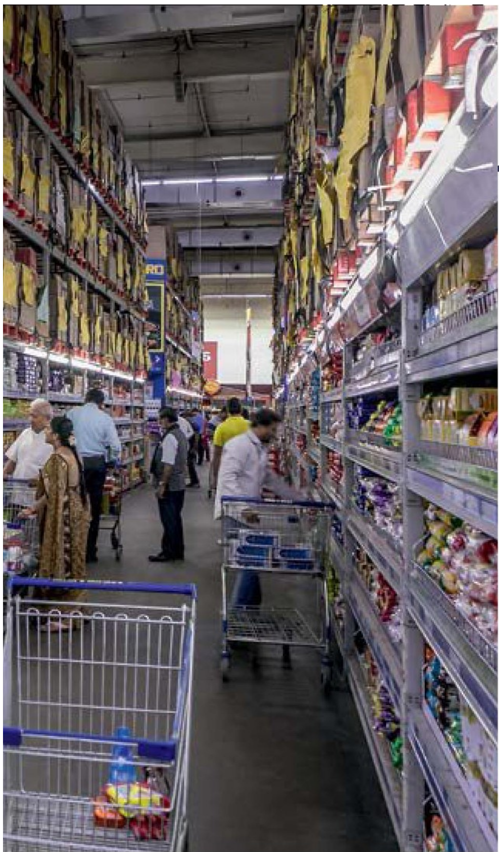


On a Monday morning in September, Rajiv Bakshi strolled down the aisles of a Metro Cash & Carry India store in Mumbai's western suburb of Borivali. His cart was laden with food grain, pulses, paper napkins, and washing detergent. Bakshi, who runs a restaurant called Pind Patiala in Goregaon East, has been making weekly visits to the wholesaler's Borivali store for the past 10 months for supplies.

"I USED TO GO TO A D-MART STORE earlier, but that was far from my restaurant," says Bakshi, referring to a chain of hypermarkets founded by investor Radhakishan Damani. "A friend then told me about Metro." Besides being closer to his restaurant, the store's comparable—at times cheaper—prices, wider range of products, and customer service are other reasons that made him switch to Metro, whose flagship store in Mumbai looks more like a warehouse than a store. It spans 100,000 sq. ft., across two floors with steel shelves that stretch from floor to ceiling.

Bakshi is one of many who prefer shopping at cash-and-carry, or wholesale, stores, where prices tend to be even cheaper than local wholesale markets and well-established distribution networks of FMCG companies. Prices of food articles sold at Metro's stores are around 6-8.5% cheaper than the rate at



The Metro Cash & Carry India store in Bengaluru

the nearest wholesale market, says Vishwas Ujire, deputy general manager of central procurement at The Akshaya Patra Foundation, a not-for-profit organisation that runs the world's largest midday meal programme for school-going children. The foundation, which feeds 1.7 million children and has an annual food bill of ₹150 crore a year, has been procuring food items like sugar, salt, and pulses from Metro for the past four years. "We partner with Metro because of their focus on quality and service delivery," says Ujire. "We feed children and can't take chances with the quality of products we procure. With Metro we get assurance of quality and predictability of supply." Arvind Mediratta, Metro Cash & Carry India's managing director and CEO, says the chain of wholesale stores is able to offer small grocers an average additional profit of 33%. "On consumer goods, we offer small grocers an additional discount of 2% compared to the FMCG companies' distributors. The typical operating profit margin of a *kirana* is 6%. So a 2% price advantage means 33% additional profits," Mediratta explains.

IN INDIA, THE SPOTLIGHT is unfailingly on front-end retail. Big-box stores such as Future Group's Big Bazaar, the poster child of Indian e-commerce, Flipkart, and its deep-pocketed American rival, Amazon, alike are vying for a bigger share of India's $700 billion retail market. Such is the lure of India's consumption growth story that the world's largest retailer, Walmart, couldn't resist acquiring Flipkart for $16 billion in August 2018.

Away from all this action, there is another set of customers underserved by the organised channel. These are the 50 million small businesses in India, including neighbourhood grocery stores (locally referred to as *kiranas*); hotels, restaurants and caterers; and services companies and offices which need items of daily use for their commercial ventures. For business-to-business (B2B) wholesalers, or cash-and-carry stores, this is a huge market. According to Arvind Singhal, chairman and managing director of Technopak, a retail consulting firm, the market for cash-and-carry players or the unorganised portion of India's retail sector is potentially worth $600 billion. "I am a great believer in the potential for cash-and-carry trade in India," Singhal says. "Most wholesale markets across India are unorganised and inefficient. Why not have organised players come in, who bring everything under one roof?"

It is no surprise then that a clutch of large, institutional wholesalers have quietly gone about building a sizeable footprint, selling everything from food grains and vegetables to apparel and LED TVs to any business with a valid goods and services tax identification number. Prominent players include Metro Cash & Carry India, Walmart India, and Reliance Market. Metro, the local arm of the German wholesale and food retail company, Metro AG, was the first organised cash-and-carry operator to enter India in 2003. It opened its first store in Bengaluru, which is also its India headquarters. Since then, it has opened 27 stores across the country and has a customer base of 2.8 million business establishments; it is also the largest cash-and-carry trade firm by revenue.

"India is an important market for Metro and our wholesale business has been growing in the Indian market since our entry in 2003 together with a great number of small- and medium-sized independent businesses and entrepreneurs across the country," a spokesperson for Metro AG told *Fortune India* in an email. "A steady and organic expansion in India is valid for us to continue to tap the big potential of the country."

Despite its first-mover advantage, 15-year run, and growing revenue, Metro is yet to make a profit—the true measure of success for a business. It has seen a steady double-digit rise in revenue in the past couple of years (*see chart*). Its revenue rose 16% to €798 million (around ₹6,785 crore) in the financial year ended September 30, 2017. "In our business, sales is vanity, profit is sanity and cash is reality," says Mediratta in a matter-of-fact manner. In fact, his appointment as head of India operations by the €37 billion Metro AG two years ago was aimed at changing the state of affairs. Mediratta, 51, who earlier set up Walmart's cash-and-carry business in India, has been in mission mode since, tweaking Metro's strategy to achieve profitable growth while increasing reach.

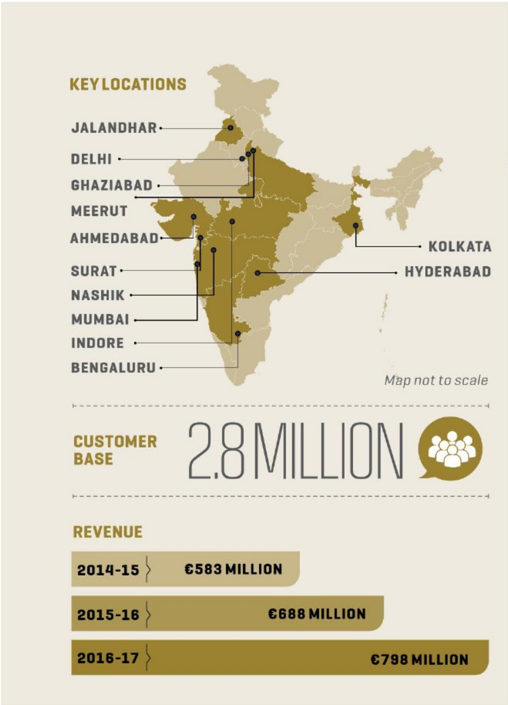
ONE OF THE FIRST THINGS THAT Mediratta—an alumnus of the Indian Institute of Management Calcutta and Indian Institute of Technology Delhi—did was to bring in a culture of meritocracy. "We wanted our store-level executives to think and act like owners. We changed the rewards structure to enable those driving the P&L (profit and loss) of specific verticals to earn as much as five times their base pay," says Mediratta. "Earlier the variable pay was linked to the company's performance as a whole, which meant that people could get rewarded even if their own performance wasn't up to the mark." Metro has also focussed on the art of merchandising and introduced the concept of a "treasure hunt". The idea was to ensure that shoppers who trooped in to buy daily essentials also stumbled upon products that were either unique (like decorative plants imported from China) or at an unbelievable price point (such as a 240-litre Whirlpool refrigerator selling at 30% below its maximum retail price). This leads to increased sales of non-food items, which help Metro corner more revenue and realise better profit margins. Non-food items constitute 30% of Metro's sales at present.

Under Mediratta, Metro is sharpening its eye on compliance to ensure that there are no leakages, especially when it comes to procurement of inventory. Also, when it comes to striking real estate deals for upcoming stores, Mediratta is involved personally to ensure that optimally-located properties are selected which can yield maximum return on investment. Other measures include running stores on renewable energy and rationalising the number of executives placed in each store depending on its sales turnover.

Equally important is Metro's two-pronged strategy for digital adoption. This includes omni-channel commerce, under which a 600-strong sales force goes into the field to collect orders from customers on a tablet. Metro receives payment from these customers digitally and ships the orders using GPS-enabled trucks, so that customers can track their shipment. Mediratta believes this will help Metro grow in India without expanding its physical footprint too aggressively. Real estate is one of the highest cost factors for wholesalers such as Metro, since its format demands stores that span large areas, which are expensive and difficult to find. "Cash-and-carry operators have typically followed an asset-heavy model in India, where they have bought space and built their large stores on them. Consequently, even if these wholesalers may be profitable on an operating level per unit, the heavy, upfront cost of capital shows that the business isn't profitable as a whole," says Singhal. In the initial years, Metro bought most of the land on which its stores stand and that has taken a toll on its financials. Henceforth, it wants to adopt an asset-light strategy and look to lease real estate for new stores. The other component of Metro's digital strategy is to digitalise mom-and-pop grocery stores. The company is looking to establish deeper relationships with small retailers, who fear loss of livelihood to bigger retail chains and e-commerce players. On a

METRO CASH & CARRY: VITAL STATS

THE COMPANY BUILT 20 OF ITS TOTAL NUMBER OF STORES IN THE PAST SEVEN YEARS.



Source: Metro Cash & Carry India

pilot basis, Metro has provided around 500 grocery stores with digital point-of-sale terminals, which can replace the paper-and-pen method of keeping books. This helps them print GST-compliant bills, manage inventory and working capital, and a detailed record of purchases by customers. At a time when its competitor Walmart, which operates 22 cash-and-carries under the Best Price Modern Wholesale brand in India, has entered front-end online retail with the Flipkart acquisition, Metro reaffirms its stance as a pure B2B player. "We want to be seen as the champions of independent businesses and are telling them that we are their true well-wishers," Mediratta says.

COMPELLING AS INDIA'S GROWTH story may be, doing business in India is a test of tenacity. This is true for cash-and-carry stores, too. Four years ago, Carrefour, one of the largest retail chains in the world, decided to pull the plug on its India operations and shut its five cash-and-carry stores—merely four years after it set up shop in the country. Though the company did not disclose the reasons for its exit, *Business Standard* reported that its inability to procure an Indian partner for its multi-brand retail venture and the compulsory sourcing from local businesses had been pain points for the French retailer. Though 100% foreign direct investment (FDI) is allowed in cash-and-carry wholesale business, only 51% is allowed in multi-brand retail.

Yet, such tales don't seem to have dented India's attractions. In January 2018, Thailand's CP Group announced it will invest ₹1,000 crore in India over the next five years to open a chain of wholesale stores. And those already in the game have made clear their intentions of staying put. Of Metro's 27 stores, 20 were opened in the last seven years, and it plans to open more but refuses to give a number. Rival Walmart opened its 22nd store in Ludhiana, Punjab, on September 22. "It [the new store] reiterates our commitment to India and our growth plans," Krish Iyer, president and CEO of Walmart India, said in a statement. Earlier in May, a day after announcing the Flipkart acquisition, Iyer was reported to have said that Walmart India planned to open 50 cash-and-carry stores over the next four-five years. Walmart India's revenue rose 10% to ₹3,641 crore and losses fell 27% in FY17 compared to the year-ago period.

Singhal of Technopak says Walmart, which opened its first cash-and-carry store in Amritsar in 2009, is likely to become more aggressive in India after the Flipkart acquisition. "I won't be surprised if Walmart doubles its investment in cash-and-carry in the next five years," he says. "Walmart is a sufficiently large organisation with a stable management in place in India. It has the ability to focus and invest in its wholesale business even as it harnesses its investment in Flipkart."

But the joker in the pack may well be Reliance Market, the wholesale arm of Reliance Retail, led by India's richest man, Mukesh Ambani. Reliance Market, which opened its first store in 2011, already has 45 stores serving 2.5 million customers in the country and industry estimates peg its revenue at around ₹5,300 crore. As with all its other businesses, Reliance Industries Ltd (RIL) could throw the full weight of its balance sheet behind its wholesale business. It is also well known that RIL is working on an integrated solution for its retail business that will combine offline and online channels by leveraging the technological backbone and customer base of Jio, its broadband wireless services business. This may also bode well for Reliance Market.

Meanwhile, as the race heats up, word is that Metro's long, long wait for profit may end soon. A senior Metro executive who wished to remain anonymous says that the company "may make money" this fiscal year ending September 2018 as sales are expected to be higher this time. It will show whether the strategy tweaks are showing results—and whether patience pays. ■

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