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INDIA EDITION



**WE HAVE TURNED
PROFITABLE
AFTER 15 YEARS
OF SUCCESSFUL
OPERATIONS IN
INDIA**

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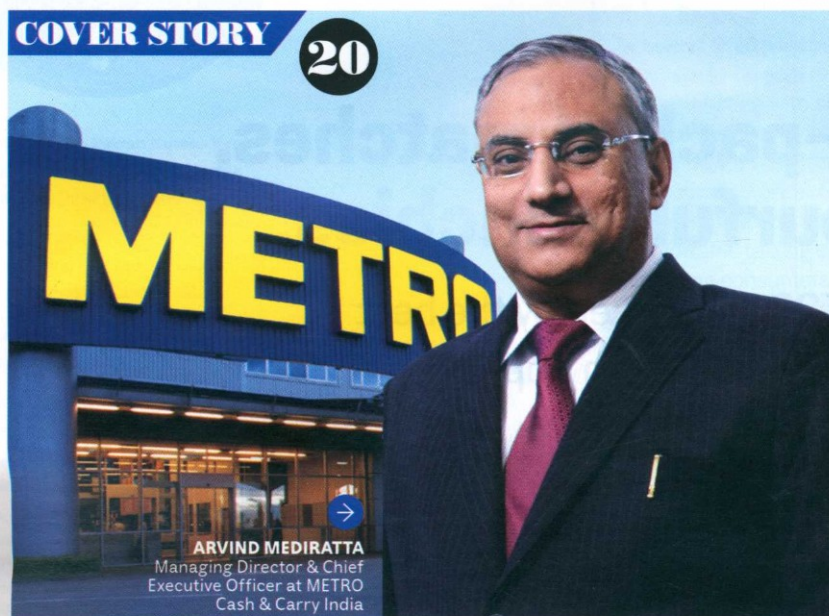
BREAKFAST FOODS Page 28
How retailers and manufacturers are making consumers stay interested and connected with their products by aligning product benefits with consumer needs.



— ARVIND MEDIRATTA
MD & CEO, METRO CASH & CARRY INDIA

COVER STORY

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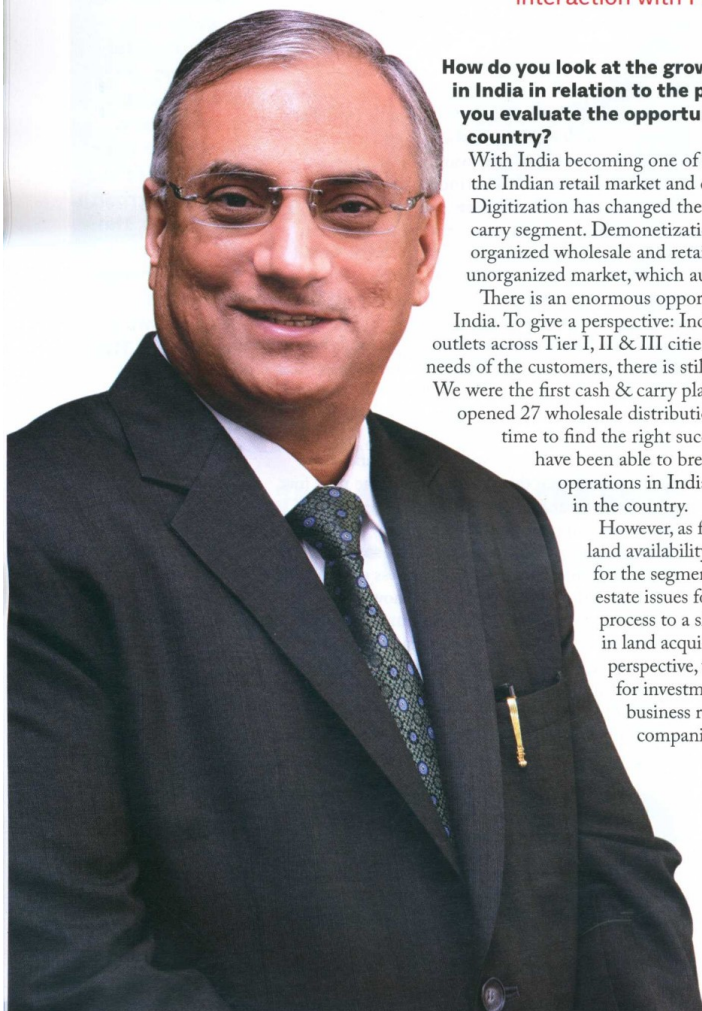
ARVIND MEDIRATTA
Managing Director & Chief
Executive Officer at METRO
Cash & Carry India

METRO CASH & CARRY TURNS PROFITABLE IN INDIA AFTER 15 YEARS OF OPERATION

METRO was the first cash & carry player to foray into India in 2003. Since then it has opened 27 wholesale distribution centers across the country spanning 1.8 mn sq. ft. of gross floor area and catering to over three million customers nation-wide. "It has taken us some time to find the right success formula in India but with a focused approach, we have been able to break-even and turn profitable after 15 years of successful operations in India," says Arvind Mediratta, Managing Director & Chief Executive Officer at METRO Cash & Carry India, in an exclusive interaction with Progressive Grocer.

METRO Cash & Carry **turns profitable in India** **after 15 years of operation**

METRO was the first cash & carry player to foray into India in 2003. Since then it has opened 27 wholesale distribution centers across the country spanning 1.8 mn sq. ft. of gross floor area and catering to over three million customers nationwide. "It has taken us some time to find the right success formula in India but with a focused approach, we have been able to break-even and turn profitable after 15 years of successful operations in India," says Arvind Mediratta, Managing Director & Chief Executive Officer at METRO Cash & Carry India, in an exclusive interaction with Progressive Grocer.



How do you look at the growth rate of the wholesale cash & carry trade in India in relation to the pace of growth in modern retail and how do you evaluate the opportunities and challenges for this format in the country?

With India becoming one of the largest preferred retail destinations globally, the Indian retail market and cash & carry trade are both growing at a fast pace. Digitization has changed the whole landscape of retail and wholesale cash & carry segment. Demonetization and introduction of GST has further helped the organized wholesale and retail segments gain a significant share of pie from the unorganized market, which augurs well for modern retail and cash & carry business.

There is an enormous opportunity for the wholesale and cash & carry format in India. To give a perspective: India has a huge potential of about 600 Cash & Carry outlets across Tier I, II & III cities. Considering this sheer potential and the evolving needs of the customers, there is still a huge growth opportunity for this segment in India. We were the first cash & carry player to foray in India in 2003, and since then we have opened 27 wholesale distribution centers across the country. It has taken us some time to find the right success formula in India. With a focused approach, we have been able to break-even and turn profitable after 15 years of successful operations in India. We are committed to profitably expand our business in the country.

However, as far as the wholesale and retail segment is concerned, land availability and acquisition in India still remains a big challenge for the segment to grow. Government should take into account real estate issues for potential investors by streamlining the acquisition process to a single window clearance system and have uniformity in land acquisition regulations across states. Also, from an FDI perspective, we need standardization in labor laws across states for investments. Our labor laws need to keep pace with modern business realities and the Government needs to make it easy for companies to enter India with investments to fuel the economy.



ARVIND MEDIRATTA

Managing Director & Chief Executive Officer at
METRO Cash & Carry India



In the food and grocery space, we have seen the co-existence of convenience, value, cash & carry, hypers and specialty formats over the past couple of years. Do you see this pattern changing in any radical way in the years ahead? Is there room for new formats or hybrid formats to emerge as the market evolves?

The Indian retail industry is undergoing an interesting and transformative phase. The per capita income and consumer spending power has increased significantly. Given the size and growth rate, the Indian retail market has immense potential to grow both in the offline and online space, and there is ample room for more players and different formats to co-exist and grow.

Tech has been a great enabler for the evolution of newer formats, but relationship with businesses will remain the key to success. Indian consumers still prefer a human interface for a more personalized buying experience, which is one of the key reasons why the neighborhood kiranas rule the consumption market. These mom and pop stores (kiranas) form the bulk of the food and grocery business in India, and they will continue to dominate this space in the future.

As head of METRO's operations in India, what is your current focus and business game plan?

In our 15-year-long journey in India, we have put in a lot of effort towards listening and understanding the local needs, and providing tailored solutions to our customers. We know customer preferences and the local food habits change every 100 km. Our edge is that we know what our customer wants.

We have championed the cause of independent businesses and are making a big push in technology enabled services to work with independent businesses, especially kiranas and small traders. In line with our commitment towards the success of independent business owners, we launched Kirana Success Center to empower the kirana community with modernization & digitization solutions to help them attract more footfalls and profitability, as well as stay relevant in the modern competitive landscape. We have rolled out kirana digitalization with great success and have helped modernize operations of over 500 kiranas across the country. We plan to scale up the program significantly in the coming years.

Another big focus area for us has been our private label, which we call 'Own Brands'. Through our wide-assortment of Own brand products, we provide value proposition to our customers and an opportunity for small and medium scale businesses to market their products using our network strength. We have over 1,000 products in our 'Own Brands' in both food and non-food segment. Our Own Brands share currently is in single digit, which we plan to double this year.

Tell us about your Kirana Digitisation and how are you scaling the program?

India is a land of small and medium-sized businesses. After agriculture, independent business is the largest source of livelihood for people. We have close to 12 million of these neighborhood kirana stores across India. Despite the expansion of organized retail and e-commerce players, kirana stores hold their sway over the grocery retail

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Cover Story



There is an enormous opportunity for the wholesale and cash & carry format in India. To give a perspective: India has a huge potential of about 600 cash & carry outlets across Tier I, II & III cities. Considering this sheer potential and the evolving needs of the customers, there is still a huge growth opportunity for this segment in India.



business with a whopping 90% share. However, in the modern landscape, kiranas are facing existential dilemma due to their closed format model and traditional methodology of operation.

As part of our effort towards empowering the kirana eco-system with the latest technology, we have helped modernize operations of over 500 kiranas in the country. We have provided sustainable solutions such as point-of-sale (POS) system, which can be bought on EMI. The point-of-sale system enables kiranas to track their inventory, sales and revenue; they can refer to the dashboard wherein they can track the slow and fast moving items like any modern retailer. They can run special promotions for high-value consumers and even send text messages and emails for promotions to their customers. They can also print GST-compliant invoices for their customers.

We have initiated this digitization program for kiranas to help them run their businesses more efficiently, enable more footfall, income and profitability for them, and ensure that they operate like any omni-channel store.

What have been your latest initiatives concerning METRO's support & partnership programs for farmers and women entrepreneurs?

At METRO, we have played an active role in bringing efficiency and strengthening the agrarian fabric of the economy. We are addressing quality,

METRO'S STRENGTHS AND ACHIEVEMENTS

With its focused approach of growing profitably and sustainably, METRO Cash & Carry has clocked the landmark achievement of turning profitable after 15 years of operation in India.

METRO has evolved and has come a long way after its foray in the Indian market in 2003. In the past 15 years, it has been part of countless growth stories of independent businesses and small and medium-sized enterprises (SMEs) across multiple sectors. "Our purpose statement is to be **'champion for independent business'**. Today, we anchor close to three million customer base in India across an expansive network of 27 wholesale outlets. We have become the voice of independent businesses, small traders/ kiranas and we believe their success is our business," asserts MD & CEO Arvind Mediratta.

About 99% of the products that METRO sells today are 'Made in India', and locally sourced from small and medium enterprises (SMEs) and local suppliers. This sourcing approach has helped METRO to fuel independent businesses and the entrepreneurial eco-system in the country. The retailer has been able to provide a platform to countless SMEs who have accelerated their businesses through METRO's extensive reach and network. These independent businesses have been able to access METRO's shelf space, storage, multi-market access, and multi-customer base at an optimal cost.

METRO is now leading the way in kirana digitization by enabling the kiranas to digitize their operations and modernize their backend systems. It is also offering interest-free credit solutions for traders & kiranas, thus helping them optimize their working capital. In addition to this, it also runs a 'Direct Farm' program under which it has set up six collection centers to procure fresh fruits and vegetables directly from farmers. It sources over 12,000 MT of produce per annum, positively impacting over 5,000 registered farmers across the country.

In the past 15 years of its operations in India, METRO has been nurturing new and innovative start-ups and local businesses to help curate an eco-system of entrepreneurship in the country. With its focus on driving sustainable and profitable growth, it has been consistently working towards augmenting its understanding of local customer needs and providing offers, assortment and services to them in order to add value to its growing three million customer base.

trust and pricing issues through our direct sourcing from farm that has positively impacted over 5,000 farmers across the country. As part of our 'Direct Farm' program, we now have six collection centers in the state of Karnataka (Malur & Chikkaballapur), Telangana (Vontimammdi), Maharashtra (Manchar), West Bengal (Barasat), and Haryana (Panipat). Through our fruits and



→ FACT FILE: METRO CASH & CARRY INDIA

Brand Name: METRO Cash & Carry India

Launch Year: 2003- First Cash & Carry in India

Parent Company: Metro AG

No. of Wholesale Centers in India: 27

Number of states present: 11 (Bangalore (6), Hyderabad (4), Vijayawada, Mumbai (2), Delhi-NCR (2), Kolkata, Jaipur, Jalandhar, Zirakpur, Amritsar, Vijayawada, Ahmedabad, Surat, Indore, Lucknow, Meerut, Nasik)

No. of Customers: 3 million customers

Gross Floor Area: 1.8 mn sq. ft.

Number of supplier: 5,000 suppliers

SKU count in store: Over 7,000 SKUs

First HACCP certified modern wholesaler in the country

Number of Employees: Over 5,000 (over 14,000 direct & indirect job opportunities in India)

vegetables collection centers, we procure over 40% of our total requirement directly from local farmers. Over all, we source 12,000 MT of produce per annum through direct sourcing.

Our collection centers support the farmers in sustainable production of high-quality fruits and vegetables and help eliminate the process of a farmer's produce being exchanged through many hands. We train our farmers in the adoption of new crop management techniques, optimum utilization of resources and agronomic practices. Suppliers of meat and fish are also trained in international quality and safety standards and certification systems.

Over the years, METRO has become a preferred partner for start-ups and regional brands to accelerate their business. We have been working with new-age food and tech start-ups, SMEs including women entrepreneurs, many of whom have now scaled up their operations from single city to multiple cities. A case in point is that of F-Gear – a brand started in 2004 by an enthusiastic entrepreneur Ruchi Jindal, who started the association with METRO as an exclusive brand.

Over the years, the brand built scale as a supplier to METRO and expanded its business with METRO's network presence. Today, the brand has diversified from school bags to a range of backpacks, suitcases, duffles, among other products. Another example is Wingreens Farms, a three-year-old start-up by entrepreneur Anjali Srivastava, which is into making signature dips, spreads, sauces, and baked snacks. They began their association with METRO in 2017 with dips. Today, they sell all their products across 22 of METRO's 27 stores.

We have growth stories of countless independent businesses and small and medium-sized enterprises (SMEs) across multiple sectors. We are constantly on a lookout to partner with start-ups/entrepreneurs who can add to the assortment range and help improve our in-store customer experience.

Investor interest in India's online food and grocery has perked up as never before. What are the reasons for this heightened shift, and do you see a major channel transformation afoot in the industry?

Competition in the retail landscape promises more options for consumers. Food and grocery retailing is one segment that has over 50% spend from consumers and will witness a lot of action in the near future. Therefore everyone wants to grab a pie, be it offline or online. It will be imperative for players to provide a customized experience for consumers – a more personalized and targeted products, services and content. In the food segment, consumers are looking for innovative products and new flavors that are a fusion of local and global. But they want innovation and freshness that is healthy.

We are witnessing a definite consumer shift towards whole foods, fresh and organic produce. There will be an intensification of competition in some niche segments. All this will benefit the consumer with more options and their buying pattern is constantly evolving with the introduction of newer brands.



Looking ahead five years from now, how do you visualize the F&G industry landscape in India and where do you see METRO India in the future perspective of things?

The grocery business in India is distinctive in many ways, primarily due to the diversity of consumers and the unique distribution models of the retail sector. With rising disposable incomes and internet penetration, the F&G industry is expected to grow by leaps and bounds in the near future.

New categories are getting created because of tectonic shifts in consumer lifestyles. The holy grail of the consumer business is to be able to anticipate these changes and respond to them with appropriate products and services. We are witnessing the rise of healthy and conscious consumption by consumers. With 65% of India below the age of 35, there is a move towards a healthy life that has created a new market for sports goods and sportswear in the urban cities.

Organic food, despite being slightly more expensive than regular food items, is still seeing tremendous growth as people are willing to spend more for better options which are healthier. We



have seen categories like air purifiers along with water purifiers, which are essentially luxury lifestyle purchases, see a good spike as people are now willing to spend on these aspects of their lifestyle.

We are extremely focused on nurturing a healthy and sustainable living and hence we have rolled out a whole range of 'pesticide-free' grocery range in our own brands range called **Fine Life Bio**, which includes a variety of rice, pulses & millets. We have collaborated with over 65,000 small and marginal farmers directly & indirectly through associated partners to source around 2,700 MT of pesticide-free produce for the

→ KEY INITIATIVES BY METRO INDIA

Technology Adoption:

METRO Cash and Carry has launched Kirana Success Center to help convert the closed format kiranas into an open format new-age kirana. METRO is supporting kirana with sustainable technological and digital solutions by providing POS machines, remodeling, digital payment, credit solutions to help them become ready for a digital future. So far, digitized operations of over 500 Kiranas across the country.

Supply Chain Management:

METRO India has implemented the latest global supply chain practices into play to ensure lowest cost multichannel operation to support everyday competitive wholesale prices across the country wherein METRO operates. METRO sources farm produce and agricultural commodities mostly from where it is produced; follows stringent quality standards and offers top-quality produce and staples to their customers.

Uses using GPS & TMS solutions, which enable its business customers to track their shipments even before delivery.

Private Labels: METRO is providing value proposition through its Own Brands (Private Labels) and offers opportunity for small and medium scale producers to market their products using METRO's distribution channels. METRO follows global best practices for Own Brand product development process and has over 1000 articles under the category. Brands under the Food category are Aro, Fine Life, Fine Life Bio, METRO Chef, Rioba. In non-food category brands include- Aro, Sigma, METRO Professional & Tarrington House.

Human Resource

Policies: METRO India has implemented a performance-oriented culture with a strong customer focus. The company had given impetus to consolidate its leadership position and

focus on profitability. Talent mobility in a big focus area to help provide multi-dimensional exposure to employees and create the next talent pipeline. METRO has inculcated an inclusive & diverse environment and has employed over 100 differently-abled people across 11 stores, enabling them to be a part of the mainstream.

Customer Service: METRO calculates quarterly Net Promoter Score (Customer Satisfaction Score) on all major parameters, and the performance on this index plays an important role in evaluation of work by employees. The score helps the internal team understand and address customers' needs. This keeps the entire organization aligned to the voice and needs of customers. Also, implemented a loyalty programs for customers to avail added benefits including dedicated billing counter and additional discounts on select articles and tied up with various financial institutes to

help customers avail financial benefits.

SMEs Connect: METRO believes India's future lies in entrepreneurship, and is committed to curate and nurture the success stories of independent businesses. Close to 99% products METRO sells are 'Made in India' (locally sourced from SMEs & local suppliers). METRO has provided a platform to several regional brands/ food & tech start-ups to grow and accelerate their business by leveraging METRO's distribution network.

Farmer Engagement:

METRO's Direct Farm Programme has positively impacted lives of over 5000 farmers. The company has created 6 farmer collection centers- Karnataka (Malur & Chikkaballapur), Andhra Pradesh (Vontimamidi), Maharashtra (Manchar), West Bengal (Barasat) and Haryana (Panipat). Sources 12,000 MT of produce per annum and procure 40% of total produce through direct sourcing from local farmers.

The Indian retail industry is undergoing an interesting and transformative phase. The per capita income and consumer spending power has increased significantly. Given the size and growth rate, the Indian retail market has immense potential to grow both in the offline and online space, and there is ample room for more players and different formats to co-exist and grow.



'Fine Life Bio' range. We firmly believe in providing value-proposition to our customers and want them to consume healthy, pesticide-free food in an affordable and sustainable manner.

In terms of your e-commerce business in India, how are you looking to grow and expand it and what are your goals for the future?

Omni-channel solution will be the way forward for all. It will still take some time for online to pick up as in Indian context, relationship with the consumer is very important. The future is not a question of offline vs online, but how online can complement offline as both will continue to thrive in different ways. This will remain a key differentiator as we head into the future.

At METRO, we have enhanced our focus on providing omni-channel solution to our customer segment. As part of our omni-channel strategy, we have created virtual stores through OPD (order, payment, delivery) facility for small traders, kiranas and HoReCa customers (Hotels, Restaurants & Caterers). In the OPD system, our robust sales force visits customers with tablets and traders & kiranas can place their order, make payments (either to the sales force or electronically) and get their orders delivered. The delivery is done through a third party logistic partner with GPS-enabled trucks to track the movement real-time. This facility is offered at all METRO outlets across the country. The idea behind this strategy is to take the store to business owners via an expanded sales force. We have increased our sales force by 30% to over 800 sales force members to ensure better on-ground coverage for the omni-channel strategy.

The current retail eco-system is very robust and a synergy of online and offline will be the way forward. It is an extremely exciting time for retailers as well as Indian consumer.

Will you consider changing your current path and direction if multi-brand retail is allowed?

Unlike other players in the segment, METRO is the only player whose DNA is cash & carry. We have a strong brand equity built on food quality and being the trusted partner for food. Now that we are heading service, innovation, delivery and digital, there has been a strong word of mouth and resonance with the METRO brand. We have remained focused on our format and not get distracted with the noise around us. For us at METRO, B2B is our Origin, our Destiny, our Destination.



What are your plans for the future?

When India was defined as a market for accelerated expansion in 2014, we held the belief that profitability for our India operation will be realized via new store openings. The last few years of METRO India's development have shown that we can reach profitability by improving our existing infrastructure, by better understanding of the local customers and by enhancing our offers and services.

The objective of dedicated store network expansion in India is still valid as the market offers immense potential. Our commitment to expansion has been further underlined by the reorganization of our India operations, which included a split into North-East and South-West. This helped sharpen our regional focus – a key element to manage the peculiarities of customers and markets successfully. North and South markets have been our traditional strong-holds and there is plenty of room for growth.

With our capex-light expansion strategy, in the past two years, we have managed to open nine new stores and are working consistently on growing our footprints in newer geographies. Three new stores were launched in Meerut, Nashik and Ghaziabad in the last fiscal FY17/18.

Going forward, we will continue exploring options while keeping an eye on emerging markets in Tier II and III cities. We are exploring opportunities in Karnataka, Delhi-NCR, Mumbai, UP, Telengana, and West Bengal. We want to leverage our existing supply chain and economies of scale by opening and operating in the same geographies. **PG**