

# International management case study: metro cash and carry flashcard



**ASSIGN  
BUSTER**

Metro Cash and Carry has enjoyed competitive advantages in multiple areas. MCC has benefited from being business unit of Metro Group, the world's third largest retailer, which has provided ample sources of financing to the company. MCC introduced the C&C business model to the world, efficiently controlling operational costs by targeting small and medium-sized enterprises (SMEs). SMEs larger volume purchase habits leads to higher sales, lower cost and larger profit margin per customer for MCC.

Second, the MCC's cash only policy eliminates default risk credit card fees – minimizing risk. Third, customers of MCC handle shipping themselves, liberating the company from labor, vehicles and customer service. Last, a customer has to register as a business before purchasing, a policy that ensures the customer's dedication and facilitates customer relations. Corporate members tend to be more loyal and cherish the membership as a result. Following Pankaj Ghemawat's Framework for Managing Differences, MCC has been successful at adaptation and aggregation.

Via wholly owned Metro Buying Group (MGB), the firm has developed an efficient centralizing system to supply culturally indifferent products. This has developed aggregation competency by helping MCC achieve economies of scale because universal products such as a toilet paper can be purchased and supplied in bulk from select locations. On the other front, adaptation, MCC has shown awareness of local needs and being flexible in challenging situations – the company sources 90% of their stock from local markets.

In Germany, Turkish foods are supplied because of demand from large ethnic local population. In China, in order to open new stores, MCC has learned to

penetrate local markets by forming alliances with politicians, which is necessary business behavior in the country. The first step MCC should have taken in their expansion into India is to better understand the added company value as well as new market dynamics. Using the IR framework, MCC in India requires a high level of integration and a very high level of local responsiveness (Exhibit 1).

Expansions require large investments and cost pressures, which makes integration important. Also, MCC's added value services in wholesale integrated processes and systems point to integration. Yet, expansion into new markets like China, Russia, and India require an extensive amount of local responsiveness due to different customer needs, different distribution channels, and high host government demands. The uprising consumption in India brought by urban lifestyles secures that India would be a gold mine for MCC.

Using Porter's 5 Forces, we can assess MCC's future in India. Rivalry among existing competitors is medium-high. In part, this is due to the country's cautiousness of foreign investors as well its rigid laws. However, competitor Walmart has penetrated - partnering with local cell phone company Bharti Telecom. Bargaining power of suppliers is medium-low due to the sheer number of suppliers, although the government's ban against MCC making direct purchases from growers make these middlemen important.

The bargaining power of buyers is low given MCC's business model. Threat of new entrants is high as more retailers are likely to enter and there is already the presence of local conglomerate Reliance who has made large

investments in agricultural supply chains. Finally, the threats from substitution are medium – the traditional market has prevailed in the past but will become less attractive to Indian consumers in the future. Overall, there is the threat of competitors, but the company should continue to expand into India.

Using the IR framework in combination with MCC's historical first mover strategy, the company should pursue, just as in China, a joint venture (JV) entry mode. The JV can hedge the three main risks associated with being the first wholesale grocer to enter India. First, the JV will allow MCC and the Indian company to share initial fixed costs. Working with the partner, MCC can more easily build a cluster or outpost of stores with the financial support, as each store requires roughly 20 million Euros of investment, not including research costs on picking site locations.

Second, the JV would allow MCC the local access and data in choosing store sites and promotion. Data on choosing sites is critical due to the difference in India's regional cities and occasionally high land costs. Local knowledge will help speed up the two year timeframe that MCC currently takes to pick sites in India. Also, an Indian partner could assist in using local languages to communicate MCC's value, thereby avoiding entry backlash from the population.

Finally, the JV would help provide political backing – which has been a big challenge to overcome in India with dual power between the central government controlling FDI and the state government controlling agricultural marketing. The main issue is to allow MCC the right to purchase directly from

farmers – a 70% vegetarian Indian population makes produce an important part of the Indian operations. Also, local backing allows MCC to use its resources elsewhere instead of constantly having to fight to maintain wholesaler status. There are other alternative modes of entry that MCC may consider.

Franchising would limit the large amount of capital investment and risk but also may cause the company to lose quality control achieved gains through the experience curve or location economies will vanish. MCC does not have a critical technology that would drive them to want to pursue the wholly-owned subsidiary route. A Turnkey route would not be appropriate because MCC has a long term interest in India and simply setting up a store and leaving would not be prudent. MCC's previous entry market efforts have positive implications for the firm's future market entry policy.

However, there are certain warnings to heed. According to Ghemwat, there are certain extremes for a firm competent in adaptation and aggregation that should be avoided (See Exhibit 2 for MCC's strategy in managing regional difference) . First, MCC should be careful not to excessively standardize more and more products in its line. Doing so may cause the firm to lose adaptation points, as customizing to local product demand is important to the company's mission. Instead, MCC needs to continue to focus on achieving economies of scale with its standard products (toilet paper).

Second, in pursuing aggregation, excessive domination should not be displayed. This is especially true in India, which is an extremely anti-

imperialist country. Again, MCC needs to maintain its level of adaptation and respond to local needs. There have been some relative failures, or setbacks rather, that MCC has encountered, but successfully resolved. In reference to Michael Porter's value chain, MCC has invested large amounts in logistics, marketing, and human resources in to overcome some of these challenges.

Poor infrastructure in Russia has caused MCC to spend more on logistics. Despite this, MCC is a top competitor in the country. In China, customers did not see the difference between MCC and a typical hypermarket that sold products in bulk. Marketing and HR investment provided education on the differences and MCC's value. Overall, these two setbacks turned successes further reinforce adaptation for the future of the company. This flexibility, coupled with achieving economies of scale, will continue MCC's success into new markets.