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Supply Chain Excellence in the Retail Industry METRO AG – A Case Study
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1 Introduction

This paper explores which operating models, metrics and supply chain processes constitute an excellent supply chain within the retail industry, based on a case study of The METRO Group (METRO AG). The thesis focuses on METRO Cash & Carry, the wholesale division of METRO AG. It analyzes existing best practices within the supply chain of METRO Cash & Carry and shows how specific activities support and promote the business strategy of the overall company.

The paper is a contribution to the first phase of a larger multiyear research project called Supply Chain 2020, which wants to identify and analyze the factors that are critical to the success of future supply chains. Faculty and students are conducting research in diverse industries, spanning the US and Europe, including Aerospace, Apparel, Automotive, Communications, Computers, Consumer Products, Distribution, Pharmaceutical, Resources and Retail.

METRO Cash and Carry is uniquely positioned within the retail industry, because it is a wholesaler that acts like a traditional grocery retailer. However, unlike U.S. club stores, it does not allow the general public to shop at its stores. While it is a wholesaler, it does not offer home-delivery like traditional grocery wholesalers, which generally focus on a particular product category and offer delivery service.
2 Industry Background

The retail industry is one of the largest around the world: 31% of the U.S. Gross Domestic Product (US$3.4 trillion in 2003) and US$2.35 trillion in revenue in 2004 in Western Europe. It consists of a variety of outlet types and goods. In general, the industry can be divided into two sectors: food retailing and non-food retailing. Food retailers include large sales retailers such as supermarkets, hypermarkets, cooperatives, discounters, convenience stores and food specialists. Non-Food retailers comprise of general retailers such as department and variety stores, mail order businesses and specialty retailers such as apparel outlets, pharmacies, booksellers, toy retailers, etc.

The retail industry has seen tremendous change over the past two decades. Especially in the grocery sector, the rules of the game have changed. While it still is a rather fragmented industry, it is dominated by a few giants at the top, which squeeze out costs and fight for every tenth of a percentage point of very slim margins. One of these giants is METRO AG. Like its competitors, it has to cope with changing consumer behavior and taste, increased pressure from deep discount formats and saturation in its home market, Germany.

3 METRO AG Background

METRO AG is a strategic management holding company, whose products are sold by six very distinct and independent sales divisions (Extra, Real, Praktiker, Galeria Kaufhof, Media Markt/Saturn, METRO Cash & Carry) operating in four business units: Cash and Carry, Food Retailing, Nonfood Specialty Stores and Department Stores. Cross-functional divisions perform tasks such as purchasing, logistics, IT, marketing, finance and insurance common to all brands.

METRO AG is rapidly expanding internationally, opening stores in Russia, China, Bulgaria, and India. Currently, METRO AG operates 2243 stores in 30 different countries with most of the expansion happening in Eastern Europe and Asia. METRO Cash & Carry and Media Market/Saturn are the METRO Group’s leading divisions and drive the international expansion. Revenues in 2003 were €53.6 billion, up 4% from the previous year.
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4 Supply Chain of METRO Cash & Carry

METRO Cash & Carry International GmbH is the world market leader in the wholesale. Its stores operate under two names, METRO and Makro, targeting commercial and large-scale customers by offering a wide range of high-quality food and non-food products. In 2003, it operated 475 stores in 26 countries generating €25.1 billion. The sales division is growing rapidly outside of Germany: 73% of sales are generated abroad.

METRO Cash & Carry wants to create and maintain an efficient, standardized and harmonized supply chain, which allows it to gain operational efficiencies, which it can pass along to its customers as lower prices. This in turn increases its sales at one hand and allows the company to expand quickly internationally on the other hand. Through METRO Cash & Carry’s expansion and growth, it gains new skills and knowledge. This drives process and technology innovation, which is vital to the company’s growth strategy. This evolution is essential to support the supply chain over time and sustain the company’s operational efficiencies.

While it focuses on supply chain efficiencies, it makes clear trade-offs between asset utilization and customer response. Market development, its local and international product assortment and its flexible and scalable supply chain are the enablers of METRO Cash & Carry’s strategy.

5 Framework of METRO Cash & Carry

METRO Cash & Carry performs many activities in support of its strategy and operational model. We focused on three key areas: Market Development, Purchasing and Distribution.

Entering a new market with the cash & carry format is advantageous because existing local businesses see it as less of a competition. Because METRO Cash & Carry collaborates with local suppliers to pass on knowledge and new skills, governments look rather favorably at the establishment of a store. Although this entry strategy may require more initial investment, it enables METRO Cash & Carry to
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establish trust among the local population quickly and creates a brand image. Employing local staff reinforces METRO Cash & Carry’s image of a local retailer.

METRO Cash & Carry gains competitive advantage by making trade-offs between centralized and localized purchases. On the one hand, it centralizes the purchases of imports and dry goods within the subsidiary METRO Group Buying, which can realize economies of scale and combine purchases from all of METRO AG’s divisions. On the other hand, METRO Cash & Carry purchases fruits and vegetables as well as fresh and frozen food in the regions, in which the stores are located. This way it can ensure freshness.

Because METRO Cash & Carry operates in an industry with low margins, it must focus on operational efficiency. The amount of SKUs, vast network of METRO Cash & Carry stores, and diverse supplier base have to be supported by a flexible and scalable yet adaptable distribution network. METRO Cash & Carry has to create different processes and flows for its various items. While it centralizes many non-food and dry goods as well as the majority of imports in a traditional DC, it moves fresh goods via its company owned break bulk facilities to ensure the highest quality and absolute freshness as well as frequent replenishment to the stores.

For about 45% (based on product value) of direct to store shipments, METRO Cash & Carry uses its Third Party Logistics (3PL) network. Instead of investing additional money and resources in distribution centers and carrying lots of inventory, METRO Cash & Carry works with 3PLs who are specialized in certain product groups and geographic regions. It thus can reduce fixed costs and inventory carrying costs, while gaining flexibility and efficiency.

6 Conclusion

While operational efficiency is still a must in the retail industry, due to very low margins, successful supply chains of the future will focus on the customer. While METRO AG does not explicitly state this in its strategy, many of its processes in support of an efficient, standardized and harmonized supply chain result in a better
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shopping experience for its target customers and establish METRO Cash & Carry as a brand.

Due to its early expansion outside of its home market, its employees have a good feel for other cultures and can reap the benefits of a diverse thought and knowledge base. While market forces oblige it to become more efficient than its competitors are through standardization and harmonization of its processes and systems, being able to adapt these to the unique situations of each country, sets this company apart.

Making trade-offs between centralization and localization, also is a strength of METRO Cash & Carry. Centralization allows the company to gain economies of scale and lower product costs. Locale purchases of fresh food allow it to offer the highest freshness and quality and establish it as a local company.

As Europe moves towards a more unified market in terms of distribution, but remains localized in terms of demand, supply chains have to be flexible and scalable. METRO Cash & Carry is in a unique position to adapt to market changes, due to its flexible and scalable direct to store network. It will be in a better position to reap the benefits of a pan-European distribution network.

Through its close relationship and collaboration with important suppliers, METRO Cash & Carry will be able to adapt to changes in demand quickly and offer products and services customers request. Keeping the company “local” through its employment policy and supplier development also allows it to tap into important local market knowledge.

With its strategy of freshness and product variety, it does not follow the Wal-Mart slogan of “everyday low prices”, but carves out a market for itself. Local knowledge, operational flexibility and customer focus is what sets METRO Cash & Carry apart from the rest and makes its supply chain a model for excellence.