

# METRO – A MARKETING ANALYSIS

ELENA ENACHE, CRISTIAN MOROZAN

“CONSTANTIN BRANCOVEANU” UNIVERSITY from PITEȘTI,  
FACULTY OF MANAGEMENT-MARKETING IN THE ECONOMIC AFFAIRS, ROMANIA  
e\_enache2005@yahoo.com, cristi.morozan@gmail.com

**Abstract:**

*The contemporary economic context requires, in addition to so many types of existing activities, new trade formulas that simplify the relationship between buyer and seller and offer to both of them maximum advantages.*

*Cash & carry is such a system, firstly entered on the Romanian market after 1989, through METRO AG concern decision to invest in a large commercial structure, with the meaning of „payment - takeover of goods”.*

**Key words:** trade, en gross, cash & carry, business, innovation

**JEL classification:** F1, O24

## 1. How we can define Cash & Carry?

This formula includes: “all the activities involved in selling goods and services to those who buy for resale or for use in commercial purposes” [2]. The concept represents a stage in the movement of goods, an intermediate position in executing the exchange. It is “met, especially in the consumer movement, without neglecting its presence in inter-industry trade, in exploitation of agricultural products and even in exchange relations from tourism and banking system” [1]. The distributors transacts large quantities and values, but they do not sit in the foreground promotion, ambience and location and often take full advantage of commercial - paid by others - for many of the products they sold.

According to the known classifications cash & carry wholesalers descended from classical en gross group that offer limited services. The retailer comes personally to the self-service cash & carry store, pick-up the merchandise, load it on the trolley, cash it and carry it with his own resources. Therefore, it is a type of trade dedicated to that clients interested to purchase goods without a prior arrangement or an office delivery. The goods are already packed in boxes or sealed packages, placed on shelves, waiting the customers.

Selling on credit is excluded. At the beginning, the system offers more grocery, being attractive for the restaurants owners and food retailers. Thereafter the assortment has diversified with fresh products and non-food. As the assortment increase and diversification, decreased the rotation speed of stocks and, therefore, increased costs, which has imposed price increases. As a characteristic, as a exception from the original purpose, cash & carry stores, also, sell products piece by piece, in order to increase turnover. The cash & carry format is theoretically addressed only to resellers, final users being not included among the target customers. This idea is sustained by the fact that each business group working through the cash & carry format has its own specialized division, or another store format – a retail one and a new name, which is addressed to the final consumers (for example, METRO AG has Real division; Rewe Group has Billa division). In that way, just a specific positioning of the sell points can be a competition generator factor between those trade forms. However, practice shows through various signals, that between the two forms of trade there is a competitive pressure.

A disadvantage recorded over time was the relative loss of popularity in some countries, with the appearance of significant competitors: supermarkets and hypermarkets. As it was expected, they became the biggest enemy for food retailers, traditionally customers of the cash & carry stores and, thus, an indirect competitor for the cash & carry formats.

At the moment of modern trade forms appearance, the cash & carry formats strongly competed with the supermarket ones, because there are a limited number of players in the market. Through the increase of the retailers' number, they were closer, both geographically and as offer, to the current consumer needs. Thus, the importance of sales through the cash & carry format to the individuals has declined. This trend will further continue, the two formats enrolling, naturally, on the different relevant markets.

Nevertheless, "regardless of similarities between trade through hyper / supermarkets / discounters and through cash & carry stores, most final consumers doesn't have access to the cash & carry format, due to the barrier consisting in the fact that they don't have and can't have an admission card. Hence, it isn't fulfilled the essential condition for these formats to become a single market together with hyper and supermarket formats, because the vast majority of consumers doesn't have access to the product offered by cash & carry format" [3], it was the conclusion of the Competition Council Report, which investigated, in 2009, the food marketing sector.

## **2. METRO – one giant commercial corporation, global standard commercial cash & carry format**

METRO GROUP was founded in Germany, in 1964, at the initiative of Otto Beisheim and today is one of the largest listed German companies. The system has benefited from a favorable period in the economic development of Germany, expressed through the existence of numerous medium-sized companies with sufficient purchasing power. In 1971, the system has exceeded national boundaries by successfully entering on the western markets with financial potential: Austria, France and Denmark, encouraging the area traders' work. Gradually, it has been adapted to the Italian market requirements, usually reticent and conservative. The '90s, as a period of redefinition of economic relations between states, provided the opportunity for expansion to eastern markets, which has a real potential. The 1996 year marked its expansion in Romania, an economic unstable and unpredictable market, but undeniably opened to new, perhaps too open, where the new art sale concept called "everything under one roof" and German quality guarantee have captured the interest of customers.

Over time, **the Group** has made several changes in the structure, today the operational part of the business is carried on four specializations (cash & carry, food, nonfood and universal stores), by its sales divisions which operates independently on the market: **METRO/Makro** Cash & Carry (Makro was a similar type of cash & carry trade, held simultaneously in other European countries, except that the sales were higher and the negotiable prices were focused on the auction principle. It was taken over in 1997 by METRO AG); **Real**, **Media Markt**, **Saturn** hypermarkets – the last one being leader on electronic and appliances consumer market in Europe – and **Galeria Kaufhof** universal stores. It has approximately 280,000 employees and over 2,200 centers located in 32 countries in Europe, Africa and Asia.

The service policy is provided by four other large companies dealing with stocks management, the logistics system, the financial system and the informational system. These are: **MGB METRO Group Buying GmbH**, **MGL METRO Group Logistics**, **MIAG METRO International Clearing and MGI METRO Group Information Tehnology GmbH**. Using this type of the services sharing on divisions, the Group develops the concept of synergy that leads to more effective activities.

**METRO Cash & Carry International** is a METRO AG division, the most important player on the international cash & carry market, held over 700 stores in 30 states, over 100,000 employees and a 31,6 billion Euro turnover in 2012 [4]. In 2012, a year with a difficult macroeconomic environment, its share of international sales increased to 84,5%. The management explains that by the implementing worldwide expansion strategies and customer orientation, by the assortments adjusting, the increasing sales of its own brand products and, more recently, by the rapid development of business delivery.

**METRO AG** has a clear mission, according to which it will always select the favorable opportunities, based on the potential clients needs, competitors' actions, its own resources and experience, as well as on the changes in the external environment.

In brief, we keep in mind as general orientations: markets creating, services guiding according to the customer expectations, employees as the main resource, cooperation and collaboration between subsidiaries, promotion of partnerships. The missions' implementation occurs through a set of measurable objectives that enable the organizations' performances evaluation and control. The general objectives of the corporation are found in the financial issues: turnover, profit, dividends, cash flow, as well as strategic issues: market segments, products quality, market share, customer satisfaction.

### 3. Expansion in Romania

In Romania, its appearance was considered the economic event of 1996 and an important step in the Group's expansion to the East. Due to the success of the new system, the network has rapidly expanded, reaching to 32 stores across the country, with a total sales area of approximately 190,000 square meters and 5,440 employees. The turnover, the net profit and the employees number increased, with their peak in 2008, after that the decreases were significant (Table no. 1) [5].

Table no. 1. **Financial data** (lei)

Year	Social capital	Turnover	Net profit	Employees
2003	13,537,500	31,024,846,970	548,256,083	5,169
2004	13,537,500	41,547,368,890	1,111,128,952	5,277
2005	13,537,500	4,799,632,332	205,322,707	6,197
2006	13,537,500	5,401,094,443	233,515,222	6,516
2007	13,537,500	5,747,756,334	284,331,585	6,449
2008	13,537,500	6,014,672,645	246,267,930	6,606
2009	13,537,500	5,746,571,428	127,183,180	5,884
2010	13,537,500	4,786,656,300	139,502,606	5,716
2011	13,537,500	4,487,936,100	95,208,230	5,615

In 2012, the sales exceeded one billion euros, although there is a significant competition. The ownership structure is divided between Metro Group (Germany) with 85% and Ion Țiriac, through an investment vehicle, with the difference of 15%.

The Romanian network represents the strong point of the concern in the eastern part of Europe, which gives it a strong position in the most profitable strategic units. The Romanian success continued by the extension and discovery of new potential markets: Bulgaria, Slovakia, Russia, Croatia etc., readapting the initial strategy of the Group addressed to the highly developed and financially potential countries.

By size, METRO Cash & Carry has in its structure three types of stores: ECO, CLASSIC and JUNIOR. The ECO type has a sales area between 2,500 to 5,000 square meters and especially contains food (90%). In Romania there is no such a store, yet. CLASIC has a sales area between 10,000 to 16,000 square meters and is characterized

by a wide choice of food and non-food because the space permits that. An example is Otopeni METRO store. The JUNIOR type has a sales area between 7,000 to 9,000 square meters, the food and nonfood departments being presented in a balanced way; an example of this type is the Sibiu METRO store.

Dedicated in a significant degree to hospitality professionals, METRO introduced a new cash & carry format: **METRO Point**. The new concept aims the quick access of the hospitality professionals to the products and services, without loss of resources or time.

In order to a better organization and coordination of the activities within its stores, on January 1, 2003, METRO Romania has been divided into regions.

The influences on METRO are coming from the external environment with high intensity. It contains a variety of factors, either with immediate, direct and strong action or with indirect and more long-run action.

The external marketing microenvironment consists of:

- *The suppliers* – provides the necessary resources for the current activity. The relations with these concerns deadlines and delivery conditions, the level of involvement in setting and negotiating the sale prices of their own products, the discounts, how to promote products and the percentage contribution to the profits of the company. The suppliers are both from outside or inside of Romania, which provides a market for the local goods. Product categories include: red meat and poultry meat, fruit and vegetables, fish, dairy products, bread and bakery, delicatessen, coffee, sweets, beer and soft drinks, wines, spirits, basic food, cosmetics, detergents, professional work clothing, footwear and leather goods, sports equipment, building materials, power tools and ordinary tools, cleaning, decoration and textiles, seasonal items, office and stationery supplies, electronics and IT professional equipment. There are a lot of brands, its own brands are also added. Among all we note the project „**De-ale noastre**”, meaning „**Our locals**”, over than 180 manufacturers from Romania are selling their own fresh vegetables in METRO stores;
- *The customers* - mostly legal persons carrying on commercial, production or services activity. The customer is not an anonymous, it has an admission card. METRO stores always know what and how it is buying, so their needs, depending on the activity domain. Customers are rewarded in order to remain faithful;
- *The service providers* - those who ensure the proper functioning of the store, providing water, energy etc. and those who help METRO to announce its image: the media, event organizers, advertisers and others;
- *The labor providers* - can be institutions, specialized sites or individuals looking for a job. METRO has training programs for employees and, also, programs for young people such as: METRO School of Commerce and METRO Fresh Force;
- *The competition* - first of all is represented by another German group, Selgros cash & carry present in Romania since 2001, with 19 stores over 10,000 sqm [6]. We note that there is competition with retailers, mainly with hypermarkets and supermarkets from each city, for example: Carrefour, Auchan, Cora, Kaufland etc. and even with its own network - Real. According to the Competition Council, it covers only in a small extent seizing the key customers (small retailers);
- *The public bodies* - involve Metro in different relationships. The group has obligations, interacts with: financial institutions, customs, public order, justice, consumer protection, environmental protection, media.

- The external marketing macroenvironment, general climate, distinctive for the Romanian society, comprises:
  - *The economic environment*, characterized by macroeconomic indicators that are closely observed by the Group which, from its debut in 1996, outlined the positive and negative aspects of economic development but, overall, encouraged not only the Romanian experience but, also, its development;
  - *The demographic environment* - begins to look like the rest of Europe. The long-term decline of the birth rate, the increasing number of elderly and the reducing of the younger from total active population, the tendency to build and redesign homes etc., all show that we are an European people;
  - *The social environment* - analyzes the population in terms of its involvement in the economic and social life, through the living standards and the employment; METRO passed over some critical moments that took place in Romania in this perspective;
  - *The cultural environment* - is valued as an opportunity. METRO found a set of values different from that it was known until 1996, with a solid foundation in what we call faith and education, lifestyle, traditions and other special situations;
  - *The political environment* - was the most troubled and has often discouraged the foreign investors;
  - *The natural environment* - represents the most stable component of the external macroenvironment, but there are many problems to its protection, in which METRO is involved.

#### **4. SWOT Analysis of METRO Cash & Carry Romania**

A practical instrument to understand the situation of any entity, such an analysis can help to its positioning on a market, to develop strategies or to take decisions. SWOT Analysis - acronym of Strengths, Weaknesses, Opportunities and Threats is a technique to structure the current situation of a company or a field / business sector in terms of internal and external critical elements. This is an effective method used to identify the potential areas, the priorities for strategic planning and to create a common vision of achieving the development strategy.

Strengths, describe the strengths of the analyzed company/field and represent the items that they have at a higher level compared with other sectors, which assures a certain advantage to them.

Weaknesses or disadvantages describe characteristics of the examined area, which means lower performance compared to other areas or resources it needs but does not possess.

Opportunities are favorable opportunities from outside and are positive external factors, "opportunities" offered to the field/sector to establish a new strategy or to reconsider the existing strategy in order to exploit profitably opportunities arisen. Opportunities exist for each area and must be identified to determine on time the appropriate strategy for their recovery.

Threats are obstacles arising from the external evolution and negatively influence of factors, representing situations or events which may affect adversely, in significant measure, field capacity to fully achieve the targets set, resulting in reduced performances. As for opportunities, "threats" of various natures and causes guard permanently, their anticipating or referral for allowing field/company to reconsider their strategic plans so as to avoid or minimize their impact.

*Strengths:*

- part of a major German group, with a remarkable experience in the field, with a considerable reputation;
- sustained rate of opening new stores;
- first company of this size which approached the Romanian market;
- rigorous organization;
- detached leading position from other competitors, with a very high market share;
- wide range of products provided by a well developed purchasing system;
- fast-renewal and diversification assortment rhythm;
- service offer: courses and consulting, services for the retailing customers (counseling program for traditional commerce, HACCP consulting, The Retail Competence Centre, the franchise program “At Two Steps”), services for the professionals in tourism (Training Centre in Cookery, cooking consulting), ecology;
- dynamic cash flow;
- promote the specialized competition (METRO Chef);
- well-trained employees who provide an exemplary image of the stores;
- non-stop running program;
- highlighting the Romanian products on offer;
- snack-bars inside the stores;
- easy banking services offer through working points of the commercial banks;
- large parking, over 500 places;
- online store from Romania became a pilot project for several countries;
- innovative company.

*Weaknesses:*

- significant inflow of employees in a relatively short period of time;
- many managerial levels;
- low wages;
- distribution;
- lack of visibility through promotion;
- insolvency issues that drew an unfavorable image;
- close to each other stores (Galați, Brăila).

*Opportunities:*

- major investment program through which has an extensive national network of stores;
- advantageous geographical position and location near the national roads with significant traffic;
- weak competitors;
- high and various demand of products;
- good market absorption rhythm which ensures high turnover and a appropriate profit;
- use of advanced information systems in the internal organization;
- development opportunities.

*Threats:*

- the threat of competitors;
- inflation rate;
- exchange rate fluctuations;
- pricing policy promoted by competitors;
- unemployment.

### **Conclusions**

During the past 17 years since the opening of the first store the evolution of METRO Cash & Carry on the Romanian market took place very well, we might say even better than expected this major project initiators. Initial, the development strategy envisaging a total of 10 stores in the country, but the result is more than triple.

However, this performance has not been achieved by following a smooth and without problems way. METRO, like any other companies had and still has to face the same situations, marked by the amplifying of the changes from the external environment and by the increased interdependence. Taking into account the development environment was the fundamental condition for success.

The difference is given by a good organization of this complex system which is METRO, reflected both in the input and information as well as in the output of goods, services and information. Also, the developed and implemented strategies based on events have proven the best.

What it matters is the fact that METRO Romanian experience has become a good practice model that is successfully exported to other locations.

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