

# A Strategic Study of Metro's Globalization Process

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**Abstract:** *Global economic integration has provided a favorable economic environment and development momentum for the international market. Major industries, including the retail industry, are aware of the limitations of the development space in their own countries and have been seeking international development to achieve competitiveness. In this context, Metro AG has also started to go global from its home country.*

*The main object of this report is Metro Mall, the purpose of this report is to understand Metro Mall and its globalization process, to analyze and evaluate Metro's value creation strategy, and finally to make its own recommendations for the future development of Metro Mall.*

**Keywords:** *Metro AG, Globalization, Value-Creation strategy*

## 1. Introduction

Metro is a retail and wholesale supermarket group with a number of Metro Cash & Carry stores under the Metro and Vanclon (Europe only) brands, is a constituent of the German stock index DAX and is one of the Fortune 500. Metro started its corporate history in Germany in 1964 with 14,000 square meters of warehouse stores. It stands out in the market with its new marketing concept of "buy now, ship later" (cash deal, pick your own). After 56 years of development, Metro is now one of the largest commercial chains in Europe and has been ranked 34 in the world's top 250 retail chains in 2018 according to the latest figures from Deloitte 2020. Today, Metro has more than 3,000 stores in more than 20 countries, employs around 200,000 people and generates annual sales of more than DM 100 billion.

Metro has been global since 1971 and currently covers mainly European, Asian and African markets. Specifically, in Europe, the company opened its first overseas mall in Switzerland in 1971 and established its international management headquarters in 1972. In 2001, Europe officially entered the Eastern European region with the opening of stores in Russia and Croatia, followed by the entry of the Ukrainian retail market in 2003. In Africa, expansion was relatively slow, with the opening of stores in Morocco in 1990 and Turkey in the same year. Since then, the company has been building new superstores in major African cities. In Asia, in 1976, METRO Group Purchasing Group Hong Kong Ltd. was founded as the Global Purchasing Department, which established relationships with suppliers in 24 countries. 1995 saw the establishment of the first Chinese Jinjiang Metro Cash & Carry Company in Asia, in cooperation with China Jinjiang Group, which marked METRO's formal entry into the Chinese market, and continued to expand throughout China. Metro supermarkets, to date in China in 58 cities to build 86 shopping malls. 2002 Metro to control 80% of the shares in a joint venture with local Japanese group Marubeni to seize the Japanese market. 2003 Metro set up a distribution center in India, 2015 Metro in China Alibaba Tmall online shopping mall. 2020 in April IOM to 11.9 billion yuan to complete the delivery of Metro 80% of China.

## 2. Strategies Analysis

Metro's globalization process mainly uses the low cost strategy and differentiation strategy. The low cost strategy of Metro supermarkets is in its location, store design and product pricing. The locations of Metro supermarkets are mainly concentrated in the suburbs of big cities, where the land price is cheap, which can save the cost effectively and meet the large area needed by the supermarkets, while still taking into account the target customers in both urban and suburban areas. As for Metro's store design, it is very unique and efficient, firstly, its supermarkets are equivalent to warehouses, with the upper shelves used for merchandise storage and the lower shelves for consumers to make purchases directly, perfectly combining retail and goods storage. With this model, Metro supermarkets can eliminate the

need for separate warehouses and distribution centers that traditional retailers must have, while also being able to quickly replenish goods in the real economy, effectively reducing the cost of turnover. In terms of commodity pricing, Metro pursues the core business philosophy of "limited profit", usually obtaining the lowest purchase price from upstream suppliers, and then pricing the retail products based on a fixed gross margin to satisfy consumers' desire to buy at low prices. According to the study, Metro's retail prices are about 20% lower than those of similar large supermarkets, and about 10% lower than those of supermarkets in general, which is very conducive to attracting consumers. At the same time, METRO also selects through data the commodities that are more attractive to customers, and uses the value-added commodity pricing mix strategy for such commodities, and sells them at a price lower than any other similar commodities in the market under the premise that the quality remains unchanged, which greatly satisfies the customers' consumption psychology and also reflects METRO's principle of "thin profit and more sales, which benefits the buyer". "S corporate image. However, this strategy usually requires the following conditions to be met: (1) The market demand is price elastic. (2) Firms in the industry in which they operate all produce standardized products, so that price competition determines their market position. (3) There are few ways to achieve product differentiation. (4) Most customers use products in the same way. (5) Customers do not incur switching costs when they change from one seller to another, and are therefore particularly inclined to buy the product with the best price.

The differentiation strategy adopted by Metro is mainly reflected in the following five aspects: firstly, the target group differentiation, which is also the biggest difference between Metro and Wal-Mart, Carrefour and other large supermarkets. Metro adopts a "membership system" and its main target customers are enterprises, institutions and organizations, with individual consumers accounting for very few of its target customers, while other large supermarkets mainly target individual consumers. Secondly, the differentiation of services. Metro adopts the mode of self-purchase and self-delivery, and there is no professional staff in the supermarket to guide and promote the products. Thirdly, the differentiation of product information, Metro supermarkets have been expanding and standardizing the traceability system, all products sold are subject to strict examination, consumers can check the source of products at any time; after the products are listed on the market, Metro's quality inspection department will continue to track the quality of suppliers and products. This is something that other supermarkets of the same kind cannot do, and it is also a principle that Metro supermarkets have always adhered to to ensure the safety and quality of their products. Next is the difference in the way of product promotion, Metro supermarkets generally do not advertise through mass media, but use direct mail advertising to promote. The "Metro Mail" is mailed to all members every two weeks. The newsletter is a detailed, full-colour catalogue that provides information on the latest prices, new products and recent promotions within a half month. The newsletter not only keeps members informed of product information, but also helps enterprises effectively reduce procurement costs and improve the transparency and fairness of customer procurement. The last is the differentiation of the supply chain model. Traditional large retailers generally adopt the "push type" supply to sell the products to customers, while Metro's supply chain model is a combination of supply chain clustering and ECR (Efficient Consumer Response). This is a collection of interconnected firms, institutions and partners in an industry, forming two types of clusters: one with end-market players clustering as customers, and the other with upstream players clustering as suppliers. It improves efficiency and saves costs. There are, however, internal and external conditions for the firm's differentiation strategy to be applicable. The conditions for internal applicability are: (1) the enterprise has a reputation for being a leader in terms of product quality or technology; (2) the enterprise has a long history in the industry or has absorbed the skills of other enterprises and is self-sustaining; (3) strong marketing capabilities; (4) strong coordination among various functional departments; (5) strong cooperation among various sales channels; and (6) the enterprise has the ability to attract senior researchers, researchers and engineers. Physical facilities for creative people and highly skilled staff, etc. The external conditions are: (1) there are many ways to create a difference between a firm's products and those of its competitors, and this difference is perceived as valuable by customers; (2) customer needs and requirements for the use of products are diverse, i.e. customer needs are differentiated; (3) there are few competitors who use similar differentiation methods, i.e. there is a real guarantee that the firm is "differentiated"; and (4) rapid technological change and competition in the market is focused on the constant introduction of new product features.

### 3. Advantages and Disadvantages

The low-cost strategy and differentiation strategy adopted by Metro Supermarkets offers many advantages for its global expansion. In detail, the low-cost strategy can quickly attract consumers'

attention, promote consumers' purchases, and rapidly develop foreign markets in the short term. Secondly, low-cost strategy can, to a certain extent, resist the confrontation of existing competitors in the market, because Metro supermarkets not only have low prices, but also ensure the high quality of products and the variety of product categories from daily consumer goods to hardware on the basis of this strategy. The advantage of adopting differentiation strategy is that it can build up consumers' loyalty to Metro, which makes consumers form consumption inertia and prompt them to make multiple purchases. Secondly, the unique competitive advantage of differentiation can help Metro maintain its competitive position in the retail industry in the long run, and also improve the marginal benefits of the enterprise. In addition, the implementation of this strategy can form a strong barrier to entry, because if a new entrant wants to enter the retail industry by imitating Metro's strategy, it means that the new entrant needs a large amount of financial support, a perfect supply chain network and a large team of talents, which are obviously very high barriers to entry. Finally, Metro's unique supply chain management enhances cooperation with suppliers, improves the bargaining power of suppliers, and saves costs.

Inevitably, however, these two competitive strategies have created some drawbacks for Metro's development. The low-cost strategy of targeting corporate and institutional "membership" means sacrificing the market share of individual consumers, especially in China, where individual consumers are still the dominant consumer group, accounting for the majority of total consumption, and are a very promising group, while target customer system undoubtedly reduces Metro's profits. Secondly, a variety of low-price pricing strategies such as portfolio pricing require more prerequisites, because the low price of goods must first of all be established on the basis of strong bargaining power and good cooperation between Metro supermarkets and suppliers, and at the same time also rely on enterprises and institutions to purchase large quantities of large scale. Only if the above conditions are met is it possible for Metro to be profitable, otherwise it is easy for Metro's operating costs to exceed its operating income. For Metro's differentiation strategy, the biggest problem is mainly in logistics and distribution. Based on a self-carrier system and the "limited customer" principle, without the focus on the masses, and without its own unique logistics and distribution methods (the way of Metro is self-carrier and customer pick-up), so Metro has very high delivery charges for home delivery to individual retail customers, meanwhile unable to popularise home delivery, resulting in a new online customer base of massive wastage. Secondly, the differentiated service of commodity traceability at source increases the operating and management costs. This is because the provision of such services requires communication and negotiation with the upstream of the supply chain, and at the same time, Metro also needs to independently develop and regularly maintain a product traceability system and hire professional technicians, which inevitably increases additional research and development costs and labor costs. Thirdly, Metro's direct mail advertising is outdated and ineffective under modern marketing methods such as Weibo marketing and WeChat marketing, because direct mail advertising cannot be found by all consumers in a timely and effective manner, and sometimes even if it is found by consumers, it is easily filtered out as spam. So this ineffective campaign has been a major factor in Metro's declining revenue and global retailer ranking in recent years. Finally, although the "dual track" management model of Metro's supply chain can effectively avoid redundant links and improve efficiency, the cost of distributing the same goods is not the same as in the case of supermarkets. However, as all Metro's goods are purchased in one place and then delivered to each shop, the cost of delivering the same goods varies, with shops further away from the distribution centre incurring higher costs, and this model does not combine with local characteristics to reduce total logistics costs.

#### 4. Other Issues

In addition, there are still some problems with Metro's globalization process. The first is that the "membership system" is not friendly to individual consumers. Although Metro is now not limited to businesses, as individuals can also apply for membership online, this is only possible if the consumer understands Metro's membership system, otherwise the consumer will be told that they need to register on site when they are ready to pay for their purchase, which can have a negative impact on the individual consumer's mood and reduce their willingness to make the next purchase. Then there is the slow pace of online business and the poor user experience on the website. Metro China's official online store was launched on May 7, 2012, after which Metro China entered Tmall in 2015, although it has now been involved in multiple platforms (APP, official WeChat) such as online, offline and mobile terminals, but Metro has not paid particular attention to the promotion and maintenance of the website, and there are often slow website page refresh and fluid experience, and even still here are some consumers who are unaware of the services opened by the online business, which makes Metro's

publicity less effective. Lastly, negative press coverage of Metro has affected its corporate image. Although Metro has strict product control standards and processes, it is inevitable that some aspects (e.g. personal errors) are not taken into account, so there are some bad news reports about substandard product quality in sampling processes in recent years, which will damage the image of Metro supermarkets as "high quality and low price" in consumers' minds. The image of the merchandise, and thus Metro's corporate image, is also affected.

## 5. Recommendations

In view of the existing problems of Metro and the purpose of value creation of Metro in the future, I put forward the following suggestions: First, reposition the target market and expand the service groups. First, we should reposition our target markets and expand our service groups. Metro can continue to focus on the development of small and medium-sized retailers, catering industry, government and enterprises, universities and other professional customers as members. At the same time, emphasis should be placed on small customers, and individual consumer membership should be penetrated. Because by capturing these many small, scattered orders, there will be a big breakthrough in Metro's future profit growth. Secondly, trying to build a smaller supermarket to enhance competitiveness. The locations of Metro supermarkets are generally concentrated in the suburbs, which is not so convenient for consumers in the central city. To improve this phenomena, in the future, Metro could authorise small convenience stores as franchises to facilitate the purchase of cheap goods by scattered consumers in the vicinity. In this way, it could increase Metro's influence by increasing the visibility of Metro in the eyes of consumers. This is because consumers often choose to trust and buy brands they see more of around them. Third, Metro supermarket can carry out multi-channel promotion. The intuitive reason why Metro's online business is not carried out is that the number of web page views is low, and if you want to change this status quo, you must step up publicity. On the basis of direct mail advertising, strengthen the construction of WeChat, microblogging and other platforms to expand the scope of membership, regularly push new products, discount promotional information on these platforms, and strengthen the WeChat, microblogging page online interaction with consumers to mobilize the enthusiasm of consumers. Also, small leaflets can be handed out in front of supermarkets with information about the online store and microsite, along with seasonal specials, to open the door for non-Metro consumers. Fourth, optimize the construction of the online shopping mall and improve the delivery service. After Metro China was acquired by Wumart, the multi-point app became one of the main software for online ordering and delivery, but according to user feedback, the multi-point app is not smooth to use, and the delivery service on the platform is only for a few Metro supermarkets in Beijing and Shanghai to deliver to home within 5 km range of services. In order to change this, it is necessary to speed up the construction of the online shop and to broaden the range of distribution services, so as to maintain existing customers and increase the number of new ones. Fifth, improve supply chain management and reduce internal logistics costs. At present, there are four centralized cities in Metro, they are Beijing, Shanghai, Wuhan and Guangzhou, although these four cities can basically radiate and meet the supply of Metro in the surrounding cities, but can not guarantee that all Metro supermarkets can quickly supply goods. At this time, we can learn from Carrefour's experience of nearby purchase, increase Metro's unified purchasing point, and enhance the feedback of the user information in each city, to ensure the accuracy and speed of supply to the manufacturer, which could reduce inventory, accelerate the speed of cash flow, and reduce the total cost of enterprises. At the same time, Metro can also strictly control the amount of inventory for sales, striving to get closer to zero inventory, which is mainly achieved by taking measures to reduce the purchase of unsold products, adjusting and changing Metro's unified management business model, by appropriately decentralising authority to allow each shop to offer timely discounts and promotions according to the actual situation, and by implementing a strategy of purchasing small quantities of product with an unstable sales volume in order to prevent stock backlog. Finally, in light of the negative reports of quality, Metro should first make timely adjustments to clean up the bad products, strengthen the supervision of the product screening mechanism, and strengthen internal staff training, so as to reduce the occurrence of errors from the mechanism and personnel. At the same time, Metro should also make timely social statements and strengthen its corporate public relations to maintain the quality image of its products and the company.

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