

THE BUSINESS MODEL OF THE LIMITED FUNCTION WHOLESALE

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ABSTRACT: *Wholesale is an important link in the movement of goods from manufacturer to consumer. Undertakings that carry out such activity have a very important role in the overall economic system, providing a number of benefits both to the manufacturing companies from which they buy goods and also to the retail companies to which they resell trade goods. The complexity, diversity and magnitude of the operations of the wholesalers classifies them into various typologies, most of them being classical wholesalers. A good example in this regard is the METRO Cash & Carry Company, whose business model is centered on the client and on satisfying to a higher level of its needs through the promotion of an extensive range of services that come to complement the sale of goods to the retailers.*

KEY WORDS: *wholesale; limited function wholesalers; wholesalers offering full service; business model; customers.*

JEL CLASSIFICATION: L81; M30.

1. INTRODUCTION

The goods distribution analysis reveals that products, in the flow from producer to consumer, are passing only in certain circumstances directly from the production link to the retail sphere. A large part of the goods intended for final or intermediate consumption go through beforehand and one link within the wholesale trade, to which is assigned a major role both in the movement of goods, as well as in the realization of production and in meeting the needs of the customers.

In the concept of the distribution of goods, wholesale trade includes all activities involved in selling goods or services towards those who buy them in order to resell or to use them for commercial purposes.

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The wholesale trade is meant to provide services and security to the business partners involved in the movement of goods and to ensure the system of facilities for achieving a high level of profitability for all presumed agents through a commercial circuit covering the manufacturer, the wholesaler, the retailer and the final user or consumer (Patriche et al., 1999, p. 59).

The aim of this paper is to highlight the defining elements underlying the business model of the classical wholesalers. Among these elements can be found a range of extended services which these merchants make them available to their clients.

2. ORGANIZATION AND OPERATION OF THE WHOLESALE TRADE

The wholesale trade activity is one of the two important stages of the movement of goods in their transition from the production sphere to the sphere of consumption, the wholesale trade representing, generally, the intermediate link between production and retailing.

The wholesale trade activity is carried out by economic agents specialized in wholesale, usually wholesaler enterprises, but also other categories of traders licensed to conduct wholesale trade.

Although the object of the wholesale activity is represented by the movement of wholesale goods, there must be a clear distinction between the two economic categories, namely:

- the wholesale trade refers to a link of the commercial apparatus;
- the movement of wholesale goods refers to a stage of the movement of goods.

The movement of wholesale goods presents a number of characteristics which distinguish it from the retail trade or public alimentation, namely:

- the wholesale trade takes place only between the enterprises which are producing goods and commercial enterprises;
- purchases and sales of goods are carried out in large lots, regardless of their final destination (individual, collective or productive consumption);
- the movement of the wholesale goods does not conclude the process of movement of goods, these being resold to retail link for purposes of their resale to final consumer or user;
- the wholesale does not cover the entire range of the movement of wholesale goods, a significant part of the wholesale operations being carried out between other economic actors, such as for example the direct commercial relations between the producers of goods and the retail trade, as is the the case of meat and meat products, milk and dairy products and other fresh products that pass by the wholesale link;
- acting as an intermediary in the the movement of goods, the wholesale extends the process of movement of goods, by conveying and storing them in sequence, by performing repeated transfers of the rights of ownership or administration of goods;
- the wholesale requires a great mobilization of material resources, funds and human resources, which, according to the manner of organization, can influence the whole process of the movement of goods;

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- considering the complexity, the diversity and the magnitude of the activities performed, the wholesale commercial enterprises must have a high financial coverage;
 - usually the wholesale commercial enterprises are specialized on food and non-food segments, respectively, within them, on families and groups of products;
 - being enterprises with high financial capacity, they have commercial relationships with manufacturers and suppliers both internal and external;
 - provides a wide range of commercial services, with specialized staff.

The wholesale trade offers a number of benefits both to producer companies, as well as to retailers' companies, such as (Chirică, 2009, pp. 195-197):

❖ The advantages offered to producer companies:

- through the system of purchase orders that it launches to manufacturing enterprises, all year round, allowing them a constant supply, with financial funds and the continuity of the production process;
- the wholesale takes over from producers their direct relationships with retail trade enterprises that would suffocate the core business of producer enterprises, ie production;
- the wholesale takes over from the manufacturing enterprises the task of the goods storage, by reducing them the costs of handling, of management etc.;
- the wholesale ensures producers information regarding the products manufactured, their consumption behavior, the demand for new products on the market etc.;
- the wholesale trade takes over an important part of the marketing tasks of the manufacturing enterprises on the line of promoting products and brand name.

❖ The advantages offered to retail trade enterprises:

- the wholesale provides information to the retail trade enterprises about the range of products manufactured by producer enterprises and, of course, retrieve information from retail trade concerning the demand for commodities of the population and of other categories of users, that it transmits to the producer companies;
- the wholesale trade, working in large lots of goods and forming a varied commercial assortment of merchandise, it allows the commercial enterprises to receive supplies of entire range of necessary goods from a single source, allowing them to reduce their circulation costs;
- the wholesale allows the retail trade enterprises to obtain supplies at reasonable prices, sometimes even lower than the producers prices, due to the commercial discounts that benefit the wholesale commercial enterprises when they are supplying in large quantities of goods from a producer;
- simplifying the accounting by reducing purchases from a single supplier and also creating the grounds for some relations based on trust and mutual benefit, materialized in the delivery of goods on trade credit, thereby reducing the retailers' costs with interests and bank charges.

Organized as a link between production and the retail trade, the wholesale fulfills several important functions in the economy, respectively (Chirică, 2009, pp. 197-199):

1. The function of intermediary between production and retailing, in this sense having the following duties:

- determine the necessary of goods for the geographical area or the area it serves, based on the delivery orders that it receives from retail businesses and of their own supply strategies;
- transmitting orders of goods towards producer enterprises, importers and other providers;
- concluding the economic contracts of goods delivery with producers;
- monitoring the execution of economic contracts etc.

2. The function of forming the commercial assortment, namely, the transformation of industrial assortment of the large batches of products delivered by producers, importers and other providers in commercial sortient. In this sense, the wholesale features a technical and material base, very well put together, consisting of:

- warehouses;
- means of transport and handling of goods;
- commercial equipments specialized on various operations etc.

Achieving this function of the wholesale trade is impose mainly to the following groups of goods: textiles, footwear, garments, knitwear, haberdashery, metal and chemical products, glass and porcelain products etc.

3. The function of organizing the movement of the goods is another important function of the wholesale trade, in the sense that the wholesale commercial enterprises analyzes the possibilities of the physical distribution of goods from producer to retail businesses, given the nature and complexity of goods what next to be delivered.

Depending on the structure of commodities, the supply conditions, the internal or external providers, the wholesale enterprises determine the concrete modality of the movements of goods, namely: delivery through warehouse or delivery by transit.

It is important that the movement of goods on their way from producer to consumer or user to be direct, without major setbacks or interruptions in the intermediary links.

4. The function of preparation of goods for sale - function imposed by the fact that the producer enterprises deliver the goods as finished products, not as commodities, the wholesale trade task being to prepare them as commodities and to form the commercial assortment adapted to consumer needs.

In this sense, the products are prepared in advance, being subject to certain operations such as: sorting, slicing, packaging, preparation operations of consignments of goods for dispatch to retail businesses etc.

5. The function of formation and preservation of the seasonal stocks is a significant economic function of the wholesale trade in the sense that the seasonal goods are sold only during certain periods of the year and if it had not taken over by trade it would block the flow of production of the producer enterprises.

The realization of this function of the wholesale trade is usually closely related to the function of preparation of goods for sale and with the function of forming the commercial assortment. Also, the seasonal storage of goods in the commercial enterprises warehouses involves the realization of some storage operations and

preservation of their value in use, such as: repeated sieving, maintaining optimum temperature and humidity, freezing, refrigeration, etc.

3. THE WHOLESALE TRADE TYPOLOGY

The complexity, the diversity and the heterogeneity of the wholesaler trade activities make that the determination of their typology to be based on a series of generally accepted criteria in the specialty economics literature and commercial practices, such as: the domain and nature of the commercialized products; the forms of commercialization; the range of goods and services offered; the length, width and depth of the distribution channels; the clientele area etc. (Chirică, 2009, pp. 203-206)

Considering all these criteria, the wholesalers can be grouped into three broad categories: classical wholesalers; mediators agents of the wholesale transactions; auxiliary staff of the producers.

A. The classical wholesalers are usually wholesale commercial enterprises which buy the goods from manufacturers, importers or other providers and then resell them to the retailer network or to other beneficiaries.

The classical wholesalers are grouping, in their turn, into three broad categories: classical wholesalers offering full service; classical wholesalers offering limited services; classical wholesalers supplying the shelves of the retailer network.

1. The classical wholesalers offering full service represent a category of wholesalers that provide a full or broad range of services, such as: large storage capacity of goods; a wide range of commodities in a diverse assortment; specialized personnel on products and operations; ensuring technical assistance, advice and representation; financing the purchases and credit lines for goods; delivery of goods to customers; providing after-sales service lines.

2. The classical wholesalers offering limited services is a very broad category of traders, specialists in various activities, usually with limited financial capacity and does not grant assistance services, credits, marketing services etc.

The main categories of classical wholesalers offering limited service are:

- wholesalers of „cash & carry” type are those wholesale companies having deposits with self-service sales, to which customers, small retailers or microenterprises, choose and pay goods in cash and they ensure their own transportation;
- truckers or carriers traders (truck jobber) markets a range and an assortment relatively small of goods, which, based on the orders they received, transports them at the doorstep;
- shipping agents, of the “desk jobbers” type are wholesalers companies specialize in the transit of goods in large quantities, respectively buy and sell goods in transit, not having their own warehouses;
- wholesale commercial enterprises of the “mail order” type represent a category of traders that operate on the basis of orders sent by mail, of catalogs of goods that they make it available to their customers.

3. The classical wholesalers supplying the shelves of the retailer network, also called “rack jobbers”, represent a category of wholesalers who have their own

aisles or commercial spaces in the commercial network or furnishes the shelves of other retailers, usually in the consignment system.

B. The mediators agents of the wholesale transactions are a special category of wholesalers who negotiate the buying and selling of the wholesale goods, but which do not possess ownership title over the goods, they acting as intermediaries or intercessors.

C. The auxiliary staff of the producers are represented by subsidiaries, offices and commercial offices of manufacturers from a particular sector of activity, in order to improve the efficiency of the sales and promote the products.

4. THE BUSINESS MODEL OF THE METRO CASH & CARRY COMPANY

With over 750 wholesale stores in 28 countries, METRO Cash & Carry is the leading international player in wholesale trade and represents the largest sales division of METRO GROUP, a company that focuses its activity on the client, on international expansion and innovation. The distinctive business model is oriented towards helping professional customers to successfully conduct their own business. The wholesale company celebrated its 50 years of existence in 2014, still striving to be the promoter of passion, ambition, creativity and flexibility of independent business spirit.

Headquartered in Dusseldorf, METRO GROUP is one of the largest listed companies in Germany. METRO GROUP recorded in 2014 sales of 63 billion euros, has a total of about 250,000 employees and operates in 2,200 locations in 30 countries. The operational part of the business is performed by the sales divisions which operate independently in the market: METRO/ Makro Cash & Carry; Media Markt and Saturn – market leader in electronics and household appliances from Europe and Galeria Kaufhof department stores.

METRO Cash & Carry has established itself among the top companies in the international industry. Every day approximately 117,000 dedicated employees worldwide are serving over 21 million professional customers such as: hotels and restaurant operators, caterers and hospitality firms, small independent retailers, institutions and offices. A wide selection consisting of nearly 20,000 food products and nearly 30,000 non-food items offers customers a unique experience “one-stop shopping”. Innovative and personalized services complete the range of offers. Worldwide METRO Cash & Carry is known for its exceptional competence in fresh food range.

The company's business model is based on the following basic elements:

Customer orientation. The customer is the central focus of all products and services offered by METRO Cash & Carry. The company sees itself as an equal partner with its customers. As such, it is not just a vendor. Rather, it has a deep understanding of the business and the particular challenges faced by professional clients and help them increase their business competitiveness.

For each of these groups of customers, METRO Cash & Carry offers assortments of customized products and services at excellent value for the money that the customers spend. This offer is complemented by specific solutions such as retail

concepts and professional consulting services in order to optimally support the professional customers in their businesses and to make them become more successful.

Since 2014 METRO Cash & Carry has renewed its clear commitment to independent entrepreneurs, the wholesale company showing a deep understanding of their needs and positions itself as the partner of choice for all independent small and medium-sized businesses.

Flexible store format. The flexible sales concept of METRO Cash & Carry can be optimally adapted to meet the specific conditions and needs of each country in which it operates. METRO Cash & Carry varies its formats, particularly as regards the depth of assortment and selling space, which can cover from 2,500 square meters to 22,000 square meters. The most of the stores have a selling space of between 6,500 and 8,500 square meters. In addition, a special store format located in downtown was implemented successfully in Paris, Madrid and Rome. With a selling space of up to 3,000 square meters, these stores meet the needs of the key target group consisting of hotels, restaurants and catering firms and primarily offer fresh food.

Own brands. Since 2009, METRO Cash & Carry wishes to achieve its own strategy regarding its own brand through a concentrated portfolio of products: the six core brands Aro, H-Line, Horeca Select, Fine Life, Rioba and Sigma offer professional customers an excellent value of the quality-price ratio and thus, a real added value. The own-brand ranges are developed in close collaboration with customers and suppliers and are the result of some comprehensive market studies as well as series of internal and external laboratory tests.

A successful example of METRO Cash & Carry's own brands is Rioba, which includes customized product solutions for cafes and bars. The assortment ranges of professional espresso coffee machines are coming to complete the assortment of pots and cups and from premium coffee to biscuits. There are currently about 25 Rioba cafes which were founded as part of a partnership between METRO Cash & Carry and cafes. Launched as complete solutions, the cafes exclusively use and sell own brands products.

Social responsibility. In every country where it operates, METRO Cash & Carry stays true to its social responsibility and is widely engaged in the local community development as a reliable employer, a dedicated player in the trade infrastructure upgrade and an expert supplier of a broad range of products for his customers. As a responsible corporate citizen, METRO Cash & Carry aims to make a sustainable contribution to the society as well as the environment within its business activities in order to help secure long-term sustainable growth.

5. METRO CASH & CARRY ROMANIA

METRO Cash & Carry International, the leading player on the international Cash & Carry market, has opened its first store in Romania in October 1996, being also the first company that introduced on the local market the cash & carry sale system, the most modern form of wholesale trade, with the payment at pickup of the goods.

In the following years, due to the success of the new system on the Romanian market, the company expanded its network rapidly, reaching now to serve clients

across the country through 31 stores with a total selling surface of approximately 190,000 square meters. In the financial year 2013/2014, METRO Cash & Carry Romania had approximately 4931 employees, with a turnover of 906 million Euro.

Dedicated to the traders, the HoReCa professionals (acronym for the hospitality industry: hotels, restaurants, catering), small and large businesses from any domain, METRO Cash & Carry offers its customers under one roof all the products they might need for their business, always available in a wide variety at the best price - quality ratio from the market. Based on the METRO ticket, the customers have easy access to all products and to consultancy services offered in any store by specialist teams.

In order to support its reseller customers and the HoReCa ones in April 2010, the METRO Cash & Carry Romania has put on the market a new cash & carry format: **METRO Point**, which provides customers various promotional offers, solutions and specialized advisory as well as loyalty programs in order to help them to streamline their businesses. Due to this new concept, the customers have faster access to the company's products and services without loss of resources or time.

The stores of METRO Cash & Carry Romania offer their customers a wide range of products structured so: fresh foods, hard perishable foods and drinks, work equipment and food products.

As it was highlighted in the previous chapter, METRO Cash & Carry offers customers its own brands of products. Specific to METRO Cash & Carry Romania is the concept "**From ours**" - **the good and Romanian taste**. All products are 100% Romanian, carefully selected by cultivators from important regions for Romanian agriculture.

The producers carefully selected from Romania are sending their fresh vegetables in every season to the METRO, and the quality control is provided by the METRO team, which includes an agronomist who oversees the production and provide overall guidance to all participants.

Included amongst the classical wholesalers, METRO Cash & Carry was preoccupied in time, that in addition to the extensive range of products it sells, to improve and to constantly adapt the services offer by which meets the needs and help its clients.

The services offered by METRO Cash & Carry can be structured into three broad categories, such:

- ❖ Services for the resellers customers
- ❖ Services for the HoReCa customers
- ❖ Special services

A. Within the services for the resellers customers are found:

➤ ***LaDoiPași (At Two Steps)***

LaDoiPași is a franchising system that combines the strengths of traditional trade - the proximity between owner and customer - with the advantages of modern trade – unitary image, modern organization of the store, marketing and promotion, optimized assortment of products, training for staff, support and advice.

The franchise LaDoiPași offer the opportunity for small entrepreneurs to be part of a national network of stores, and yet keeping their financial and managerial

independence. At the same time, they will benefit from the support and expertise of a market leader in the field of modern retail.

Even if the store will be part of a larger group, entrepreneurs will be able to keep their own names together with the name of the franchise, to establish their own operating program for their stores and be the sole decision makers for their business.

➤ *Courses for the resellers customers*

In the Competence Center for resellers from METRO Militari, on a surface of 80 square meters, METRO has created a model store, in which is caring free courses sustained by specialists and who are showing to the customers how to optimize their business.

Opened in September 2008, the center is a real laboratory through which have passed so far almost 1,500 traders, who knew how to seize the chance to raise their business to a higher level of professionalism and efficiency.

➤ *The Program of Counseling for Traditional Trade*

Founded in 2008, The Program of Counseling for Traditional Trade has helped so far nearly 2,000 reseller customers to streamline the business and to increase the turnover to the average level by approximately 40%.

For the traders that have their own store and wish to increase their turnover but have no time to attend the courses of the Competence Center for Resellers Customers, then the METRO experts will give them free consultancy even at their headquarters.

B. Within the services for the HoReCa customers are found:

➤ *The Gastronomic Training Centre*

On a surface of 650 square meters in the METRO Militari store is a professional kitchen equipped to the highest standard, where chefs and other specialists of international level teach free of charge the secrets of the fine cuisine for all HoReCa customers interested to raise substantially the quality of their business.

Starting from the European professional standards, these specialists offer training modules for all categories of HoReCa customers, so everyone can choose his preparing which it considers that will help them the most in the business.

➤ *Consultancy in gastronomy*

Through the new program "Consultancy in gastronomy" METRO offers its customers an extensive support, starting from the elaboration of the restaurant menu up to a complete project for development of their business.

➤ *The recipes of the METRO masters*

Also to support its customers, METRO makes them available a Notebook of recipes written by great chefs, to which they have access for free.

C. The special services refers to:

➤ *Payment facilities*

The co-brand credit card for the METRO customers is the way through that, in partnership with Unicredit Ţiriac Bank, the METRO stores are coming in support their customers. The advantages of this card are:

- There is always ready a sum of money for shopping.
- It can give back what was spent, either totally or partially, during the grace period or after, which gives the flexibility that every business needs.

- Transactions made with this card benefits from a grace period of up to 50 days, during which the interest rate is 0.
- If they pay with this card to the METRO partners and UniCredit Țiriac Bank (the list is on: www.programreduceri.ro) the customers receive significant discounts.
- In the METRO Cash & Carry stores always appear products with special discounts for the card holders.
- The goods acquired with this card from the METRO stores are ensured free of charge and automatically during the transportation, and another two weeks after purchase – for accidents and burglary.
- For shopping in the METRO stores the interest rate is lower by 3% than the one normally practiced.
- The customers have online access to the card account through Online B@nking from UniCredit Țiriac Bank.

➤ **Silver & Gold Customers**

Customers who visit the METRO stores 40 times in one year and are shopping in total amount at least 55,000 lei (excluding VAT) automatically receive the METRO Silver card and for shopping at least 150,000 lei per year (excluding VAT) they may become Gold customers and receive the METRO Gold card.

These cards involve a number of special offers and bonuses:

- To each card holder it will be assigned a personal consultant, who will keep him up to date with all the facilities, the offers and bonuses that appear all the time and which it will be accessible only for him. Moreover, the consultant will closely follow the evolution of his business and METRO, through its “Award the performance”, will reward his business sense and will help him to increase even more by giving him as bonus, discounts on any product (except tobacco), including those in promotion in the METRO catalogs.
- The Silver card also brings him a free session per year of instruction at the prestigious Center of Competence and the Gold Card holders have access to two such free courses. Whether they are HoReCa customers either resellers customers, the METRO specialists will help them to optimize and substantially improve the business. For the Silver customers is offered free transportation to the Center of Competence and the Gold customers also benefit from a night of free accommodation.
- For the Gold HoReCa customers or resellers, the guarantee period for professional equipment purchased from the METRO is extended substantially.
- Among other benefits of the Silver or Gold cards, are: special parking space, covered, separate entrance into the store, and special cash register that allows the owners to not longer stand in line.

6. CONCLUSIONS

In Romania, METRO Cash & Carry is the first trader who entered on our market in October 1996, by introducing the cash & carry sale system, the most modern form of wholesale trade, with the payment at pickup of the goods. In the years that followed, the METRO Cash & Carry Romania has consolidated its leadership through

the expansion of its network to 32 stores and by launching some trends that subsequent have influenced the local market.

In this regard, METRO Cash & Carry Romania was the first player on the profile market in Romania which implemented in 2012 a platform for e-commerce, “**METRO Online Store**”, thereby introducing the multichannel system (traditional stores and online shop).

At the same time, starting from the growing demand for the fresh products, locally grown as well as from the urgent needs of the farmers, METRO Cash & Carry Romania has initiated and launched the “**From ours**” program, the support platform for local producers, unique on the market in Romania, through which the company provides expert advice to farmers involved in the program throughout the whole production process, solutions for collecting and a stable location for selling the goods in the stores of its network.

The company also launched “**LaDoiPași**”, the first program to support for small entrepreneurs from the traditional trade, which have the opportunity to be part of a national network and benefit from the expertise of an international leader from wholesale trade domain. Through the “LaDoiPași”, METRO Romania offers its partners expert advice and assistance over the entire period of the partnership, they maintaining their financial and administrative independence.

Last but not least, METRO Romania is the first trader who has developed a platform that provides integrated consulting services for small businesses in the hospitality field. The platform “HoReCa Support & Partnership” provides both consultancy to the HoReCa customers and also turnkey projects for entrepreneurs who want to start a business in this area.

The wide range of products marketed, the development of its own products brands and the wide range of services that METRO Cash & Carry makes available to all categories of customers, makes this company a leader of the classical wholesalers. Although in the specialized literature the cash & carry traders are classified in the typology of the limited function wholesalers, we can say, based on those presented in the paper that METRO Cash & Carry offers its customers a wide range of services, which come to complement the business model of this company.

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