Metro's Accounting and business analysis

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Abstract. Metro AG is selected as the research object in this paper. Metro AG's products are operated by four business units of six very distinct and independent sales divisions: cash and carry, food retail, non-food specialty stores and department stores. In the first part of this paper, the main background of Metro is introduced, and then SWOT analysis is carried out. In the second part, this paper analyzes the financial statements of Metro Group and its financial status and profitability. The last part is to discuss the risks that Metro may face now and in the future and the countermeasures.

Keywords: SWOT Analysis, Financial Analysis, Risk

1 Introduction

Metro Group is a strategic management holding company with four business units, namely cash and Carry, food retail, non-food specialty stores and department stores. Metro's mission is to "continuously enhance the value of the company". Optimization of the distribution philosophy, optimization of the portfolio and globalization of the company are the main pillars of a successful growth plan. Every sales department wishes to position itself in the market in order to increase its value and profitability. The Metro Group is only involved in business units with a significant sales department that can serve a sufficiently big market segment. Diverse portfolios flourish. The sales and business departments work well together. METRO Cash & Carry International GmbH operates under two brand names: METRO and Makro, and caters to commercial and big consumers by providing a diverse selection of high-quality food and non-food goods [5]. It is the group's most profitable brand and the global wholesale market leader.

Metro, headquartered in Dusseldorf, Germany, operates throughout Western Europe, Eastern Europe, and Asia-Pacific. METRO AG has the largest "Cash & Carry" network in the world. Metro employed 220,000 workers in 22 countries by 2000, and income from activities outside Germany accounted for 42.2 percent of total revenue [6]. Metro has maintained its fast worldwide development since then, with stores opening in Russia, China, Bulgaria, and India. The Metro Group presently has operations in 30 countries, with the majority of its growth taking place in Eastern Europe and Asia. The Metro Group's major segment, Metro Cash & Carry and Media Markets/Saturn, is responsible for the company's international expansion. METRO Cash & Carry expanded its shop count by 6% and Media Market/Saturn by 17% between 2003 and 2004 [3].

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2 Business Analysis

2.1 Strength

(i) Metro AG is the world's largest local market and one of the top five retail chains.

(ii) Metro AG is a well-known brand with high consumer loyalty. This permits the corporation to charge a higher price than its retail competitors [7].

(iii) Metro AG ST offers excellent talent management and training programmes for its employees. Metro AG ST's success in the retail market is largely due to its human resources.

(iv) Metro AG has a lower cost structure than its rivals [3]. The purpose of a cost advantage strategy is to position the company as the market's lowest total cost provider. Companies that have been successful with a low-cost approach, such as Metro, operate effectively and leverage low-cost resources to reduce product selling prices.

(v) Metro AG has a competitive edge over its competitors since it offers higher-quality items to its customers [1]. By delivering superior services and commodities, high-quality products help retain consumers.

(vi) Excellent margins compared to competitors in the retail industry - Despite diminishing profitability, Metro AG ST still maintains high margins compared to its competitors.

(vii) Taking the lead in the market. In the retail business, Metro AG holds a significant market leading position. It aids businesses in rapidly scaling up the success of innovative goods.

2.2 Weakness

(i) The pressure on operational costs is increased by the necessity to localise its outlets in different cities and nations.

(ii) To better automate their operations, retail chains are investing less on IT technology and system upgrading.

(iii) Competitors in the retail industry can readily copy Metro AG's business model.

(iv) Metro AG's ability to exploit specialised markets and local monopolies is fast dwindling, and the impact of its customer network advertising is deteriorating.

(v) Metro AG's market share is declining year by year. Retail sales are growing faster than Metro. In this case, Metro AG must keep an eye on trends in the service sector in time to determine what it should do in the future to promote future growth.

(vi) The establishment of new supply chain and logistics networks will incur additional costs. The growth of the Internet and artificial intelligence has significantly changed the business model of the service industry, and as dealer networks become less important, Metro AG must build a new and robust supply chain network, which can be quite expensive.

2.3 Opportunities

(i) Expand into new markets in order to grow.

(ii) Place a premium on the growth of private brands.

(iii) Increased danger to companies and loyal consumers through extensive advertising, marketing, and customer loyalty programmes.

(iv) Partnering with local companies offers metro the potential to expand into global markets. For local companies, they have local knowledge, while metro group has global process and execution knowledge, which can be a win-win situation.

(v) Customers are more inclined to experiment with and test new things on the market. Not just in the broader retail business, but also in the broader service industry, Metro AG must keep a close eye on developments.

(vi) The customer shift to high-end products is the main potential point for Metro AG, as the company has high brand recognition in the high-end market, while consumers in the low-end market have experience working with the Metro AG brand and providing excellent customer service. This presents an opportunity for the company to increase profits.

(vii) Through faster technological innovation and progress, industrial productivity has increased and suppliers have been able to produce a large number of goods and services [6]. Therefore, Metro may actively expand into complementary products.

2.4 Threats

(i) Rising global labor prices and a shortage of capable workers will have an adverse impact on Metro's human resources. Metro AG expects to experience a shortage of skilled manpower in the future.

(ii) In export markets, local players are developing technological knowledge. When it comes to partnering with local enterprises in export markets, one of Metro AG's key worries is the possibility of losing intellectual property. Intellectual property systems in emerging markets are ineffective.

(iii) Product segment commercialization. The rising commoditization of services items is Metro AG's major problem.

(iv) The political environment is in a state of flux, such as the trade war between China and the United States and the general turmoil in the Middle East. All of this political turmoil could have a negative impact on Metro's activities in both local and international markets.

(v) Product development is rapidly catching up to rivals. Despite this, Metro AG ST remains the retail industry's product innovation leader. It faces intense competition from both domestic and international opponents.

(vi) The urban market is saturated, whilst the rural market has stayed unchanged. This is a persistent problem in the retail business. Slow product consumption in rural markets is one factor. Second, because to the distance and lack of infrastructure, it is more expensive for Metro AG ST to serve rural consumers than urban ones.

3 Financial Analysis

This paper will analyze Metro's financial situation from three perspectives: profitability, cash flow and capital structure.

Metro AG is a company that has been doing business in the United Kingdom for decades, and examining how it recognises revenue can aid in gaining a better knowledge of the same [7]. Net sales for 2021 were confirmed at €177 million, down from €250 million in 2019/20. The COVID-19 pandemic and related government initiatives continued to be the focus of fiscal year 2020/21. They harmed the Group's business, particularly in the first half of the year. Government policies were loosened in the second half of this year, the economy strengthened, and business conditions dramatically improved. License fees, on the other hand, have followed suit. Licensing fees in Asia went rose after Metro China decided to keep using the brand for a limited time after it departed the Metro Group.

Compared with the previous year, the first is the change of cash flow, mainly reflected in the increase of cash flow from operating activities, while the decrease of cash flow from investment activities and financial activities. Cash inflows from continuing activities increased to €1.237 billion in 2020/21, up from €646 million the previous year. The COVID-19 epidemic had an influence on operating cash flow the year before. This year's rise was mostly attributable to increased cash flow from net working capital, particularly in the second half of the year, when business development improved dramatically. The cash outflow from investment operations was 137 million euros, compared to 265 million euros in 2019/20. Aside from a modest drop in investment charges, the increase was primarily due to an increase in income expenses connected to property sales. This reflects a 720 million euro increase in cash flow before financing operations compared to the same time the previous year. The cash outflow from financial activities was €1.152 billion, down from €1.28 billion in 2019/20. In 2019/20, total cash flow was eur52 million, down from eur510 million in the previous year. Gains from the sale of its hypermarket company, which included its property holdings and Metro China, were included in this sum the previous year.

METRO's balance sheet as of September 30, 2021 showed equity of €1.8 billion, down from €2 billion as of September 30, 2020. The profits reserve is primarily due to a reduction of eur254 million in dividend payments in the 2019/20 fiscal year, as well as a reduction of EUR56 million in current profit or loss attributable to METRO AG shareholders. This was largely offset by a euro 110 million equity currency translation difference, owing to rouble fluctuations. In 2000, the equity ratio was 15.5 percent, while it was 14.4 percent this year. The negative reserve from earnings was primarily due to the reclassification of net assets of the equity items attributable to the former Metro Group, recognised as legally defined equity items in MWFS Group's consolidated financial statements for the year ended 2016, rather than historical losses. At the end of September 2021, net debt has decreased by EUR 300 million to EUR 3.5 billion, down from EUR 3.8 billion at the end of 2020. Cash and cash equivalents were practically steady at 1.5 billion euros, almost unchanged from the previous year's amount. Financial obligations, on the other hand, decreased by 400 million euros in 2020 to 5 billion euros. As of September 30, 2021, the non-current liabilities of METRO were

4.6 billion euros, down from 5.5 billion euros in 2020. As a result of the maturation of several of the financial liabilities, they reduced by 700 million euros to 3.8 billion euros. As of September 30, 2021, METRO's current liabilities were 6.3 billion euros, up from 5.6 billion euros in 2020. Liabilities rose from 400 million euros to 1.2 billion euros. Due to adjustments in purchases, trade liabilities grew by 300 million euros to EUR3.5 billion. The anticipated national withdrawal of Japan contributed to the growth in income tax payments. Deferred tax assets grew as a result of the reverse effect. The debt-to-income ratio grew 1.1 percentage points from September 30, 2020 to 85.6 percent, up from 84.5 percent. In the fiscal year 2020/21, total assets of METRO dropped by €400 million to €12.8 billion. Non-current assets declined by EUR 300 million to EUR 8 billion in fiscal 2020/21, with real estate, plant, and equipment having the greatest impact. This was owing to constraints on investment activities and disposals tied to a strategic relationship with IT services provider Wipro LTD., as well as reduced investment, as a result of the pandemic. The sale of shares in a German chain of retailers contributed to a drop in equity investments. METRO's current assets, which totaled 4.8 billion euros last year, were down 100 million euros from the previous year. VAT refund applications were handled, despite inventories increasing by EUR 100 million to EUR 2 billion (30 September 2020: EUR 1.9 billion). At €1.5 billion (30 September 2020: €1.5 billion), cash has remained nearly steady.

Table 1. Partial Financial Statements from 2020 to 2021

year	2020	2021
Cash and cash equivalents	1525	1474
Current financial investments	19	13
Financial liabilities	5314	4954
Net debt	3771	3466

Source: Metro Group 2020/21 annual report.

The COVID-19 pandemic and related government initiatives have had a significant negative impact on business development, particularly in the first half of 2021. In the second half of 2021, government policies were relaxed, the economy improved and business conditions improved significantly [9]. Metro, on the other hand, has taken a number of efforts around the country to strengthen its food service and hospitality operations. Existing customers can be reactivated, and new customers can be recruited. COVID-19 has had varying degrees of influence on METRO's many sectors. This progression is influenced by the customer base's structure, as well as the duration and strength of national limitations. Hotel and tourism sales declined in the first half of 2021 due to the worsening COVID-19 pandemic, but began to rise in the second half. Because of the significant progress made in the second half of the year, it has had a positive impact on public life and metro's business development, especially in countries where HoReCa sales share is high and the government adopted stricter measures at the beginning of the year. As a result, sales have been higher than pre-pandemic levels since June. Revenue growth in local currency terms for fiscal 2020/21 was unchanged from the previous year, following strong growth in the second half of the financial year. The same-store sales declined by 0.4 percent. In local currencies, Eastern Europe, Russia, and Asia are enjoying significant sales. Sales in Germany and Western Europe were down because to the COVID-19 outbreak. Sales fell 3.4 percent to €24.8 billion as a result of currency fluctuations, mainly in Russia and Turkey. In 2020/21, adjusted EBITDA was €1.171 billion, down from €1.158 billion the previous fiscal year. This illustrates that a rise in sales is mirrored by a rise in profitability.

Table 2. Depreciation of PPE

€ million	Land and buildings	Vehicles	Others	Total
Net carrying amount				
As of 1/10/2019	2,248	95	32	2,374
Additions	185	61	21	267
Depreciation	−254	−45	−12	−311
Impairment	−4	0	0	−4
Reclassifications and net change	−63	0	−2	−65
Disposals\	−165	−9	−4	−178
As of 30/9/2020 and 1/10/2020	1,947	103	34	2,084
Additions	315	48	13	377
Depreciation	−241	−46	−11	−297
Impairment	−11	−1	−1	−13
Reclassifications and net change	7	4	−5	6
Disposals	−31	−7	−2	−40
As of 30/9/2021	**1,988**	**101**	**28**	**2,117**

Source: Metro Group 2020/21 annual report.

The decrease of €182 million in PPE is mainly due to investments being offset by current depreciation. In addition, disposals related to the sale of METRO's IT company reduced property, plant and equipment by eur 30 million.

Ownership of real property, plant and equipment projects in the form of liens and encumbrances is limited to EUR 9 million.

4 Discussion

4.1 Risks of COVID-19

During COVID-19, the grocery retail business has distinct difficulties and possibilities. The pandemic has caused several changes in the food retail business, including modifications in customer views and behaviour [8]. The continued spread of COVID-19 worldwide in 2019 has negatively impacted Metro's operations in FY2020/21. During the first half of the reporting period, the government applied lockdown measures, which resulted in the closure of HoReCa's activities and hampered the worldwide supply chain. Employee illness, from a human resources standpoint, poses a risk of disrupting logistics, warehouses, and stores, as well as disrupting work. METRO owns and manages real estate, some of which it leases to third-party tenants. Rent losses could be caused by political actions and the degradation of renters' finances. Virus mutations happening around the world continue to pose a risk of new pandemic waves as the number of cases climbs rapidly again in the fall and winter of 2021, despite the situation initially improving after limitations were removed in the spring of that year. Vaccination rates, on the other hand, are improving, lessening the chances of another large-scale lockdown, particularly among individuals who have been vaccinated and recovered from prior infections. To support its operations, METRO has deployed a number of centralisation and decentralisation procedures. METRO, for example, has undertaken campaigns in numerous countries to reopen hotel operations, provided guidance and aid in applying hygienic concepts, and supplied digital solutions for the hotel sector, such as guest check-in solutions. Metro has established a thorough hygiene concept, as well as testing and vaccination options, to protect employees. COVID-19 has the ability to cause systemic changes in the structure of hotel operators in the long run by forcing financially troubled eateries out of the market and influencing consumer behaviour. METRO examines trends in this sector on a regular basis to ensure that it is prepared to respond rapidly to changes [9].

While the COVID-19 epidemic has had a substantial impact on METRO's consumers and sales, the company still has a chance to emerge stronger from the crisis [9]. This is due to metro's varied business model and significant cash resources, which set it apart from its competitors. Metro has the opportunity to consolidate the market and aggressively increase its market share. Consumer behavior has also changed as a result of the pandemic, contributing to convenience trends that benefit Metro's trader base and trader franchise. During this time, METRO has also strengthened strategic ties with online food vendors such as Russia's SberMarket, enabling it to benefit from the future growth of these companies. The COVID-19 epidemic has hastened digitization, highlighting the significance of digital solutions for HoReCa and Traders clients. Through hotel digitization and Metro Marketplace, Metro provides sustainable solutions with economic added value. The goal is to increase income through strengthening client loyalty over time and expanding customer connections.

4.2 Macroeconomic and political risks

Due to the fact that Metro is a multinational corporation with operations in several countries, the political and economic climates of those nations might have an impact on the firm, making this risk a significant consideration for the business. The operations of METRO might be negatively impacted by shifts in the business environment, such as shifts in political leadership, civil unrest, terrorist attacks, or economic imbalances [9]. Property and real estate asset losses, currency rate changes, product constraints, capital controls, regulatory restrictions, and an unexpected drop in demand are all possible threats. The growth of punitive tariffs shows the dangers of trade wars between the United States, Europe, and China. In spite of this, METRO has been able to handle these challenges in a timely and suitable manner as a consequence of ongoing economic and political events, as well as a review of strategic objectives. This has enabled METRO to achieve its goals. The capacity to mitigate economic, legal, and political risks, as well as demand fluctuations via variety, is one benefit of having a presence in many countries or regions throughout the world[9].

5 Conclusion

To sum up, although the retail industry has been greatly affected by COVID-19, the impact is likely to continue. However, in view of the dominant position and countermeasures of Metro Group, it is expected that metro Group will still have a good income and business level in the future.

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