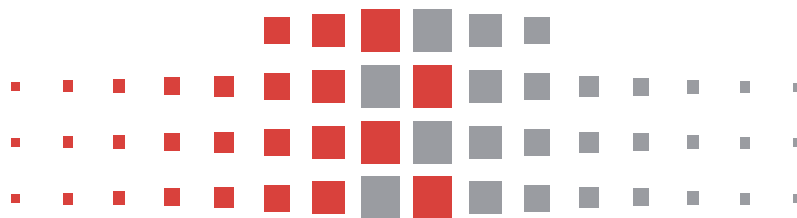


Partnering for the Future

The case of the METRO Group Future Store Initiative

Tim Graczewski & Ard-Pieter de Man



METRO Group
Future Store Initiative



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Partnering for the Future: The case of the Future Store Initiative

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Foreword

There's nothing unique about future technology labs or the rollout of new devices at a few retail locations. The world's leading service companies and retailers have maintained such facilities and test cases for decades. However, on April 28th 2003 a facility of a completely different sort opened amidst much fanfare in the German town of Rheinberg, METRO Group's Future Store Initiative (FSI). It was a store with an ambitious mission: to redefine retailing for the 21st century.

At the core of the Future Store's inspiration, design and implementation was a network of over fifty partners. Some were multi-billion dollar corporations; others had less than a dozen employees. They included companies that made everything from weighing scales to software to cream cheese. But all partners shared a few key attributes and all were handpicked by METRO Group. First, they were recognized leaders in their fields and firmly committed to the retail sector. Second, they shared a commitment to innovation in retailing and a desire to be recognized as at the very forefront of advances in that market. Finally, they were willing to invest and commit to an experiment that had never been tried before and with no guarantee of success or tangible return on investment.

As alliance professionals active in the Association of Strategic Alliance Professionals (A.S.A.P.), an in-depth case study of the FSI proved irresistible. How was it possible that a partner network of dozens of companies was able to create an innovative supermarket in less than a year when simple, proven implementations take upwards of 18-months? How did METRO attract, incent and manage a partner network of so many partners so different in size, focus and culture, with many being rivals in the open market? Could the concept be applied to other industries, and, if so, what were the key take-aways from Rheinberg?

Our aim was to write a case study with a strong focus on the dynamics of alliance management and innovation. This white paper – based on dozens of hours of participant interviews, personal visits to the Future Store in Rheinberg, and access to official FSI documents – captures those findings.

We were fortunate to have the strong support of the director of FSI, Dr. Gerd Wolfram of METRO. He approved the project, helped us get started and provided us with a wealth of contacts and essential material, for which we are truly grateful.

Our special thanks go out to the FSI participants who were so generous to take time out of their busy schedules to speak with us and who shared their experiences so candidly: Julia Antonowska (DHL); Stuart Benjamin (Avery Dennison); Mike Camerling (Pironet); Thomas Fell (IBM); Claus Garbisch (DHL); Frank Grunow (Oracle); Volker Heidorn (Kraft Foods); Peter Laudien (Mettler-Toledo); Markus Luidolt (Philips); Olaf Mossakowski (Microsoft); Conrad Pozsgai (Loyalty Partner); Thomas Riehmer (SAP); Andy Robson (CHEP); Ulrich Schaefer (Checkpoint); Udo Scharr (Proctor & Gamble); Jon Stine (Intel); Ulrich Voellmecke (Wincor-Nixdorf); Karl Waldman (OAT Systems); Guido Woltmann (Online Software); and Ronald van Zanten (Cisco). Finally, we'd like to thank Marcos Fernandez for his time and expertise in our guided tour of the Future Store in November 2004. We would also like to acknowledge the support of the Alliance Science Centre, Oracle, Transforum Agro & Groen and A.S.A.P. for their various forms of support.

In studying the Future Store Initiative in great detail our initial instinct proved correct: this is a truly innovative case, which may act as a benchmark for many other companies facing the challenges of innovation in highly competitive markets. We hope that this white paper is valuable to alliance practitioners, to general managers and to those involved in innovation. It shows a model that is unique, but that at the same time may inspire other companies to re-think how they go about innovating for enduring competitive advantage. Indeed, alliance-led innovation may be the way forward for many companies and institutions.

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Executive Summary

The METRO Group's Future Store Initiative is a strategic initiative conceived in 2001 and launched in early 2003 that seeks to promote METRO's corporate strategy of building a highly loyal and highly profitable customer base through a world class, technology service-focused customer experience.

The Future Store's success was dependent upon the active participation of over fifty partner companies from a range of industries (hardware, software, CPG, RFID, etc.). METRO was able to maximize the contribution of this partner base because:

- They initially targeted people that they knew and trusted from companies that had an important, pre-existing relationship with METRO Group.
- A major launch event, including an appearance by German supermodel Claudia Schiffer, was planned for just six-months after the project commenced, ensuring that deadlines could not be moved or missed.
- METRO took a clear leadership role, clearly set priorities and fairly adjudicated disputes.
- The combination of personal relationships, tight deadlines and the pressure of maximum marketing exposure created a tight partner community that took personal ownership and pride in the Future Store.

Partner participant satisfaction was nearly universally positive. But those that found their experience in the Future Store Initiative to be extremely beneficial tended to exhibit the following characteristics:

- Their company had an existing "future retailing" initiative that fit seamlessly with the concept of the Future Store.
- They had a specific retail solution they were working on and wanted a live environment to test it in.
- They wanted to increase their company's exposure in the retail industry and amongst other leading vendors that were Future Store partner participants.

METRO Group continues to maintain the Future Store in Rheinberg, Germany as a fundamental component of its global marketing and strategic planning activities.

I. Introduction

"The Future Store Initiative is our R&D lab", says Gerd Wolfram, managing director of the MGI METRO Group Information Technology GmbH and leader of the METRO Group Future Store Initiative. "By creating a real-life future store METRO Group and partners are able to test and develop new technologies that form the basis of innovation in retailing." This, in essence, describes METRO Group's Future Store Initiative (FSI), a working supermarket in which a host of new concepts and technologies for the retail industry are developed and tested in practice. Initiated by the German-based METRO Group, the world's third largest retailer, the FSI brings together 58 companies¹ that have jointly made it their goal to drive innovation in the retail sector and to set the standards for the early 21st century supermarket.

The comparison with an R&D lab is appropriate, but it includes elements of field testing, market research and the evolution of innovative concepts in a way rarely attempted before. This model was developed, in part, by one of the lead partners in the FSI, global microchip leader Intel, who has used partners as a component of their R&D process in the past. By involving companies in the R&D process as partners who invest, contribute and actively share their ideas, the development and implementation of the technologies would be accelerated, while METRO Group distributed the costs and risks as well. Moreover, by leveraging the brain power of dozens of companies it was likely that more innovative solutions would be proposed and there would be the opportunity for new ideas to feed and build off of one another. Additionally, the presence of numerous partners increases the chance that standards actually get accepted. Crucially, the store is not an experimental setting, but a real-life store with real clients. This makes it possible to measure the effects of innovation on efficiency, productivity, customer satisfaction and sales.

This white paper tells the story of how an alliance network was able to create in record time one of the most talked about showcases in the global retail sector. Based on over twenty interviews and a study of confidential documents, it aims to draw lessons in alliance management from this unique project. It describes the vision and the strategy, the technologies implemented, the partner network, the governance, management and value delivered by the FSI alliance network. It will also discuss some of the disappointments and areas of improvement as the Future Store continues on its journey of creating the future-shopping environment. Throughout this paper you will find some Project Snapshots, which provide brief examples of the innovations realized in the METRO Group Future Store.

¹⁾ See the Appendix for a complete list of the Future Store Initiative partner companies

II. Why a Future Store?

Key Points:

- METRO Group's competitive strategy
- Adapting Intel's innovation model to retail
- Using a real store
- Holistic view of the shopping experience
- Drive standardization

“The Future Store is all about competitive strategy,” says Jon Stine, Retail Director in Intel Corporation’s Solution Market Development Group and an early architect of the Future Store Initiative, “it’s *not* about technology.” The commoditization of retail products and the entry of hyper-efficient “big box” retailers into the global grocery market have fundamentally altered how retailers compete. The senior leadership at METRO Group recognized that to be successful over the next 25 years and beyond they needed to breakout of the traditional retailing mindset of competing on price, location or selection. They were compelled to think strategically about how they could differentiate themselves from their competition and retain a core set of highly loyal and highly profitable customers. By focusing on technology and service, METRO Group believes it possible to distinguish itself from major competitors (Figure 1).

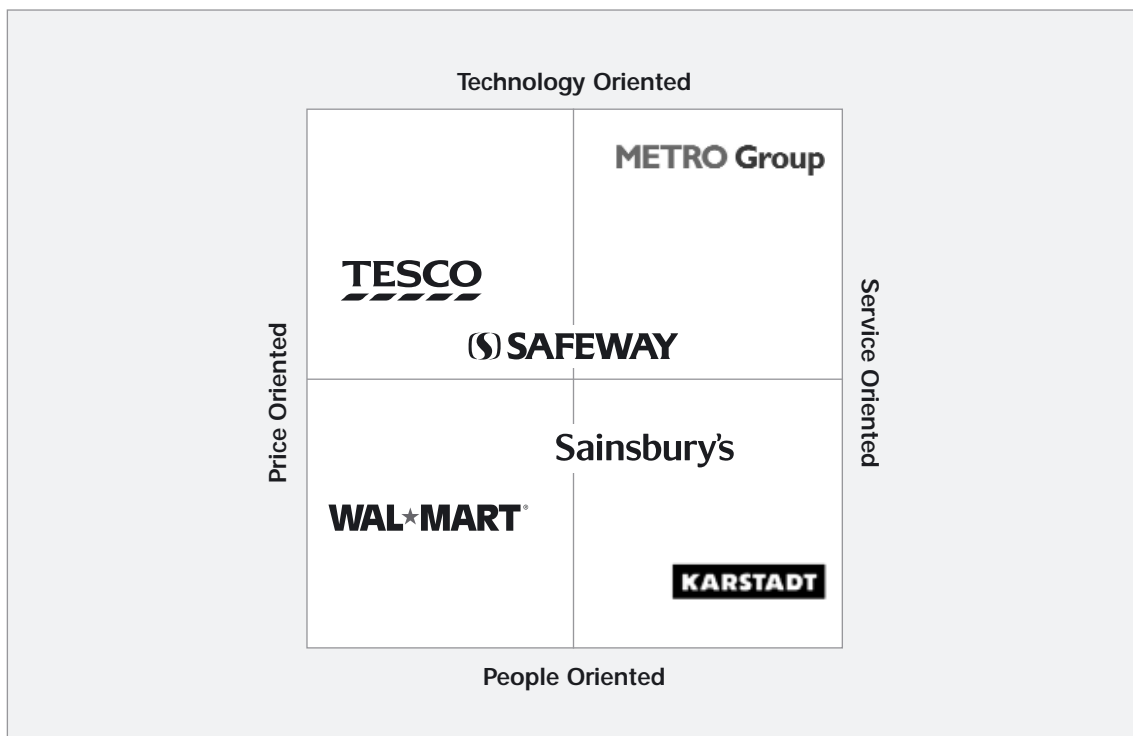


Figure 1: Strategic positions of major retailers (source: Boston Consulting and METRO Group)

The first discussions of the concept that became the Future Store began in Düsseldorf, inauspiciously enough, on September 11th 2001. The meeting was led by METRO's Chief Information Officer (CIO) Zygmunt Mierdorf and included senior executives from Intel. At this meeting and in the subsequent conversations in the weeks and months that followed the idea of a Future Store came together. During the time, several key themes were flushed out and decided upon.

First, the Future Store would be an operational store with real customers. If METRO was to fulfill its goal of developing an enduring advantage in customer experience that translated into greater profitability they would need to get the feedback and track the impact on an existing customer base. A traditional R&D lab might be more convenient and lower cost, but it would also mean sacrificing the opportunity to derive lessons in a real world environment. Also, the project would be open-ended, allowing the Store a certain sense of agility. Unsuccessful pilots could be pulled, new ones introduced, all while the Store continued to grow, adapt and improve.

Second, the Store would take a holistic view of the customer experience and store operations. They would innovate with RFID ² and collaborative wireless devices for the store managers, but also experiment with more prosaic retailing issues, such as store layout and lighting. The idea being that the combination of multiple innovations in one setting might lead to fundamental changes in the shopping experience. In short, the sum of the store's innovations would be greater than the parts.

Third, METRO Group was determined to be a leader in the development of technology standards around RFID that are certain to change the way retailers around the world operate. To that end, METRO Group set an ambitious time path for RFID implementation (Figure 2). To meet the time path it was critical that METRO identify and recruit partners with expertise across the range of technologies and services necessary to enable a successful RFID implementation, from chip, inlay, tag and reader makers to software and services firms capable of gathering and analyzing the information across the supply chain.

Finally, it was agreed that this vision of a holistic and fully operational Future Store could only be created with the dedicated participation of partners. METRO Group recognized that they simply didn't have the breadth and depth of skills or resources necessary to create the Store they envisioned. The incentive for partner participation would be simple, yet compelling: the opportunity to demonstrate and evaluate products and services in a live environment at one of the largest and most respected retailers in the world.

2) *Radio Frequency Identification: a tag on an item sending out radio signals, containing information about the characteristics of that item.*

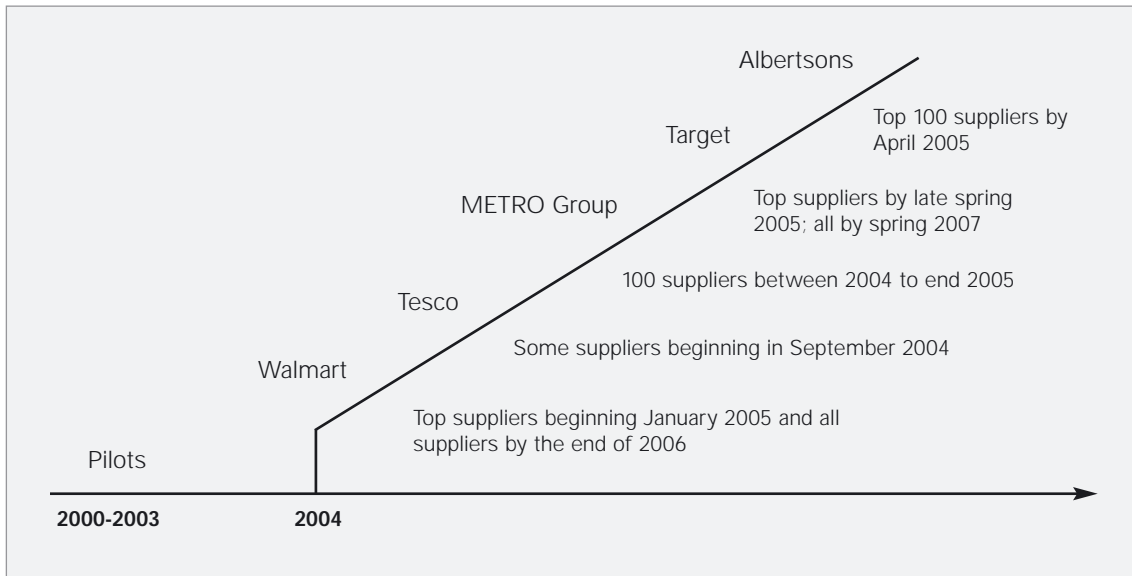


Figure 2: Announcements of RFID introductions by retailers ³



Project snapshot: Personal Shopping Assistant

Send a shopping list to the store via the Internet. Pick up a Personal Shopping Assistant (PSA) in which your shopping list is downloaded. Attach the PSA to your shopping cart and prepare for a shopping experience you did not consider possible. Your shopping list is shown on the PSA display. The PSA is also able to tell you on what aisle you can find a certain product, thereby avoiding long searches. It also lists prices, special offers and the total value of all goods purchased. Users also earn extra credits on their loyalty card. Companies involved in developing the PSA were Pironet, Wincor-Nixdorf, Algotec, Fujitsu-Siemens, Loyalty Partner, Oracle.

³⁾ METRO, RFID: Benefits for retailers and Suppliers

III. Partnering for innovation

Key Points:

- Selection of known partners
- Partners are suppliers to METRO as well
- Create partner swim lanes
- Ensure partners have skin in the game

By July 2002 the outline of the Future Store Initiative had been crystallized. A number of key issues remained to be settled, not least of which was the identification and recruitment of the partner base that was so critical to turning the vision into a reality.

The first question to be addressed in creating the Future Store alliance network was the type of partners required. Broadly speaking, there are six types of partners (see Figure 3): RFID, trade technology (partners delivering a technology specific to retail), brands (producers of consumer goods), IT technology and services, software and other services.

A second issue to be dealt with in setting up the alliance network was that not all partners were likely to be involved with the same intensity throughout the Initiative. Some partners may be relevant for a number of innovation projects set up in the FSI. Others may participate in only one. In order to strike a good balance between investments and engagement for all these partners, the FSI used three levels of partnerships (platinum, gold, silver) reflecting the different level of participation and resources partners would commit.

Only three companies participated at the platinum level prior to FSI's launch: Intel, SAP, and IBM. Intel and SAP were very much "present at the creation" of Future Store and without those support the Initiative may very well never have progressed from vision to reality. Given IBM's strong position in IT services and system integration, as well as hardware and middleware, along with their commitment to the vision of the Future Store, Big Blue joined as a platinum sponsor in 2002.

Project snapshot: Intelligent Scales

Did you ever have the experience that when you had to weigh your fruit or vegetables for pricing, someone in front of you took an hour to find the button with the right product on it? Or did you accidentally push the wrong button and give your purchase the wrong price? This problem is now in the past. The intelligent scale in the Future Store automatically recognizes what you put on it. All you need to do is to press a button to indicate you agree with the price and you're done.

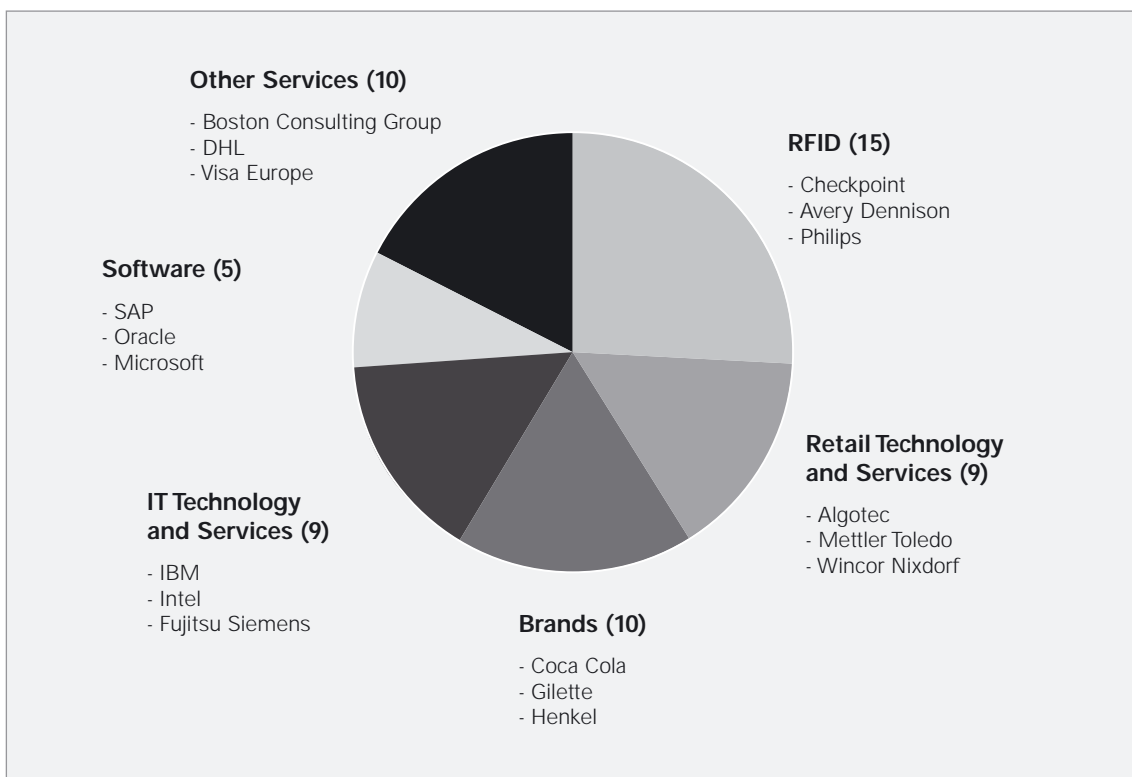


Figure 3: Type and number of partners in the FSI (May 2005)

Having decided on the basic three-tier structure of the alliance network, partner identification and recruitment was the next crucial step. It was imperative that METRO Group's partner network consisted of not only the best talent in their respective fields, but also that they'd follow through on their commitments to the project. This was achieved by adhering to a few essential principles of partner selection.

First, nearly all the original participants had long-standing personal relationships with the Initiative's leadership team. These were relationships that were forged over decades of working together in the German retail market and were based on mutual respect and trust. Moreover, many of the participants had similar relationships with other partners that METRO Group recruited, so the initial FSI team resembled a web of personal relationships, all converging on the METRO Group leadership team and interconnected amongst each other. In the event there was no pre-existing personal relationship with certain types of firms, such as RFID chip manufacturers, METRO Group looked to the inner circle of partner participants to reach-out to vendors that they maintained a close relationship with and who had earned a certain level of trust. In the RFID example, METRO Group relied on FSI gold partner Philips to recruit Avery Denison, one of the world leaders in RFID technology.

Second, for most partners METRO Group is a significant client. It is one thing to build a network of personal acquaintances that you know and trust, but those individuals need to maintain the support and commitment of their employers to make the project succeed. In this case, given METRO Group's size and outstanding reputation, companies were predisposed to support the project. And once engagement had begun they were under pressure not to disappoint a critical customer. Even though the FSI was separated completely from all other business deals between the partners and METRO Group, it was still a "METRO Group project" and it had the visible support of its most senior executives.

Third, METRO Group recruited partners to take on very specific, pre-defined roles within the Future Store. Given the ambitious scope of the Future Store Initiative, it was inevitable that many partner companies would be competitors. Because of the short time line before launch, it was also important to keep partners keenly focused on successfully completing their project as quickly as possible. By creating clear partner swim lanes METRO Group was able to mitigate internal competition within the network and maintain a laser focus on project completion. The FSI's core partner team of Intel, SAP and IBM are essentially non-competitive and were thus able to stake out their critical project areas at the beginning. Thereafter, partner companies would be presented with a specific opportunity to participate the FSI, such as providing the database infrastructure to the project (Oracle) or supplying the dock-door RFID readers in the back of the store (Intermec).

Finally, each participant company was asked to make a financial contribution to the joint development and marketing of the Future Store, in addition to the costs of employee time and physical products contributed. This way, METRO Group was able to ensure that each partner had "skin in the game." Because the partner companies came in all shapes and sizes – and the scope of their projects could differ immensely – the corresponding costs and benefits would go up with each level of the program.

By the summer of 2002 the METRO Group Future Store Initiative had a clear vision, executive sponsorship, and a solid and trustworthy partner network ready to make the project a reality. Before the team could start collaboratively building the future, the rules of the game had to be established. METRO Group didn't want the Future Store to be a flash-in-the-pan project, but rather a journey of discovery and innovation, and many partners had been sold on this idea as well. If that were to be achieved the partner network would change over time and conflicts were bound to materialize. To most successfully direct the creation of the Future Store and manage its development over the years, a clear and consistent partner network governance structure would need to be implemented.

IV. Governance of the Future Store Initiative

Key Points:

- METRO Group is the final authority
- Ensure adequate partner representation
- Project structure developed organically
- No detailed contracts

With a partner network so large and diverse and an objective so ambitious, project management would be critical to success. METRO Group needed a partner governance structure that provided clear and effective leadership, facilitated communication and collaboration between partners, and allowed for a system of vetting new ideas as well as resolving internal disputes.

The FSI partner network was managed by a combination of strong, centralized leadership, a hierarchical partner committee structure with clearly defined roles and responsibilities, and a standard Memorandum of Understanding (MOU) required for participation. The most critical governance feature of the FSI was the undisputed leadership role of the METRO Group. METRO couldn't create the Future Store without partners, but it was still *their* project nevertheless. The final authority in all decisions – accepting or denying new partners or store projects and in adjudicating disputes – would reside with METRO Group only.

It was incumbent upon METRO Group to wield this authority judiciously. This required a clear governance structure that assigned roles and responsibilities to the constituent partner participants and enabled METRO to manage the partner network throughout the course of the project (see Figure 4). The structure developed was hierarchical in nature, with METRO Group at the apex.

The central planning and leadership group of the FSI is the Executive Committee. Membership in the Committee is limited to the METRO Group FSI leadership team and designees from each of the platinum partners: Intel, SAP and IBM. The primary responsibilities are admitting new partners to the network or dismissing partners as necessary. It also reviews and approves major financial outlays as recommended by the Marketing Committee.

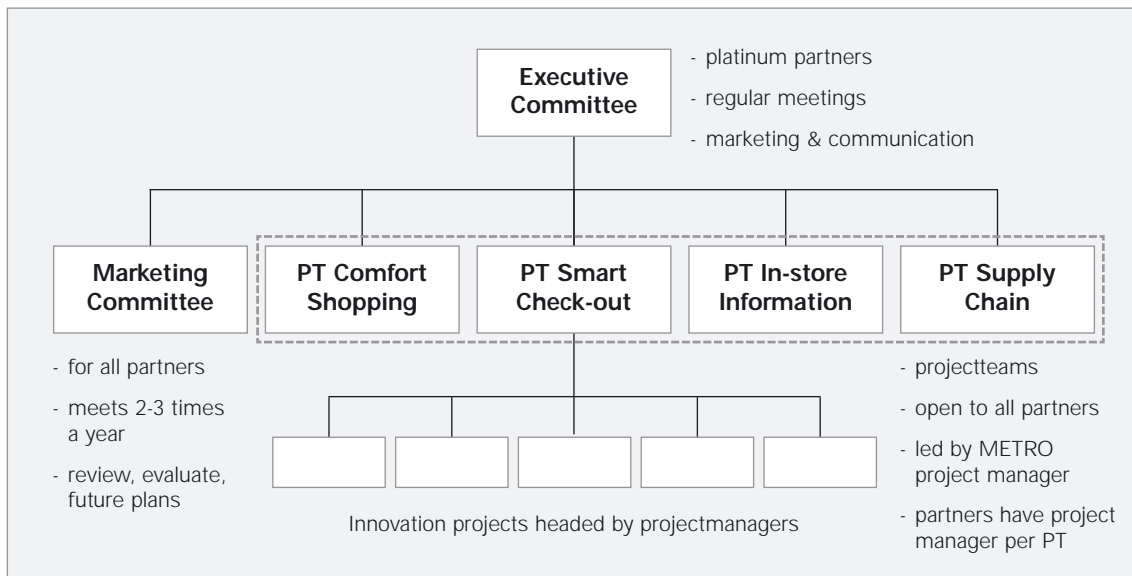


Figure 4: Structure of the Future Store Initiative

For the rest partners are responsible for their own expenses and investments in the store. All partners are invited to the two or three annual meetings of the Marketing Committee. This committee reviews and evaluates progress and METRO Group shares its future plans with partners there as well. Next there are four project teams, each dedicated to one of the four specific areas of innovation in the Future Store: comfort shopping, smart check-out, in-store information and supply chain. A METRO Group project manager heads each project team. Partners involved in these project teams have project managers that attend the meetings of the project teams. The project teams coordinate the separate innovation projects that are implemented in the store. Each of these innovation projects has a project manager as well. The different projects are set up to be run as independently as possible.

This structure co-evolved with the growth of the project. Clearly the role of METRO is more than that of first among equals. METRO representatives occupy key positions in the FSI and METRO Group's authority is acknowledged. However, various partners report that METRO takes into account the interests of the partners. They are looking for joint benefits to be realized, not just to advance METRO Group's position.

The structure is supported by contractual agreements between the partners. Partners sign a Memorandum of Understanding (MoU) and a Non Disclosure Agreement. Both only cover high level issues. Here are some of the highlights:

- Vision. The Memorandum describes the spirit and vision and does not specify in detail what each partner contributes and gains.
- Basic resource commitments. Partners must commit resources to the project. They must make a financial contribution to the Initiative's fund, and must specify individuals responsible for carrying out projects. The extent to which they want to make further contributions is left up to them.

- No exclusivity. Competitors may enter the network and partners may enter into similar relations with other companies.
- Ownership of knowledge. Proprietary knowledge brought into the project is to remain proprietary. Lessons learned by partners are free for them to use in any way they see fit. Confidential knowledge is protected.
- No end date is set.

The simple MoU ensures that the vision, rather than the contract, is leading and that operations adapt flexibly to changing circumstances. The simplicity of the agreement does not mean there is not much at stake. On the contrary: the resource commitments the partners make tend to be substantial and in most cases go beyond what is specified in the MoU.

A clear separation is made between innovation in the FSI and the possibility of a rollout of technologies at a later date. Of course METRO aims to roll out successful technologies to their other stores. There is no guarantee that a partner who is involved in the FSI also becomes a partner in the rollout. The FSI is strictly oriented towards innovation.

Project snapshot: Smart shelves

Perhaps least visible for the customers, but with an important impact on the service level, a number of RFID applications are used in the Future Store. One application only involves just a few products, but holds interesting promises. A small number of products, including shampoo and razor blades, have RFID tags on each item. When only a handful of those products are left on the shelf, a store assistant receives a message on his PDA that it is time to replenish the in-store stock. This should make empty shelves a thing of the past. The shelves also register when a product is misplaced.

V. Creating the Future Store: meeting deadlines...and Claudia

Key Points:

- Very tight deadlines
- Community building
- Connecting the right people
- Ensuring vitality

With the initial partner network recruited, the governance structure defined, and the store platform identified, METRO Group was ready to roll-up their sleeves and get to work creating the store of the future. Rather than take a cautious step-by-step approach, METRO Group took a huge risk in setting a highly aggressive project timeline and ensuring that the Future Store launch would be a major media event. This led to a pressure-cooker effect: the tight deadlines created an atmosphere in which collaboration thrived. It had to, because they could only make the deadlines by collaborating.

By September 2002 METRO Group had identified an Extra Mart store in Rheinberg as the venue for the Future Store. It was a store that had been operated by METRO Group for decades and already had a large and loyal shopper base. This shopper base was attractive because it would provide a strong benchmark to measure any significant gains in customer loyalty and profitability. Moreover, the store was located relatively close to corporate headquarters in Düsseldorf and it was already in the pipeline for a major facilities upgrade.

The project started in September 2002 and the launch of the store was set for April 2003. This was a very ambitious schedule as in this time an existing METRO store had to be completely stripped and filled with technologies of which it was not sure they would work. To add to the pressure METRO Group planned a very high profile launch, involving German supermodel Claudia Schiffer to open the store and use some of the new technologies. This was guaranteed to attract major media attention and hence failure was not an option.

This pressure together with the vision of creating the store of the future combined to create a community feeling in the project. Almost all the people interviewed noted the special atmosphere, fun and excitement of being involved. This atmosphere built on previous relations between partners, but was intensified during the seven months of intensive collaboration. The community culture that emerged greatly facilitated progress.

Next to this informal aspect, the overall structure, meetings and deadlines were necessary to maintain progress and coordinate the abundance of different initiatives. The project however was not overly structured. In fact there was no detailed planning up front. One manager from outside Germany commented that this was related to the German way of doing things: rather than structuring and planning upfront, there was a very rigorous attention to operations and getting the details right. In this way, FSI was able to strike the balance between the necessity of structure and the necessity of self-organization that characterizes innovation projects.

But self-organization has its limits. Before February 2003 there was no system integrator and increasingly problems occurred with tying all technologies together. In that month IBM was nominated to fulfill this role. A lesson learned here is that some basics need to be defined in order for companies to be able to collaborate. Not everything can be expected to be dealt with by partners getting consensus. As METRO Group is not an IT-company it is not able to decide on many technology issues, which a system integrator can decide upon. A clear division of responsibilities based on each company's competencies, is necessary.

Next to coordination around IT, another necessary condition for meeting the deadline was connecting the right people. How to ensure that someone facing a problem could rapidly find the right person to solve the issue? One instrument for this was a website which listed the competencies of all partners involved. This made it possible for partners to find the right company and person to work with in a short amount of time. Specifically for consumer good producers who are not knowledgeable about RFID, information packages, newsletters and a RFID hotline have been set up. These companies can also make use of a pool of RFID experts, which help them with implementing RFID in their organization. Again this enhances the sharing of expertise, necessary for a speedy implementation of new technology.

After all the hard work and sleepless nights, the store opened 28 April 2003. Claudia Schiffer using the self check-out is an image few Future Store partners will forget. Some sighed with relief that the technology worked and tired, but satisfied, they could celebrate one of retail's most exciting innovations in years.

The opening was not the end of the Future Store partnership. Continuous innovation is on the agenda. One challenge for a network like this is to remain vital. Companies worked towards the launch in April 2003 with great zeal, but would they be able to maintain that dynamism and enthusiasm later? Here is what METRO Group does to keep the network vital:

- Set new challenges. One of those was to present the Initiative at some of the major retail conferences in the world. To ensure a mind-blowing and top notch presentation, including creating a booth for trade fairs, brought new energy to the alliance. Likewise, the creation of an RFID center for METRO Group to showcase the technology, brought energy to the partners involved in the various RFID projects.
- Introduce new partners. By bringing new blood into the network, new ideas are generated and existing partners wake up to the reality that there is no time to rest on their laurels. Instead it signals that innovation is continuous, that further improvement to technologies must be made and new technologies need to be developed.
- Exploit co-opetition. The presence of competitors has a similar effect. When a company sees one of its competitors actively innovating, that company will want to get going too.

VI. Value creation: where's the cash register?

Key Points:

- Technology learning
- Business learning
- Access to a network
- Marketing impact
- Technology usage high across demographic groups

There are several ways to define “success” at the Future Store. For instance, have partners successfully designed and deployed a new technology in the store? Have any innovative new technologies been developed because of partner collaboration and real-life experiences at Future Store? Have the participants gained mindshare as global leaders in defining the future retail environment? Have the partners been able to take their Future Store-based solutions to market and reap some financial return on their investment? Lastly, and most critically, has the new technology led to more profitable customer behavior? To provide a balanced view of success at Future Store, we’ve assessed results across three broad categories: technology development; marketing; and customer adoption and behavior.

The development and deployment of technology projects at the Future Store has been, on the whole, quite successful. Leading up to the launch of the Future Store in 2003 the only technology project that failed was the attempt to install a wireless navigation network for directional feedback into the personal shopping assistant. Otherwise, all projects were deployed on time and as intended. The partners have also learned about the way technology impacts business. For technology companies that is very important because it enables them to present a better business case to their prospective customers.

Smaller companies specifically mentioned that an important source of value for them is the access to a network of partners. They are now on the radar screen of partners they would not have met otherwise. A number of FSI partners have now joined forces in projects outside of the Future Store Initiative.

A major objective of the Future Store Initiative – both for METRO Group and many of their partners – was to position the participants as thought-leaders in defining the future of retailing. All participants that considered gaining mindshare to be important have rated the marketing benefits of the Future Store to be extremely positive. METRO Group succeeded in generating an extraordinary amount of media coverage of the Future Store. The launch of the Future Store was reported from California to New Zealand. METRO Group followed up the launch with a major presence at the National Retail Federation (NRF) in New York, the largest retail technology trade show in the world.

A total of 540 articles appeared in the press dedicated to the Future Store Initiative ; 81% of those articles had the Future Store as their exclusive topic and 73% appeared in the general press reaching a very broad audience. The marketing impact of the Future Store Initiative ⁴ has exceeded all expectations and ranks as perhaps the greatest partner benefit across the board.

The results thus far on customer adoption and its impact on customer behavior have been inclusive. One year after the launch of the Store, the Boston Consulting Group conducted primary research on the technology adoption by the Future Store customer base. This research gave insight into the extent customers' use the new technologies available in the store and their satisfaction with those technologies. Overall, the vast majority of Future Store customers have used some new technology at some point (Figure 5). However, the usage and perceived value of different technologies varies greatly from project to project (Figure 6). A promising finding of the research was that regular customers tend to use the technologies more often and consider the technology of higher value than other customers, with the trend rising with usage.

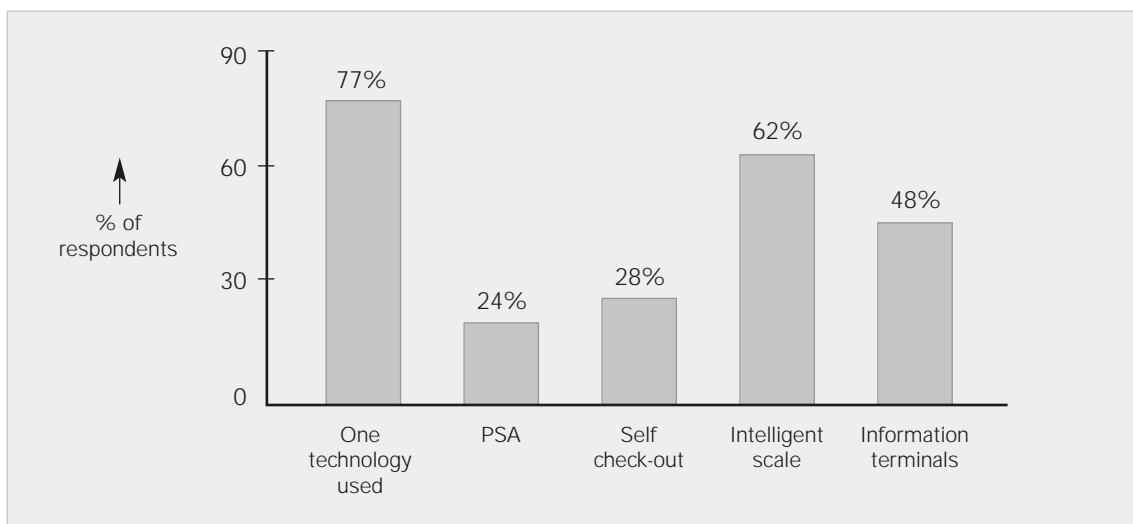


Figure 5: Use of the new technologies ⁵

Another encouraging sign is that perceived value of most new technologies is quite high, with less than 20% of users seeing little value in the technology. Based on customer feedback technologies are continually adapted and improved, in order to better meet customer demands. In general these results are encouraging. They indicate that METRO Group's core customer base is adopting the new technology and that they view the offerings as adding value. The long-run effects on profitability still need to be measured.

4) METRO Group Future Store Initiative, Partnermeeting, 24 May 2004.

5) METRO Group Future Store Initiative, Customer Acceptance of FSI Applications, Market research results, October 2003.

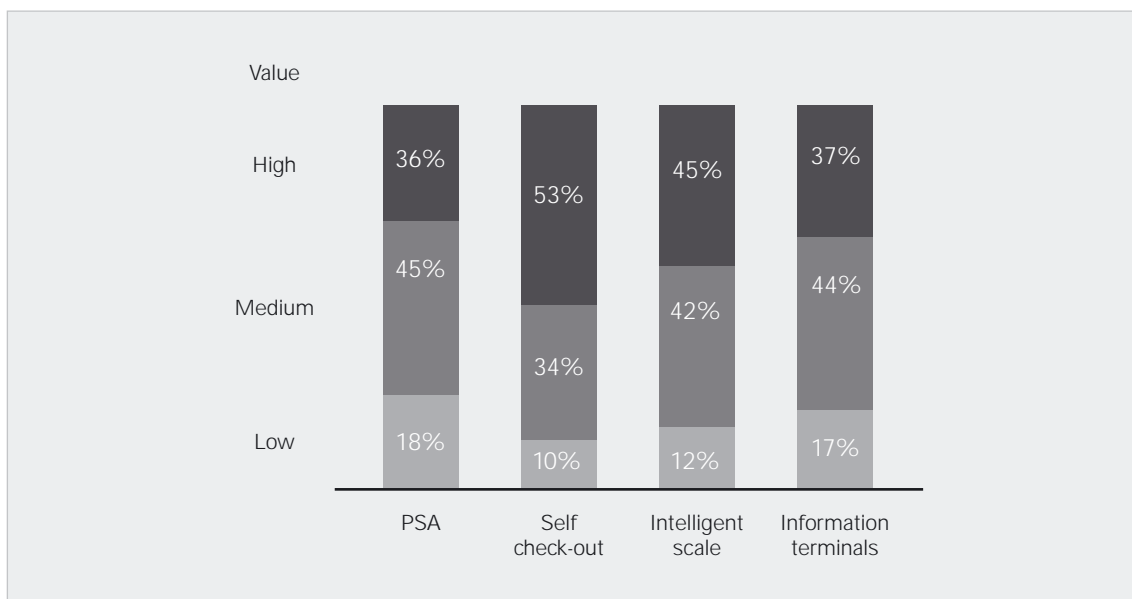


Figure 6: Customer value rating of new technologies ⁶⁾

Is it all positive then? Even though all partners in the Initiative state they do not regret having participated and would probably do it again, there is some room for improvement as well. Not all partners are satisfied with the data generated by the FSI and the access they have to those data so far. The emphasis of the Store has been more on marketing than on researching data. The general public has made use of the technology, but there is a small but vocal opposition movement, which is concerned with privacy issues (data protection) and health issues (to what extent does lengthy exposure to radio signals affect the health of people). And finally, some partners would have hoped for a more tangible pay off by now, next to the learning and marketing exposure. Not all partners have been able to exploit their lessons learned in the market.

How sustainable is the value created by the alliance network around the FSI? Time will tell. The FSI has no official end date. Currently innovation is more incremental than radical, but still value is created. The Store may remain a good testing ground for a number of years more. It is unlikely that a competing store will be set up. This would have to involve almost all the same players in the industry, who would have nothing new to learn from a competing Future Store. Even though there is no exclusivity and partners are allowed to do similar things with METRO Group competitors, business logic dictates this won't happen. METRO Group has created a unique position for itself.

⁶⁾ *Ibid.*

VII. Findings

The METRO Group Future Store is still – as was intended – a work in progress. New companies continue to join the Initiative, while others scale back or exit altogether. Yet, during the course of our study a number of salient themes and lessons emerged, many of which are broadly applicable to team building and alliance management.

We have identified a number of critical success factors that enabled METRO Group to successfully develop, launch and maintain the Future Store Initiative. In addition, we have captured some key attributes of the most satisfied partners in the network, which should help in future participant recruitment as well as providing existing partners some ideas to maximize their return on investment. Finally, we have highlighted some ongoing challenges that METRO Group and the partner network leaders will need to address if the Future Store is to achieve its original lofty goal of redefining retailing for the 21st century.

Critical Success Factors for METRO Group

To the extent that METRO Group was successful in recruiting and managing a large and diverse partner base to create, launch and maintain the world’s premier future shopping experiment, several critical success factors had to be met.

“The Vision” thing

Perhaps the most fundamental success factor for METRO Group was their ability to clearly articulate their motivation and mission in establishing the Future Store Initiative. The central desire to create and serve a highly loyal, high margin customer base through a one-of-a-kind shopping experience drove the entire project. Because the Future Store was built to support the strategic direction of the entire corporation it had to have the enthusiastic and visible backing of the most senior executives in the company, which it did.

Keep it in the family

There are many occasions when it is advisable to expand your horizons by traveling to far off lands and engaging with new people. The attempt to create a new and complex store that will set the strategic course for your multi-billion dollar corporation isn’t one of them. METRO Group profited greatly by hand selecting partner companies and individual participants from those companies that they knew well and trusted.

Clarity of leadership and roles

There was never any question of who was calling the shots at the Future Store Initiative. Partners played a critical role in developing the technologies and funding the initiatives, and some heavyweights like Intel, IBM and SAP sat on an executive committee, but from beginning to end it was METRO Group’s project. METRO Group used this position to clearly and fairly allocate projects and adjudicate disputes, not to exploit partners. The establishment of a clear leader with ultimate authority over the project and the assignment of specific roles to be filled by each partner mitigated infighting and redundant efforts within the network.

Be Unreasonable

The Future Store was successfully opened after barely six-months of work out of sheer necessity. All participants knew that on April 28th 2003 there would be dozens of television cameras and an internationally recognized supermodel at the front door waiting to come in. And the executive leadership from METRO Group – your client and good friends – would be with them. Failure to meet the deadline wasn't an option. The pressure cooker environment melded the participants into a tightly bound community all working together for a common goal. Titles and company affiliations faded away. All that mattered was meeting a deadline that seemed unreasonable.

Keep it simple, stupid.

METRO Group wisely avoided complex legal agreements and arduous negotiation processes. The establishment of a partner network program with clear levels, criteria, benefits and contracts smoothed the process of recruitment and retention and allowed everyone to concentrate on the vision, be thorough in operations and ensure collaboration through other than contractual means.

Failure can be success

METRO Group and their partners accepted the fact that not everything they tried would work as hoped or intended. They recognized that during the process of innovation some ideas may fail. This doesn't mean that the process or case study is a failure. In fact, the discovery that a certain concept or idea doesn't work is a critical and important finding. After all, it is much better to learn early on in a limited exposure environment. One might argue that a sign of failure in innovation is when all experiments work. In that case, you might need to start being a bit more daring.

Innovation is a journey, not a destination

METRO Group began the Future Store Initiative with no clear expectations on how or when it would end. Once the Store was launched they were receptive to new participation in the belief that new ideas should always be encouraged and accepted. Over the past year some initial partners have fallen by the wayside, while some other major participants have signed on (most notably T-Systems and Microsoft). The Store continues to operate, evolve and grow.

Critical Success Factors for Partners

We were overwhelmed by the positive response about the Future Store Initiative we received from the partner participants. During the course of nearly twenty-five company interviews only one hinted that they wouldn't participate if they could do it all over again. For several, their biggest regret was that they didn't get involved earlier and at a more significant level. Many of those "highly satisfied" partners expressed similar reasons for their satisfaction.

Clear alignment of corporate strategies

METRO Group's objective of positioning itself as the global leader in retail service technology resonated with many partner companies. For some partners the whole Future Store concept fit very well with existing corporate initiatives. Cisco's Ronald van Zanten noted that "FSI filled the gap between our own R&D and the early learnings from (pilot) implementations. Cisco had identified retail as a spearhead so this

opportunity matched our priorities seamlessly.” Those companies for which FSI fit with their overall strategy got more out of the experience. METRO Group and a number of key technology partners were able to leverage each others corporate objectives to their mutual benefit.

Know what you want

Even if a partner company didn't have a major future retail initiative in-house, it could still profit greatly from the experience if they had a clear view on what value they wanted to get out of the Initiative. In the case of Mettler-Toledo, a global leader in weighing scale manufacturer and the maker of the intelligent scale at FSI, they used the opportunity to redefine their company in the eyes of the grocery community, which had been their customer for over a century. According Peter Laudien “Mettler-Toledo is a world leader in retail scales, but our product was viewed as a ‘dumb’ weighing device...we wanted to position ourselves as an intelligent IT device company that just so happens to provide weight.”

Go with the flow

The willingness and ability to adapt to changing circumstances and meet last minute requirement changes was an absolute necessity to succeed in this alliance. During the course of the Initiative, and especially leading up to the launch of the Store, many unexpected issues came up and partners had to be very creative in meeting deadlines. Flexibility was a necessity.

Technological expertise

The partner community will only take you seriously when you have something to offer. Being an interesting partner, means bringing something good to the table. And when you bring something good to the table, people will want to collaborate with you.

Ability to reap value of FSI

The FSI allows companies to reap many different kinds of value. Some companies make more use of the possibilities offered than others. For example, the store has proven to be a great tool for showing clients or partners what the impact of technology can be. Some companies show companies around the store regularly, others hardly ever. In alliances of this kind, value does not flow to your company automatically. You have to go out and get it.

Network the partner network

A major value many partners derived from the Future Store experience was the ability to develop strong relationships with other partners. The fact that a company collaborated with certain companies at the Future Store does not guarantee that they will work together in a later deal, but it certainly increases the odds, and many partners recognized this as a significant benefit.

Challenges and Dilemmas

For all the many things METRO Group and the Future Store Initiative got right, there are a number of areas that could be improved and still others that are likely insoluble. Managing these dilemmas may be the ultimate success factor for the FSI.

Structure versus flexibility

Some structure is needed, but you can't organize innovation in detail. The way to manage this dilemma appears to be to structure the basics and next ensure that the incentives are structured in such a way that everybody knows what to do even without elaborate decision-making processes. Without some structure, an alliance network may get stuck. For example, with nominating IBM as system integrator at so late a stage, METRO Group erred on the side of too little structure. Still it is not easy to manage this dilemma. In practice, the structure needs to be continuously adapted: the governance structure co-evolved with the growth of the Initiative.

Managing a community and innovation

The advantage of a community is that knowledge sharing takes place and that it moves fast. But a community may also become inward looking and 'lazy'. As we have seen setting new targets, bringing in new partners and making the most of co-opetition can avoid complacency. At the same time these three mechanisms may destroy a community. How many partners can you add to a network, before the community feeling is lost?

Being a partner and a leader

METRO Group clearly is the leader in the alliance network, but it also is a partner. As a leader it has its own interests, but it also needs to maintain the partnering aspect. METRO Group has been able to manage this by keeping the focus on learning in mind and by separating the direct business interest from the innovation project. Nonetheless, tensions occur between the roles of leader and partner.

Keeping first things first

One success factor of the FSI was the clear purpose and its centrality to METRO Group's corporate vision of establishing an intensely loyal, high margin customer base. The Initiative was explicitly not about new technology for technology's sake. That said, over time METRO Group and their partner network have struggled to quantify their progress toward this main goal and much of the focus has been channeled toward making the technology work. If the Future Store is going to be a strategic success there has to be more work done in analyzing and understanding the cumulative effects of projects on customer behavior.

The free-rider effect

The Future Store has been a marketing success beyond all expectations. Not surprisingly, FSI partners have accentuated their participation in Future Store to leverage the global exposure generated since the launch. Some partners, especially those that were highly active very early and made comparatively big commitments, feel that late joiners are stealing their thunder. In many ways, this is the downside to the Initiative's programmatic flexibility. So, how can METRO Group balance partner seniority and efforts in the Initiative while still attracting new participants that will seek to maximize the perception of their role in the Future Store?

Public perception of RFID

The development of RFID capabilities and industry standards are fundamental to the Future Store Initiative. Yet, public backlash led by a few consumer advocacy groups in Germany essentially forced RFID technology out of customers' hands and compelled METRO Group to focus on the implementation of RFID in the back office supply chain. If the FSI is to fully achieve its potential, METRO Group must promote public acceptance of RFID technology and work to demonstrate the benefits to consumers that come with no loss of privacy.

Getting tangible return-on-investment

All partner companies joined the Initiative knowing that there was no insurance on a financial return. METRO Group made no commitment to buy their products or services. That said, they all hoped that there would be a tangible return at some point in the future. A number of participants anticipate selling Future Store-based solutions in 2005 to METRO Group and other clients. Most partners noted that they regard their participation in Future Store as a success no matter what happens next. However, if over the next years no partners reap a financial return it could have negative consequences on continued participation in the project or willingness to engage in similar initiatives in the future.

Project snapshot: Self check-out

Even though traditional cashiers are still present, customers may also opt for self-checkout. Another possibility is to give the PSA to the cashier. As the PSA shows what a customer put in his shopping cart and the total of purchases made, it is convenient to check out in this way. No need to empty the shopping cart, no need for the cashier to scan all the items. Queues are history.

Appendix: FSI partners as of May 2005

Name	Category
ADT	Technology RFID
AlgoTec	Technology Retail
alpha	Brands / Service Retail/Logistics
Avery Dennison	Technology RFID / Technology Retail
Boston Consulting Group (BCG)	Service Consulting
Bizerba	Technology Retail
Checkpoint	Technology RFID / Service Retail/Logistics
CHEP	Service Retail/Logistics
Cisco	Technology IT
Cittadino	Service IT
Coca-Cola	Brands
DHL	Service Retail/Logistics
Eyckeler & Malt	Brands
FEIG	Technology RFID
Fujitsu Siemens	Technology IT
Gillette	Brands
Henkel	Brands
Hewlett Packard	Technology IT
Hintzpeter & Partner	Service Retail/Logistics
IBM	Technology Retail / Service Consulting / Technology RFID
Intel	Technology IT
Intermec	Technology RFID
Johnson & Johnson	Brands
Kraft Foods	Brands
Kurt Salmon Associates	Service Consulting
Liebherr	Technology Retail
Logopak	Technology RFID
L'Oréal	Brands
Loyalty Partner	Service Retail/Logistics
Mettler Toledo	Technology Retail
Microsoft	Software
MultiQ	Technology IT
NCR	Technology Retail
Nestlé	Brands
OATSystems	Technology RFID
Online Software	Software
Oracle	Software
PAXAR	Technology RFID
Philips	Technology RFID
PIRONET NDH	Software
Procter & Gamble	Brands
SAP	Software
SATO	Technology RFID
Siemens Business Services	Service IT
Sonopress	Service Retail/Logistics
Symbol	Technology Retail
T-Systems	Service IT
Tomra	Service Retail/Logistics
Toshiba	Technology RFID
Tricon	Technology RFID
UPM Rafsec	Technology RFID
Visa Europe	Service Retail/Logistics
Wanzl	Service Retail/Logistics
Wincor Nixdorf	Technology Retail
WMS	Service Retail/Logistics
X-ident	Technology RFID
X3D Technologies	Technology IT
Zebra	Technology RFID

