

# Innovation Differentiates German Retail Giant Across all Business Divisions

## Executive Summary

**CUSTOMER NAME**  
METRO Group

**INDUSTRY**  
Retail

### BUSINESS CHALLENGES

- Continue international expansion into Eastern Europe, China, and India
- Accelerate innovation and embed an innovations culture across the Group
- Improve performance of stores in saturated Western European markets

### SOLUTIONS

- Extensive survey of employee attitudes to identify barriers to innovation
- Governance structure to capture and develop ideas from all parts of the business
- Collaboration and communications infrastructure for open exchange

### BUSINESS RESULTS

- Clear, corporate definition of innovation is shared across all business units
- Innovation is embedded in the overall company strategy
- Innovation portfolio is included in the quarterly business review
- Next-generation Future Store Initiative embraces environmental concerns

METRO Group is the world's third-largest retailer, with ambitious growth plans in Europe and Asia. A pioneer of advanced retailing technologies, METRO is harnessing the creativity of its workforce to empower employees and become an innovations powerhouse.

## Business Challenges

METRO Group, Europe's second-largest retailer, is a US\$75 billion company that employs 270,000 people and operates 2,400 outlets in 32 countries. The group has an impressive portfolio of sales brands: Metro Cash & Carry; Real hypermarkets, Extra supermarkets; Media Markt and Saturn (consumer electronics and home improvement centers); and Galeria Kaufhof (department stores).

Each business unit operates under separate management and has a distinct culture. The businesses are supported by service companies that combine their resources in procurement, logistics, IT, advertising, real estate, catering, and invoice settlement.

In the wake of its Future Store Initiative, where companies from the retailing, consumer goods, and IT industries tested new ideas for tomorrow's retailing, METRO recognized a need to transcend technology-centric innovation and move toward deeper transformational goals. Differentiation was seen as the key to future growth, especially in the mature, saturated markets of Western Europe. The Group, however, lacked a transparent and flexible process to capture the creativity of employees and translate good ideas into real business results.

## Solutions

METRO Group began its transformational journey six years ago, seeking business improvements in the organization of the workforce and inviting suppliers to come forward with innovative ideas to enhance the retail experience for customers. While helping develop a group employee



portal, enabling virtual networking and workplace collaboration, Cisco® also participated with more than 60 technology partners in the Future Store Initiative at Rheinberg, a small town in the district of Wesel, in North Rhine-Westphalia, Germany.

This was an experimental environment for testing technology-based ideas in a supermarket setting that, if successful, would be rolled out widely. Opened in 2003, the Future Store featured many innovations such as a “smart scale” weighing machine with a built-in camera, a self-checkout system, and new customer information terminals offering content on the origin and nutritional value of foods as well as recipe and wine suggestions. The company opened an innovation center in Neuss, also in the same district, in 2004, to extend its use of RFID tags in the supply chain to warehouse management and department stores.

While the Future Store Initiative generated excellent business and marketing opportunities and pushed METRO into the international spotlight, by 2005 it was clear that further change was required to establish innovation as a comprehensive and holistic process. Group CIO and Board Member Zygmunt Mierdorf recalls: “People were so locked into their business philosophy that even if you were to take them away from their day-to-day activities, they would still have a problem breaking down their mental picture of the existing business to come up with something new.”

METRO therefore sought a structured framework to embed innovative thinking into the company and provide effective management of new initiatives. METRO launched a Network Accelerated Innovation program, incorporating key concepts from Geoffrey A. Moore’s book *Dealing With Darwin: How Great Companies Innovate at Every Phase of Their Evolution*. The goals were to speed up innovation to increase sustainable differentiation and growth, establishing a culture of innovation and enhancing competencies; to increase speed of adoption for proven innovations, with a clear, measurable process and a strong governance structure; and to assess opportunities for applying the innovation process in an open way across the business.

The first phase involved an extensive schedule of interviews across the business units and four service companies to build a three-dimensional picture of what innovation meant to key employees, and how innovation might be inhibited by business assumptions. Some 175 people took part, and the results were revealing.

Analysis showed that while there was a lot of commercial and technological creativity in the constituent companies, people were not at all clear what business innovation meant in the larger sense. Nor was there any machinery to connect this unfocused creative energy with the disciplined and standardized modular approach to expansion that has underpinned METRO’s successful growth in new markets.

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Zygmunt Mierdorf  
Global CIO and  
Board Member  
METRO Group

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Zygmunt Mierdorf  
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Board Member  
METRO Group

The study revealed that METRO was adept at introducing smaller, incremental innovations, but the deeper processes of “disruptive” innovation—transforming processes and creating new business models—were beyond the reach of the existing company structure. Detailed discussions followed with key people in the business units, guided by the shared framework of “situational innovation,” which positions business initiatives in a developmental matrix, enabling senior management to define initiatives that have the greatest potential for revenue and growth.

Mierdorf emphasizes the importance of a strong collaboration and communications infrastructure as the enabler for lasting innovation. “We have a technology platform with a single source of tools, so we give clear guidance, advice, and information to our people. The technological foundation is extremely important to bring people together in an efficient way and with a clear structure.”

## Business Results

One of the first breakthroughs for METRO was to arrive at a clear and common definition of innovation to which all parts of the company would subscribe: “To be the first and the most effective in making change by introducing something new that adds sustainable, differentiated value to customers.” An accepted form of words across the whole company, pinpointing aims and objectives, was essential to moving forward from the phase of debate and discussion inspired by the innovation survey.

In 2004, METRO Group’s management board set up the Global Leadership Council (GLC), a forum that includes METRO Group board members, senior representatives from the boards of the group companies, and the [Cisco Internet Business Solutions Group \(IBSG\)](#). The council focused on the Advanced Retailing Initiatives and the technology innovation phase initially, but has since extended the agenda to sustain momentum with the entire group and keep innovation a top priority in all the operating and service companies.

For example, METRO Group Information Technology GmbH (MGI), METRO’s IT services provider, now includes an innovations focus in its annual planning meeting with other Group companies, and each business unit provides innovations updates in their quarterly reports. In addition, the quarterly review for the METRO Group as a whole includes a dedicated section on innovation—a further opportunity for top holding-company executives to review progress centrally, and a strong endorsement of the importance the supervisory board attaches to innovation.

METRO plans to appoint a chief innovations officer as a group coordinator and catalyst for change. Working with the corporate development team, the appointee will encourage innovations groupwide and act as a change-management officer. Mierdorf wants most of the ideas to come from the business units; only major changes in business models will be handled centrally. “We have thousands of people working in different countries; they listen to our customers every day and

get a lot of input,” he explains. “They have great ideas, and we are finding a way to capture these ideas and transform them into business solutions.”

At the same time, the business units have distinct characteristics. METRO Cash & Carry is a wholesaler with a focus on execution; Extra and Real both have a disciplined retailing ethos. Media Markt and Saturn give more entrepreneurial leeway to its managers, who have part ownership in their stores. Kaufhof emphasizes personalized customer service and shopping as an event.

The common innovation framework is being embedded in the culture of each business unit to encourage employees to take ownership of the process. “We have tried to build a single model, and a model which is adaptable and flexible enough to be adopted by our different sales lines because they have different cultures, different hierarchies, and different markets,” says Dr. Gerd Wolfram, managing director of MGI.

Measuring the impact of individual innovations is relatively simple for, say, a new customer convenience concept applied in just one department, but Mierdorf counsels against overformalization of the process early on. “As soon as you start to measure the result of innovation, the process becomes less dynamic,” he says. “If you try to run a financial model behind your innovation process, it becomes subject to the usual checks and balances. Great innovations need a bit of time, some trial and error.”

While METRO acknowledges that building and managing an innovations culture is a long-term process, the company’s public commitment to innovation has helped put it on the map internationally and has attracted political interest at home. Innovation is now acknowledged by many German politicians as a key factor in the national strategy to restore the country’s competitive edge and lift it out of potential economic stagnation—with METRO’s approach cited as a leading example of the way forward.

## NEXT STEPS

When METRO launches the next generation of its Future Store Initiative, the new project is expected not only to embrace technological innovation aimed at differentiation and growth, but also to emphasize environmental sustainability. Applying innovation to meet METRO’s high standards of corporate social responsibility, while linking those standards with the public in mind to the widespread rise in consumer demand for “greener” business, are among the promised benefits of the Group’s expanded innovation strategy.

The next step for the governance structure will be to lessen the emphasis on IT and administrative staff and bring more commercial managers into the GLC, in line with the goal to extend innovation beyond technology. Persuading dedicated commercial staff to step back from their commitment to day-to-day operations and to start working more as future strategists through the innovations process is expected to present a challenge, but will ultimately yield great rewards.

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Dr. Gerd Wolfram  
Managing Director  
METRO Group  
Information  
Technology GmbH

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### More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps Global Fortune 500 companies and public organizations transform the way they do business—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that improve customer experience and revenue growth.

For further information about IBSG, visit <http://www.cisco.com/go/ibsg>

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