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Retailers' Assessment: Guidelines for Open Innovation Partnerships

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Preface

Since the beginning of this semester, when I started an internship in the area of innovation management, the topic of Open Innovation, that was new for me at that time, increasingly gathered my attention. Actually, I got the internship through an Open Innovation project between the company and my university. Although I was very happy, I kept asking myself: does the company really want to have inexperienced students working in such kinds of projects? Well, now I can understand that some valuable work can be done through this kind of partnerships, with value creation for both sides.

I would like to primarily address my deeply gratitude to my academic advisor Professor Céline Abecassis-Moedas and to my internship advisor and director Dr. Marta Cunha, for all the time, availability and for all I have learned with them, that made it possible to develop this thesis.

Secondly, I would like to thank my family, for all the patience and support they gave me during this intense period of work and also for always relying on me. Finally, to all the friends that directly or indirectly contributed for my motivation and supported me during this period, I thank all the cheerfulness and important happy times we spent together during this period.

Abstract

Thesis Title: Retailers' Assessment: Guidelines for Open Innovation Partnerships

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During times of economic turmoil, and times of strong development and movement of information technologies and communication techniques, there is a call for stronger commitment, innovation and adaptability at the organizational level. Inter-organizational collaborative innovation is currently mandatory for companies that want to become competitive.

This dissertation sets to understand, through the construction of an evaluation tool (Coding Scheme), how can a retailer choose with whom it can develop an Open Innovation partnership model. This is achieved through a study of the criteria used to assess retailers' performance in several business fields. The aim is to understand the methodology used to assess the performance of other companies in the same business, being these companies in the same business and possible future partners.

Exploring this topic of Open Innovation is extremely relevant for diverse reasons. Firstly, because studying the macro and micro environment where a firm is operating it is possible to realize how it acquires and develops new competences and communicates with the outside. Then, it is important to understand that multi approaches to Open Innovation can coexist within the same company, with successful results. Finally, this study can provide managers who have not yet implemented Open Innovation in their organizations with helpful knowledge and concepts that can be a tool to identify growing opportunities in their business.

Resumo

Título da tese: Avaliação de retalhistas: Diretrizes para relações de Inovação Aberta

Autor: João Guerra

É durante tempos de maior dificuldade económica, em que a informação e tecnologia circulam a uma velocidade cada vez mais elevada, que as entidades organizacionais são chamadas a apostar na inovação e empenho, de modo a que se consigam adaptar às circunstâncias externas. Assim, inovação colaborativa inter-organizacional é um conceito indispensável para as empresas que desejam continuar ou tornar-se competitivas.

Esta dissertação tem como principal objectivo compreender, através de uma ferramenta de avaliação de retalhistas (*Coding Scheme*) construída ao longo da mesma, uma metodologia de seleção de possíveis parceiros para uma estratégia de Inovação Aberta, na indústria do retalho alimentar. Para tal, é realizado um estudo sobre quais os critérios a utilizar para avaliar o desempenho de cada retalhista no âmbito de diversas áreas de negocio.

O estudo deste tema é pertinente, uma vez que, ao estudar as condições envolventes de uma empresa e ao perceber como é que esta estabelece e coexiste com os *stakeholders*, pretende-se compreender como é que a aquisição e desenvolvimento de competências se processa, assim como a comunicação estabelecida nesse meio envolvente. É também interessante perceber que uma empresa pode comprometer-se com vários tipos ou metodologias de Inovação Aberta, apresentando resultados enriquecedores.

Por ultimo, este estudo serve também como base para futuras investigações sobre o tema e como ajuda para empreendedores e gestores de empresas que ainda não tenham aderido a este tipo de inovação colaborativa. São revelados conceitos e metodologias que poderão ser úteis para a mudança de “*mindset*” numa empresa que ainda seja tradicionalmente inovadora.

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Chapter 1 - Introduction

Being involved in an internship in a food retail company (**Retailer X**), with the aim of defining a methodology of implementing an Open Innovation with the top worldwide retailers, I had the opportunity to deeply study the topic of Open Innovation.

Despite the increasing number of companies engaged in Open Innovation partnerships, there is still a gap in the literature when the issue is about partnerships between companies in the same business.

In fact, around 30% of companies engaged in these types of partnerships, are working with competitors, as it is possible to see in the picture bellow (Ridder and Hagedoorn, 2011), but still, there are few papers and documents regarding this topic.

Therefore, the **objective** of this dissertation is to study a methodology of identification of **retailers** that are better performers in specific **business areas** and thus, possible partners to engage in an Open Innovation relationship. Going through all the process of assessing the performance of players in the retail business, it will be discussed which criteria to use in the evaluation, which fields of study and also a recommendation will be addressed about the following up of this methodology for **Retailer X's** future action on Open Innovation partnerships.

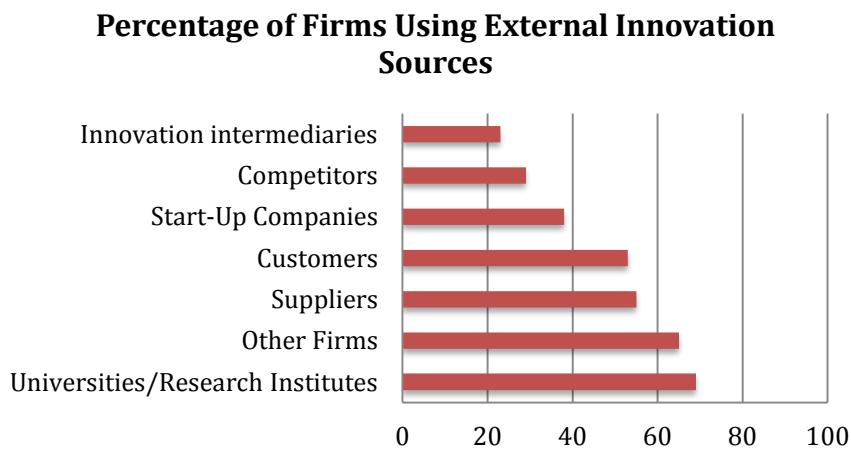


Exhibit 1 - External Innovation Sources

To follow those objectives, the dissertation was divided in six chapters. **The first** one being the introduction, where a general approach to the topic of Open Innovation is addressed as well as the main objective of the thesis. **The second chapter - Literature Review** - covers the definition and analysis of the concept of Open Innovation, exploring the differences between the new model of innovation and the traditional one, as well as the drivers of the emergence of the paradigm. A description of the three different types of Open Innovation is also referenced, as do the difficulties that arise from such practice and the future of this new era of Open Innovation.

In **Chapter 3 - Methodology and Data Collection**, the methodology used for the study is disclosed, as well as the sources of information (primary and secondary). It is also presented the list of the retailers and Key Value Drivers upon which the analysis is built,

and the reasons behind that choice. Finally, it also regards the criteria used to assess and numerically evaluate the performance of the four retailers

In the beginning of **Chapter 4 – Results** – a short characterization of the retail industry is carried on. After, a summary of the history and innovation situation of Retailer X is addressed and subsequently, the top four worldwide retailers are assessed. The results are then exposed in a conclusion table.

Having organized the results of the evaluation of the four retailers, further action must be carried on by Retailer X. Likewise, in **Chapter 5 – Main Conclusions and Future Research** – several recommendation options are considered and also does the future governance of the Coding Scheme used.

Finally, the dissertation ends with **Chapter 6 – Conclusion**, where some general conclusions about the thesis are disclosed.

Chapter 2 - Literature Review

Introduction

This chapter intends to explore the recent concept of innovation management – Open Innovation. Therefore, some findings concerning the types, requirements, drivers and difficulties of innovation are presented below. Initially, to better understand the Open Innovation paradigm, a comparison between the Open Innovation Model and the Traditional Model of Innovation will be disclosed. The reasons of its rising in the business of retail will also be exposed according to previous studies.

Today, more than ever, innovation is a top strategic priority. 62 percent of executives questioned in a recent innovation survey, conducted by Alon and Chow (2001), say their business strategy is “largely” or “totally” dependent on innovation. With the increasing market competition and globalization, companies are induced to optimize their processes and to innovate more. Innovation is a key tool for competitiveness, to boost consumption and the renewal of equipment, to overcome competition through the increase of the weight of choice criteria other than price among customers, and stimulating the creation of new business models (Morand and Manceau, 2009).

Open Innovation, also called Collaborative, Shared or Distributed Innovation is a concept that has many definitions given by companies and academics. The one that is probably more common and preferred in general is the following, developed by Chesbrough H., Vanhaverbeke W. and West J.: “Open Innovation is the use of purposive inflows and outflows of knowledge to accelerate internal innovation, and to expand the markets for external use of innovation, respectively” (Chesborough, Vanhaverbeke and West, 2006).

From Closed to Open Innovation

This relatively recent theory contrasts with the traditional model of innovation called *Closed Innovation Model* by Chesbrough in 2003, in which all the ideas are generated inside a company, in a closed and controlled environment. The persistence of this Closed Innovation paradigm over the years can be explained by its past success, as it was much more difficult to find available external information. Internal R&D was a valuable

strategic asset, even a formidable barrier to entry by competitors in many markets (Chesbrough, 2003). For years, the logic of Closed Innovation was tacitly held to be self-evident as the “right way” to bring new ideas to market and successful companies all played by certain implicit rules (Chesbrough, 2003). They tried to invest more heavily in internal R&D than their competitors, and hiring the best and brightest people, they would be able to discover the best and greatest number of ideas, which would allow them to get to market first and consequently reap most of the profits, protecting them by aggressively controlling their Intellectual Property (Chesbrough, 2003).

As it is shown in Exhibit 1 in the Closed Innovation model, there is no room for the exchange of resources between company A and B. They work as if they were totally isolated. The reason behind this is the protection of intellectual property, preventing competitors of stealing the best ideas. According to this model, R&D is vertically developed, produced and traded, this is, to profit from R&D it is mandatory to discover and develop the innovation inside the barriers of the company (Chesbrough, 2003).

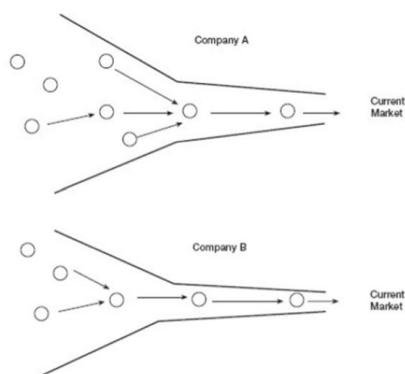


Exhibit 2 - Closed Innovation Model

The traditional business strategy has guided firms to develop defensible positions against the forces of competition and power in the value chain, implying the importance of constructing barriers to competition, rather than promoting openness (Chesbrough and Appleyard, 2007). The organizations that adopt a Closed Innovation model consider that they are composed by the most competent people (Chesbrough and Schwartz, 2007) and that they must generate their own ideas to further develop, manufacture, market, distribute and service (Chesbrough, 2006).

Constant changes like the increase of the competitiveness and the change in the needs and desires of customers are important drivers of Open Innovation (Goffin and Mitchel, 2005).

According to Chesbrough, towards the end of the 20th century, a number of factors combined to erode the underpinnings of closed innovation in the United States. There are four main factors that drove to this change in paradigm:

- 1) The increased availability and mobility of skilled works
- 2) The emergence of the Venture Capital Market
- 3) The external options for “ideas sitting on the shelf”
- 4) The increasing capability of external suppliers

The dramatic rise in the number and mobility of knowledge workers, making it increasingly difficult for companies to control their proprietary ideas and expertise was perhaps chief among these factors. The emergence of the private venture capital has had a crucial role in this change as well. It helped to finance new firms and their efforts to commercialize ideas that have spilled outside silos of corporate research labs (Chesbrough, 2003).

This paradigm of Open Innovation challenges some of the basic tenets of traditional business strategy. On one hand, the need to have ownership over the resources that are creating value. On the other hand, the ability to exclude others from copying the products developed. When considering the tenets of Porter’s Five Forces as the basis of an advantageous competitive position, additional empirical anomalies have emerged (Chesbrough and Appleyard, 2007). Forces that were either peripheral to the earlier treatment or ignored entirely, such as attracting the participation of individual volunteers, the role of community participation, the construction of innovation networks, and the notion of innovation ecosystems, all lay beyond power of current notions of strategy (Chesbrough and Appleyard, 2007).

According to a study developed by Strategos (2011), the shift in paradigm has the ultimate goal of increasing the Return on Innovation (ROI_{inn}). It can be achieved by:

1. Increasing the number of ideas on the innovation pipeline
2. Reducing the innovation operational costs
3. Reducing CAPEX on innovation projects
4. Reducing Time to Market on company’s innovations
5. Reducing effort associated with the creation of in-house innovation capabilities
6. Reducing and sharing risks with external parties

To build an Open Innovation practice, a company needs to identify the stakeholders on its ecosystem, and evaluate the possibilities to share ideas, concepts, technologies and business through their network, both Outside-In and Inside-Out (Strategos, 2011).

The value network of each organization is the map of external stakeholders with whom a company has or should have a relationship, and the value created through these relationships (Strategos, 2011).

It is known that global networks existed in the past, but today, because of several reasons, the interactions between the intervenient people in a business can be much more frequent and rich. Consequently, a collaborative type of Innovation is much more easy and probable to emerge. Since people is more and more dependent on the Internet, a powerful platform of sharing information and other resources, companies and its human resources might contribute to the existence of a shared strategy of innovation. Technology emerges as one of the main actors in the innovation era. Today, there are web cameras, video-conference and online forums that allow individuals to get together in real-time, and act in a network regardless the physical distance (Maijers et al., 2005).

Open Innovation – A Rising Concept

Collaboration with external organizations is not such an innovative topic. For many years now, companies have been working and improving through networks where they cooperate with their suppliers, clients and all types of companies large and small. In 2006-08, more than 78% of large innovative firms in Denmark and about 69% of SMEs in the UK collaborated with external actors of innovation, as stated in OECD (2011), “Science, Technology and Industry Scoreboard”. Therefore, a lot may wonder whether this concept is actually recent or if it is just “old wine in new bottles”.

There is a difference between the “official” launch of Open Innovation practices, which is rather recent, and the existence of “collaborative” practices that traces back to older times. In fact, many companies prove that they have had an open way to innovate for a long time (Alcatel Lucent, GE, etc.). However, the real buzz around Open Innovation and the fact that companies have intensified Open Innovation practices involving organizational change is undoubtedly true, and companies have been questioning and changing their innovation approaches in recent years.

In the recent times, there has been a notorious development in the innovation cooperation (Maijers et al., 2005), with the objective of promoting the existence of competitive advantages to any organization. That is perceived as crucial to the sustainability of any firm. This cooperation enforces a systematic process of improving the management strategy of any organization in order to satisfy the needs and expectations of the shareholders, clients and other stakeholders as the suppliers and society as all (Maijers et al., 2005).

Who is Involved

There is a variety of actors that might be involved in an Open Innovation project. The first ones that are always part of any project are **individuals**. This category may include individual experts, consumers, and retired people willing to help the company, etc. Moreover, crowdsourcing and Open Innovation platforms are the perfect places for companies to collaborate with such individuals (Manceau, Moatti, Fabbri, Kaltenbach and Bagger-Hansen, 2011).

Research Organizations, including universities, research institutes and labs are also in the agenda of many Collaborative Innovation strategies. The relationships with **academics** are probably the true origin of the Open Innovation concept, because of the key role of academic research as a source of technological innovation (Manceau, Moatti, Fabbri, Kaltenbach and Bagger-Hansen, 2011).

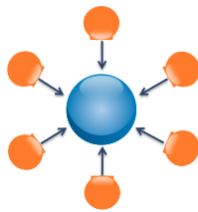
Additionally, according to OECD Science, Technology and Industry Scoreboard 2011, among large firms, **suppliers** usually play the main role in business partner collaboration. Within business partners, **clients** and **competitors** might also play a role in co-development in innovation.

Finally, **SMEs** and **Start-ups**, along with **venture capital providers**, take part in very important and decisive partnerships, leveraging very unique features of local high tech and biotech entrepreneurship and innovation skills.

Types of Open Innovation

There are three main applications of Open Innovation: **Outside-In**, **Inside-Out** and **Open Business Models** (Strategos, 2011).

The first one is the most common application of Open Innovation. In this application, companies use Open Innovation as a way to bring ideas from the outside to their innovation systems. Through this approach, not only internal but also external resources are integrated in their own R&D activities. It involves opening up a company's innovation processes to many kinds of external inputs and contributors.



[Exhibit 3 - Outside-In Open Innovation Model](#)

The second main type, the Inside-Out Innovation, is the process of finding external uses for technologies and inside-created ideas that are not currently being used in the companies' core businesses. By doing so, new business opportunities might be identified and developed to turn this "buried" material into useful projects. It is also a way to find new sources of revenues from ideas that were previously "on-the-shelf".



[Exhibit 4 - Inside-Out Open Innovation Model](#)

Finally, Open Business Models are created according to the possibilities offered by Open Innovation. This practice induces companies to share ideas with external parties and, at the same time, to use Outside-In approach to generate profit. It may be perceived as an innovative business model with building blocks from external partners.



[Exhibit 5 - Open Business Models](#)

Requirements to Innovate Collaboratively

In order to pursue an effective Open Innovation strategy, it is mandatory that some requirements and boundary conditions are satisfied. Firstly, the business objectives for partnering must be defined with the aim of **designing the effective business model** that leverages co-development partnerships (Chesbrough and Schwartz, 2007). The key dimensions and objectives of a co-development design vary, depending upon the business objective.

Secondly, **workforce mobility** should be easy in order to take full advantage of the inside-out branch of Open Innovation. Usually one or more people often need to move with the project for some extended period of time to transplant it effectively in the new firm (Chesbrough, 2012).

The **existence of internal R&D** is also crucial when it comes to inputs of Open Innovation. It is mandatory that every company have a certain amount of creative abrasion and a certain amount of time together working on a specific problem. At the same time, an effective Open Innovation strategy might have people operating in a boundary-spanning field, connecting knowledge from the different sources involved in the project, thus inputs are mandatory from both sides of the partnership.

Moreover, another condition is the **need for some basic IP rules** to enable Open Innovation. Once a specific industry reaches some sort of dominant design, where it really begins to get to scale, a significant capital investment will be required to stay in the game (Chesbrough, 2012). Some IP protection is required at this stage in order to offer a return to the investors to pay for that capital.

Classifying R&D capabilities of a firm into discrete categories is also a very important step and condition for the effectiveness of an Open Innovation strategy. Chesbrough proposes the classification of R&D capabilities into three categories: Core, critical and contextual. The decision to partner externally has very different implications in each of the three areas and imposes different requirements for managing the partnerships (Chesbrough, 2007).

Core Capabilities: Creating a business model that can be a risk venture and should only be taken after an extensive strategic analysis.

Critical Capabilities: those that are crucial to a product or service offering, but not vital to the firm's business. These capabilities entice co-development agreements between companies. Through creating a business model, a company can dramatically expand the

value proposition of its offerings to customers without the need for a commensurate increase in R&D investment.

Contextual Capabilities: Capabilities needed to complement the offering, but provide little value added for the business. However, what is contextual for a firm, may be core for a possible co-development partner.

Finally, it is absolutely crucial that there is **alignment between business models** of the different parts of the partnership. The objectives must complement each other. One source of potential problems is a mis-assessment of the business objectives for the co-development partnership, or misjudging how critical a particular capability is to the overall success of the company or its product/service offering (Chesbrough 2007).

Drivers of Open Innovation

Open Innovation has had a strong reception since its initial launch almost two decades ago (Chesbrough, 2003). The very first objective of pursuing Open Innovation practices is to boost innovativeness and growth. Moreover, companies expect to achieve the ultimate goal of an Open Innovation model: Increase the Return on Innovation. In order to go from one to the other goal, it is important that firms are focused in extracting value through external co-creation networks and not just in two-party relations between the company and an external stakeholder. The sustainable creation of value is only possible through a win-win relationship and incentives and metrics that are essential to promote and monitor this relationship. Likewise, the incentives and motives that drive organizations to pursue Open Innovation strategies are very clear: improve performance and competitiveness in terms of extended qualified network, increased innovation, faster time-to-market, limited innovation costs and risks and extended competences and resources. But other advantages, perhaps less obvious or, at least, less anticipated by the interviewees of (Manceau, Moatti, Fabbri, Kaltenbach and Bagger-Hansen, 2011), are also object of motivation: helping the company being more environment friendly and sustainable by easily integrating external green competences; generate more patents; learn how to collaborate with new types of partners; enhance internal cross-functional coordination and to spread internal innovation culture and foster employee motivation (Manceau, Moatti, Fabbri, Kaltenbach and Bagger-Hansen, 2011). However, sometimes, according to the SURVEY, the impacts of an Open Innovation strategy are not expected or are even counter-intuitive.

One may expect the collaborative development of an idea by several organizations to make innovation slower and more complex due to the process of aligning expectations, construction of a partnership model as well as a relationship model, etc. In fact, a reduced time-to-market is one of the best competitive advantages, since it shields against the negative impacts of “copycats”, especially for SMEs (Manceau, Moatti, Fabbri, Kaltenbach and Bagger-Hansen, 2011)).

At the same time, innovation is not so much cheaper than Closed Innovation, contrary to expectations. Clearly Open Innovation is more often seen as a way to accelerate innovation than to make it cheaper.

Additionally, Open Innovation motivates firms to protect innovations and to spur them, rather than keeping the secret, which is very positive for firm valuation and for the global knowledge economy. In a collaborative innovative project it is mandatory to clarify each partner’s Intellectual Property rights, even through setting up a legal agreement may involve long and complex administrative process. Firms that innovate collaboratively are more eager to apply for patents than firms which do not collaborate (Brouwer and Kleinknecht, 1999).

Finally, one other impact of Open Innovation practices is the sustainability increase in the parts involved in the innovative project. Sustainability is a vehicle for success with sustainable projects and the promotion of a sustainable agenda (Sandberg, 2011).

Difficulties of Open Innovation

There are many issues and challenges that the practitioners of increased openness face as they seek to sustain their business. Unless collaborative initiatives demonstrate the ability to prosper and endure, they can become flashes in the pan that, while interesting, ultimately make little impact on technology and society (Chesbrough and Appleyard, 2007). Increasing the amount of available resources in order to impact any firm’s innovativeness is not a non-risky or an easy process. According to OECD Science, Technology and Industry (2008), the theft of intellectual property is indeed seen as a key risk. Establishing such a partnership involves legal agreements, complex administrative procedures and time-consuming actions. At the same time and paradoxically, Open Innovation thus sometimes helps to protect innovations more (Manceau, Moatti, Fabbri, Kaltenbach and Bagger-Hansen, 2011). Moreover, Open Innovation requires major organizational and cultural changes to be effective. It often involves a change in the way of innovations and building the company’s future activities.

Additionally, there is also a difficulty of measuring and observing the impacts of such a change in the innovation environment. This kind of collaborative innovation require companies to agree to share control over innovation, to share knowledge, to handle cultural differences with external organizations and people involved in the innovation process and it has to handle remote partnerships and staff (Manceau, Moatti, Fabbri, Kaltenbach and Bagger-Hansen, 2011). Finally, another difficulty in the implementation of a collaborative development innovation is how to attract the participation of a broad community of contributors, and then how to sustain their participation over time. These contributors do not work for the company and have many other alternative ways to spend their time and talent (Chesbrough and Apleyard, 2007)

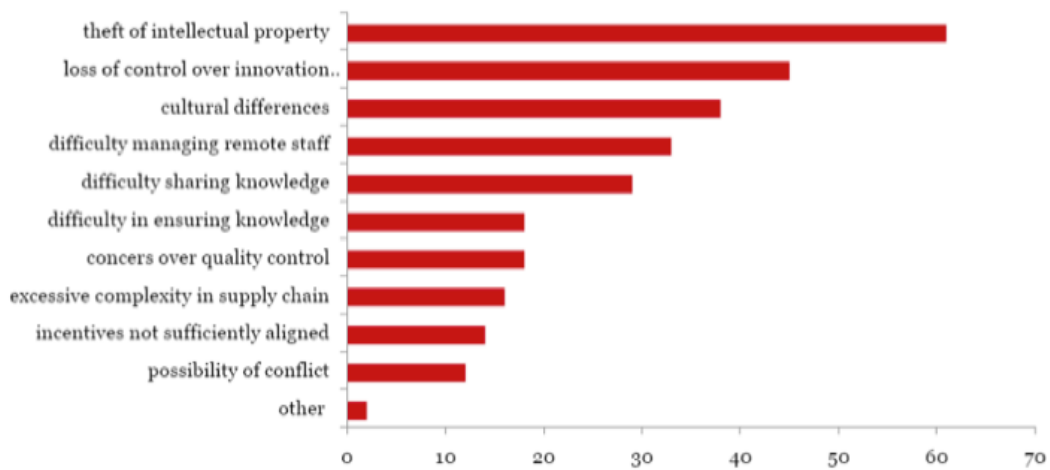


Exhibit 6 - Risks of developing global innovation networks (percentage of respondents)

Source: OECD Science, Technology and Industry (2008), "Open Innovation in a Global Perspective", OECD Publishing

Future of Open Innovation

Companies continue to adopt systematic approaches to innovate, using external partners and competences that can help them to innovate more, faster and greener, while reducing risk, discovering new ideas and, paradoxically, protecting Intellectual Property. Bringing external knowledge to a company must not be seen as a substitute for internal practices based on the knowledge held internally in the firm, but rather as a complement to internally developed knowledge (Poot, Faems and Vanhaverbeke, 2009). In the future, to take full benefit of the innovation realized through the involvement of external partners, companies should combine these external resources with their own specific competences (ACCENTURE e i7). Moreover, companies that have already a

certain maturity with Open Innovation will set themselves up to make Open Innovation part of normal business, which indicates that it will become integrated in a new way for companies to innovate (Huizingh, 2010).

Additionally, firms do not need to be large to open up the innovation process to the community. In the future, more and more companies will engage in Open Innovation practices, regardless their size, once Open Innovation's effectiveness is not restricted to a few selected corporations. It is a process that makes more effective use of internal and external knowledge in every organization. While we have much to learn about its problems, boundary conditions, and critical success factors, Open Innovation is going to be a part of the future for all of us (Chesbrough, 2012) and designing and managing innovation communities is going to become increasingly important to the future of Open Innovation.

On the other hand, in order for firms to create value from Collaborative Innovation, they need to integrate their ideas, expertise and skills with those of others outside the organization. Summing up, firms that can harness outside ideas to advance their own businesses while leveraging their internal ideas outside their current operations will likely thrive in this new era of Open Innovation (Chesbrough, 2003).

Chapter 3 – METHODOLOGY AND DATA COLLECTION

Being currently enrolled in an internship in a European multinational retailer (Retailer X) gives me a deep insight about the retail industry, especially about the innovation management area. Therefore, I am able to collect data about the main players and to identify best practices, possible benchmarks or partnerships between Retailer X and those external players.

Supported on that information, this thesis focus on building a methodology that facilitates the identification of retailers that might be possible partners to engage in an Open Innovation Relationship with Retailer X.

To do so, two first questions arise:

- 1) Which business areas or Key Value Drivers does Retailer X want to tackle?
- 2) With which retailers should Retailer X create partnerships?

Defining the Key Value Drivers

A Key Value Driver is an activity or organizational focus that enhances the value of a product or service in the perception of the customer and which therefore creates value for the producer (Q finance).

Relying on Retailer X's strategic objectives and guidelines, this study was based on six Key Value Drivers that are perceived as the ones that have the most impact on the firm's objectives and that are aligned with its Open Innovation mission:

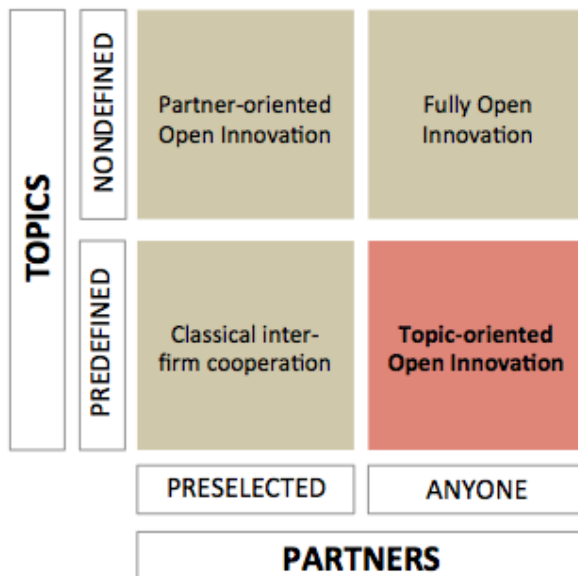
- Customer Centric Retailing
- Store Concept
- Promotions
- Omni-Channel
- Internationalization
- Capital-Light

These Key Value Drivers were selected from a long list of topics, processes, business areas and value drivers, being the ones that fit the most with the strategic orientation of Retailer X. (Annex 1)

Selecting the retailers for the study

Having defined the fields upon which the discussion will focus, it is also important that the company is aware of its relative positioning regarding other retailers and also which ones are the best performers or market references.

Being the topics of the study identified, this kind of Open Innovation practice is called “Topic-oriented Open innovation”:



[Exhibit 7 - Types of Open Innovationⁱ](#)

With that objective in mind, it was decided to study the performance of Retailer X and the top four worldwide retailers in terms of revenues, because I believe that permanent high revenue results are consequence of top performances in the basic processes of retailing. However, I am aware that some of the top performers might not have high levels of maturity in several Key Value Drivers.

Going through an analysis of several rankings in the recent years it is possible to observe four retailers that never abandoned their positions:

ⁱ Source: Manceau, D., Moatti, V., Fabri, J., Kaltenbach, P., Bagger-Hansen, L., Open Innovation: What's Behind the Buzzworld?

	<u>Food Retail World (2011)</u>	<u>SN Supermarket News (2012)</u>	<u>Global Retail Powers - Deloitte (2011)</u>
1	<u>Walmart Stores, Inc.</u>	<u>Walmart Stores</u>	<u>Walmart Stores, Inc.</u>
2	<u>Carrefour S.A.</u>	<u>Carrefour S.A.</u>	<u>Carrefour S.A.</u>
3	<u>Tesco PLC</u>	<u>Tesco PLC</u>	<u>Tesco PLC</u>
4	<u>Metro AG</u>	<u>Metro AG</u>	<u>Metro AG</u>
5	<u>AEON</u>	<u>Schwarz Group</u>	<u>The Kroger Co.</u>
6	<u>7i SEVEN&i</u>	<u>The Kroger Co.</u>	<u>Costco Wholesale Corporation</u>
7	<u>The Kroger Co.</u>	<u>Costco</u>	<u>Schwarz Group</u>
8	<u>Lidl</u>	<u>Aldi</u>	<u>Aldi</u>
9	<u>Costco</u>	<u>Target Corporation</u>	<u>Target Corporation</u>

Exhibit 8 - Worldwide retail rankings

Therefore, the study of this dissertation will focus on the following retailers:





Retailer	Turnover	Headquarters
	\$ 443,854 billion (2012)	USA
	€ 78.469 billion (2012)	France
	£ 65.166 billion (2012)	UK
	€ 66.702 billion (2011)	Germany

Exhibit 9 - Selected retailers for the study

Coding Scheme

After having defined the aimed retailers, the six Key Value Drivers in which the study will focus, and taking into account the scope of the retail business, the next step was to develop a **coding protocol where it is possible to assess the performance of each player under the six Key Value Drivers**. With this tool, the best practices and the references that Retailer X might want to “follow” can be more easily identified.

Through the construction of this scheme, which will serve as an assessment tool to position relatively the diverse retailers studied, Retailer X can focus on the ones with higher maturity levels regarding the different KVDs. It also eases the identification of possible innovation partners that might be an asset to overcome macro-industry barriers and to help reducing costs as well as increasing disruptive innovation. Using the Coding Scheme, Retailer X is also able to search for external resources, to solve specific

problems. It is a oriented search, rather than opening the innovation strategy with no direction.

Each retailer was thus assessed in the scope of the following criteria:

1) Customer Centric Retail

Not every customer has the same needs, shopping habits and purchasing power. It is essential to create clusters of stores to make them easier to manage according to the individual/segment needs and special characteristics. The criteria on which strategic decisions are based should no longer be the region or store size, but each store's customer-segment profile and the value they represent for the company. Once defined the target customer segments, the next step is to come up with the strategic guidelines, category role, etc., for each category. Afterwards, there should be an optimization of the range of products that is attractive for the defined target-customer segments. Optimizing the pricing strategy based on a better understanding of the customers is a subsequent procedure, so that it is possible to develop an effective promotion strategy of the business, offering exactly what customers want. (Hiemeyer, Müller-Sarmiento and de Boer, 2010)

Therefore, in order to evaluate the performance of each retailer in Customer Centric Retailing, it was studied to what extent there is any **customer segmentation** and if it is **used in the optimization of product assortment, definition of the pricing strategy** and in the **optimization of product promotions**. Moreover, the existence of a **loyalty card** is a crucial criteria as well as the existence of a loyalty program to better understand and approach the client. Finally, **partnerships with and external companies** aiming the evaluation the purchasing behavior and to better address the needs of the customers is a determinant criteria to assess the maturity level and performance of each retailer in customer centric retailing.

2) Store Concept

Having a high maturity level in **Store Concept**, means that the store/brand provides a shopping experience that goes beyond the simple act of choosing the product and purchasing it. Therefore, the **architecture, communication efficiency, merchandising and equipment** are the four main topics that define the performance of each retailer in this Key Value Driver. An innovative company that has organized stores, with an efficient communication to the client, with specialized collaborators, providing a great

customer experience, and offering complementary services aligning its design with its defined strategy will be regarded as a top player in terms of store concept.

3) Promotions

Equally important to customer experience, though less visible, is the value customers derive from their relationship to the retailer through **promotional activities**.

Therefore, the different **promotional mechanics**ⁱⁱ(Was/isⁱⁱⁱ, price only, BOGO^{iv}, Volume for Volume^v; % off), **vehicles**^{vi}(Billboards, newspapers, catalogues, mail, internet advertising, etc.) and the **number of categories that are subject of sales promotion** are object of evaluation to assess the maturity level of retailers in this KVD. It is also important to have an efficient communication of those promotions, both inside and outside of the stores. Finally, the advertising costs are another metric, that, coupled with the previous ones, give a perspective of the maturity level of each player in the scope of “Promotions” KVD.

4) Omni-Channel

“Today’s consumer is increasingly connected to both the physical and digital space and able to interact with retailers through multiples channels simultaneously. To stay competitive in this ever-evolving landscape, it is imperative for retailers to deliver a seamless customer experience across all channels and provide the right services and products at the right time.” (Global Powers of Retailing, Deloitte, 2013)

Mobile and Social Commerce are becoming increasingly important as tools for improving not only sales but also the customer shopping experience as well as to keep customers engaged and loyal to the group/brand.

To assess the performance of the retailers in the scope of the Omni-Channel KVD, it is important to evaluate whether they are **providing one single shopping experience through different channels** (bricks and mortar, mobile, web, app).

ⁱⁱ Promotion mechanics: (Loyalty card discount, Samples, Coupons, Cash Refunds (rebates), Price Packs, Premiums, Point-of-Purchase promotions, Contests, Events, was/is, BOGO, etc.)

ⁱⁱⁱ Was/Is: New discounted price

^{iv} BOGO: Buy One, Get One Free

^v Volume for Volume: Buy X, Get Y (X different from Y)

^{vi} Promotion vehicles: TV, newspapers, billboards, etc.

Online sales are also a significant criteria as well, as do the weight of **mobile sales**, the **functionality of the website**, the **lead-times**^{vii} and also the existence of **online products that complement the supply of the shops** itself, are crucial factors when evaluating the maturity level of the retailers in this Key Value Driver.

5) Internationalization

After having explored the opportunities in developed countries, major retailers are currently focusing on expanding into emerging markets, which, with their growing populations, economic growth and improving buying power, seem to offer unlimited expansion. But this is not the same of saying that internationalization is always a winning strategy for global retailers. In fact, it has been very difficult for retailers to achieve meaningful returns in many of the markets they have entered and frequently they were forced to take a step back. On the other side, relying only in their home markets is also not a possibility, this means only the ones who deliver the value proposition that those specific customers look for will succeed.

The weight of the foreign sales, the profitability in external markets and the number of countries a company is operating in, are all important criteria to evaluate the level of internationalization maturity of an multi-national retailers. Additionally, entering foreign markets with diverse **formats** (hypers, supermarkets, discount-stores, etc) also shows a higher level of maturity in the field. Finally, the **international sales growth** is also a decisive evaluation criterion when relatively positioning a retailer in the scope of the Internationalization Key Value Driver.

6) Capital Light

Last, but not the least, is Capital Light, the ability of any firm to expand using the less investment possible. To evaluate the performance of the retailers, there must be an analysis of the relationship between CAPEX and international expansion growth. The increasing of distribution channels (franchising and joint-ventures) is synonymous of light investment. Franchising allows retailers to quickly expand into new territories by sharing the cost of business setup with the franchisee and to benefit from the franchisee's knowledge of the local market.

^{vii} Lead Time: time between the placement of an order and delivery to final customer

Likewise, the criteria used to evaluate the maturity level of the players in the scope of this KVD are: the **weight of distribution channels in the total operation; CAPEX/sales and the investment per square meter.**

Data collection

Data regarding Open Innovation is increasingly available. However, when the subject is about establishing partnerships between competitors or companies doing the similar activities in the same business, very few documents can be found.

Data collection was oriented by two objectives: firstly, to select the criteria used that define the frontiers between each maturity level in the Coding Scheme tool, and finally, to have structured information about Retailer X, Walmart, Carrefour, Tesco and Metro Cash & Carry.

To achieve the first objective, and to know which criteria should be used to evaluate the maturity level of a company within the scope of each KVD, semi-structured interviews were conducted jointly with the most knowledgeable and reliable people from each core business department of the organization (Retailer X). Alongside, some official documents from the company were deeply analyzed. Examples of those are the recent Sustainability Reports, Company's Intranet system as well as some documents from the Business Intelligence.

For the second objective, public information about the four retailers was taken into account, specially the most recent annual and sustainability reports, and also financial data disclosed by them. Internal documents with previous studies were also useful to assess the performance of the food retailers.

Primary Data Collection

Glesne and Peshkin discuss how "the opportunity to learn about what you cannot see and to explore alternative explanations of what you do see is the special strength of interviewing in qualitative inquiry" (1992, p. 65).

The scheduled interviews were semi-structured, allowing the clarification of some questions that were not primary defined in the guide of the interview.

The interviewees, within the company, were chosen according to their proximity and knowledge about each KVD and the retail area they were keen on. The guides can be found in the appendices, annex 2.

In order to conduct straightforward and more time-efficient interviews, the questions were sent to the subjects prior to the interview.

Secondary Data Collection

Glesne and Peshkin stress the value of document collecting in corroborating observations and interviews and generating further trustworthiness among data (1992). With the aim of complementing all the information gathered through the internally conducted interviews, several internal documents, intranet system and Internet web sites were consulted and analyzed. The “Innovation Book” (2008-2009, 2010 and 2011) of the Group and some Internal Strategic documentation were carefully explored to get a deeper insight of the company and the topic itself.

Moreover, in order to collect information about Walmart, Carrefour, Tesco and Metro Cash & Carry, a deep analysis of the respective annual and sustainability reports, financial data and websites were conducted.

Finally, the Intranet System of the Group was also crucial to obtain some information and documentation about other retailers.

Chapter 4 - RESULTS

Retail Industry

Retail industry is one of the largest in the world and it is heavily dependent on the strength of the economy. The last one will have to become healthy again before the retail sector can rebound fully.

The industry is very complex and includes diverse categories, from food to Internet catalog sales, to auto dealers, to convenience stores, to vending machines, etc.

Retailer X

The company is divided in two main businesses: Food and Non-Food Retail.

In 1985, with the construction of the very first hypermarket in its national market, it conducted a real revolution in the consuming habits of its population.

Retailer X is the leader in the national food retailing market, offering a variety of products of great quality and at an achievable price with a set of different retail formats.

The most famous formats are: hypermarkets, supermarkets, cafeteria, bookstore and pharmacy.

Innovation at Retailer X

Since the Organization's very beginning, innovation is a core daily activity of its collaborators. It is connected to the world and in constant search and improvement in order to satisfy and surprise the consumers. Through promoting creativity and capabilities of its employees, the financial and social impact of the organization is clear and has already been recognized through the award of several international prizes.

Innovation Management focus on three main objectives:

- 1) **Everybody Innovating** – the promotion of a collaborative environment of all employees in the creative process of idea generation. “Ignite sessions”, where the employees have the opportunity to share innovative ideas to a major public including the top management of the company, and also the “Creative Problem

Solving” sessions - workgroups where collaborators contribute with ideas to solve a specific problem - are two of the most important tools to involve everyone in the innovation process.

- 2) **Networking** – The sharing of knowledge and experiences are essential to keep a constant evolution of the working methods used in the everyday activity of the firm. Internally, this sharing is made through workshops and training sessions between different business areas and departments. Here, best practices are professional experience is shared between different business levels and departments.
- 3) **Being Reference** – the numerous national and international yearly awards gathered by the company are proof of its high knowledge and maturity in the business. Moreover, every year an internal barometer of innovation is conducted in order to analyze and assess precisely the innovation status of the company, and the results turned to be very satisfactory.

Retailers’ Relative Positioning

In the following tables, the data collected about each retailer is organized accordingly to the criteria explored, in “Chapter 3 – Methodology and Data Collection”. It is a summary of their characteristics and practices that are crucial to their performance evaluation in each Key Value Driver.

1) Customer Centric Retailing

WALMART
<ul style="list-style-type: none"> • Loyalty card: ✗ • Customer segmentation: ✓ • Customer Segmentation used in Promotions: ✗ • Customer Segmentation used in Store layout: ✗ • Customer Segmentation used in Pricing: ✗ • Customer Segmentation used in Product Range: ✓ • External Partner used to implement a loyalty program: ✗ • Walmart argues that its low prices are more than enough to keep customers coming back. “EDLP (everyday low pricing) drives customer loyalty,” Mike Duke, Walmart’s President and CEO • Shoppers “don’t have to be in a certain special group” to save at Walmart, said Executive Vice President and CFO, Charles Holley. • "Since Walmart does not have loyalty cards, they're going to be able to start doing a lot more targeted promotions and more targeting buying" with the iPhone App (Scan & GO). <i>Kevin Coupe of MorningNewsBeat.com</i>
TESCO
<ul style="list-style-type: none"> • Loyalty card: ✓ • Customer segmentation: ✓ • Customer Segmentation used in Promotions: ✓ • Customer Segmentation used in Store layout: ✓ • Customer Segmentation used in Pricing: ✓ • Customer Segmentation used in Product Range: ✓ • External Partner used to implement a loyalty program: ✓ • Tesco aligns all its key decisions involving the product range, pricing, store layout, design, branding and local marketing with its customer focus. • In 1994 Tesco’s hired a company called DunnHumby to help them analysis their database and to find the patterns in the data that would help them devise successful marketing programs. • Once a customer is registered on Tesco’s main website and starts shopping, the company keeps on interacting with that customer via phone, emails and text messages from time to time.
CARREFOUR
<ul style="list-style-type: none"> • Loyalty card: ✓ • Customer segmentation: ✓ • Customer Segmentation used in Promotions: ✓ • Customer Segmentation used in Store layout: ✓ • Customer Segmentation used in Pricing: ✓ • Customer Segmentation used in Product Range: ✓ • External Partner used to implement a loyalty program: ✓ • “Today, for each segment, we can track exactly how footfall, average receipts and purchasing behavior have developed in each of the various product categories. So we can set up the product assortment strategies accordingly. We also apply CCR tactically in category management for making decisions on layout, product, price or sales promotions.” • Carrefour teamed with Maxxing to implement the Maxxing Intelligent Promotions Suit, which enables Carrefour to control the planning, creation, execution and analysis of all targeted promotions campaigns across its store formats.
METRO CASH & CARRY
<ul style="list-style-type: none"> • Loyalty Card: ✓ • Customer segmentation: ✓ • Customer Segmentation used in Promotions: ✓ • Customer Segmentation used in Store layout: ✗ • Customer Segmentation used in Pricing: ✓ • Customer Segmentation used in Product Range: ✓ • External Partner used to implement a loyalty program: ✗ • “Bandhan Gold program is our new loyalty program for our best customers. (...) METRO customers will now enjoy special benefits and services offered exclusively to our METRO Bandhan members” (in India)

[Exhibit 10 - Customer Centric Retailing: top retailers' assessment](#)

2) Store Concept

WALMART
<ul style="list-style-type: none"> • Wal-Mart doesn't have enough bodies to restock the shelves, according to interviews with store workers. (in Bloomberg, March 2013) • A thinly spread workforce has other consequences: Longer check-out lines, less help with electronics and jewelry and more disorganized stores, according to Hancock (former accountant from the company), other shoppers and store workers.(in Bloomberg, March 2013)
TESCO
<ul style="list-style-type: none"> • Existence of in-store customer technology (handheld self scanners, self check-out) • "Tesco is testing out a selection of interactive technologies– including a "magical" augmented reality mirror and a digital mannequin– in three of its UK stores, with the aim of creating a multi-channel shopping experience for customers" in Digital Arts, January 2013 • 2 to 3% rupture in big stores and 5 to 10% in small stores (Feb 2013) • Relatively old architecture and few dynamic layout • Queue management sophisticated system: automatic sensor in each queue with measures every 15 minutes. Max 1 client per queue.
CARREFOUR
<ul style="list-style-type: none"> • Existence of in-store customer technology (handheld self scanners, self check-out) • Services that are complementary to product offering, such as a make-up advisory service, hairdresser, or pharmacy. • Offer a consignment area for shopping bags and complement this service with assistance to help shoppers carry their purchases to their car. This will encourage use of in-store services and browsing especially across non-food areas such as media and health and beauty. • Interactive services involving ingredients and food products available in store, such as food tastings and live cooking demonstrations and cookery classes. • Develop market style displays and offer product assistance to personalize the experience and undermine the clinical feel often associated with large stores. • Sections dedicated to local food produce and specialties to give each store its own localized identity. • Large, clear signage and banners to promote pricing and make products visible throughout the store. • babysitting area and a " " inside the store, which will help to speed up the grocery shop for customers with young families. • Carrefour is trying to enhance the customer experience through eating areas customized to the store's particular location and demographic.
METRO CASH & CARRY
<ul style="list-style-type: none"> • Extended Business Hours: "We're here for you, nearly anytime you need us! To make sure that you are always served, we are open 7 days a week, from 6 a.m. to 10 p.m." (in www.metro.co.in) • "Continuing innovations in store fittings like walk-in wine humidor" (in group's website) • "Innovative devices for fresh goods (e.g. three different temperature zones only for fruit and vegetables)" (in group's website) • "Fast handling at the check- outs (extra long check-out conveyor belts, automatic payment terminals)" (in group's website)

Exhibit 11 - Store Concept: top retailers' assessment

3) Promotions

WALMART
<ul style="list-style-type: none"> Advertising costs are expensed as incurred and were \$2.3 billion (0.52% of total sales) and \$2.5 billion (0.6% of total sales) in fiscal 2012 and 2011, respectively. Wal-Mart rarely offers promotions based on past purchases nor The common feature is its EDLP (Everyday Low Price) promise. <p>Promotions vehicles:</p> <ul style="list-style-type: none"> ➤ TV and local radio ➤ Digital (online newspapers, social media, entertainment, mobile, search engines) ➤ Magazines ➤ Outdoors ➤ Corporate sponsorships
TESCO
<ul style="list-style-type: none"> Tesco has designed an intelligent promotional mix strategy that reflects a prudent thought process behind its campaigning. In 2011 Tesco acquired BzzAgent – “a unique business combining word-of-mouth marketing with a commercial application of social media, helping to drive consumer advocacy and broaden our capability and innovation in product marketing” Tesco sends promotional offers, new products and special deals via personalized email addresses to the customers. Moreover, Tesco also sends out feedback forms and surveys via emails to keep updated with the continuously evolving customer’s needs and choices. The company also develops a certain place in the customer’s everyday life, through text messaging <p>Promotion Mechanics:</p> <ul style="list-style-type: none"> ➤ Volume for Volume ➤ Was/is ➤ Percentage off on 2nd ➤ Buy one, get one free
CARREFOUR
<ul style="list-style-type: none"> Interactive services such as food tastings, live cooking demonstrations and cookery classes. Carrefour teamed with IBM and its partners to put in place a groundbreaking in-store promotion system—operated entirely by Carrefour—that enables the planning and execution of more targeted campaigns, increasing its effectiveness: <ul style="list-style-type: none"> ✓ Shorter campaign planning to execution cycle ✓ Faster feedback on promotional effectiveness ✓ Lower marketing costs ✓ Deeper knowledge of customers via analytics and segmentation By relying on its own business intelligence and analytics—instead of third parties—Carrefour can craft highly targeted campaigns, execute them more rapidly and gauge their impact instantaneously. <p>Promotion Mechanics:</p> <ul style="list-style-type: none"> ➤ Price only ➤ Buy one, get one free ➤ Volume for volume (Buy X, get Y free) ➤ Percent Off <p>Promotions Vehicles:</p> <ul style="list-style-type: none"> ➤ Mostly promotions with loyalty card ➤ Samples ➤ Different catalogs per store format
METRO CASH & CARRY
<ul style="list-style-type: none"> In Pakistan: METRO cash and carry promote its product in just two areas of Pakistan with not intensive marketing campaign because their customers are just retailers and professionals so they just opt that media sources which directly hit target market. <p>Promotion Vehicles:</p> <ul style="list-style-type: none"> ➤ Billboards ➤ Newspaper ➤ Catalogue ➤ Mail ➤ Personal Selling (METRO has staffs who visit restaurants and professionals to convince them and create interest to purchase products for the use of their business)

Exhibit 12 - Promotions: top retailers' assessment

4) Omni-Channel

WALMART
<ul style="list-style-type: none"> • Online Sales (2011): \$4900m (estimation of Internet Retailer) 1,17% of total sales • Online sales growth: 20% (estimation of Internet Retailer) • Lead time: 3 days minimum • “We have e-commerce sites in 10 countries and are investing aggressively in markets that represent the greatest growth opportunities – U.S., U.K., Brazil and China.” • “Our new iPhone app allows U.S. customers to create smart shopping lists, scan coupons and access product information in real time. In addition, we launched a feature-rich iPad® app, as well as Shopycat, a gift finder on Facebook®.” • We formed @WalmartLabs, our hub for developing social, mobile and global platforms, and acquired specialty Internet companies to boost our talent. • The company has tripled the size of its Scan & Go pilot program, which allows shoppers to check out without interacting with a store employee. • In Fourth Annual Cisco IBSG E-Commerce Survey, Walmart scores high on multichannel, with reformatted pages for the iPhone. It is also investigating other emerging channels.
TESCO
<ul style="list-style-type: none"> • Online Sales: 2.3b € (3.2% of group sales) • International online sales growth: 40% • UK online sales growth: 10% • Lead time: 1 to 5 • 25% of the online search is carried by mobile devices (mainly tablets): only 4% of the search is carried through native applications (IOS and Android), but the clients who use it, do it more frequently • Chief Executive Officer Philip Clarke said Tesco will spend \$750 million this year (2013) to develop online shopping and other digital services • Click & Collect is service that gives customers the opportunity to pick up products whenever it suits them from over 770 stores. 70% of online general merchandise orders are handled in this way. • Clients have the option of adding products to their online shopping bag and reserve a slot during the week to have the products delivered at home. It is a way of promoting impulse purchasing • Tesco will complete the introduction of Internet shopping to all its international markets when it starts up in Turkey early next year (Philip Clarke, Tesco’s CEO) • Social media allows Tesco to have conversations with customers on any issue at any time – in the UK, it now has more than 680,000 ‘likes’ on its Facebook page.
CARREFOUR
<ul style="list-style-type: none"> • Online sales: Not found • 5.4 millions of unique visitors on average to Carrefour webpage each month • “Carrefour is first in the retail industry to deliver a continuous user experience between PC and smartphones. Customers can start online shopping on a PC and complete it on a mobile handset, or vice versa” In <i>Carrefour Builds Innovative Mobile Commerce Application With Convertigo</i> • “In order to match our offer with your daily needs, we are creating food and non-food e-commerce sites, as well as a range of mobile solutions suited to your lifestyle. We have also stepped up the development of our drives where you can collect the products you paid for online.” (in Annual Activity and Responsible Commitment Report 2012) • Cisco IBSG reviewed 65 e-commerce sites representing 37 top retailers, 20 pure players, three manufacturers, and five comparison sites. Carrefour is placed on 63rd in the ranking in terms of online Innovative Capabilities • Amazon Is best and Carrefour worst in Top 45 E-Commerce List (Cisco ecommerce survey, 2008)
METRO CASH & CARRY
<ul style="list-style-type: none"> • Online sales: not found • Lead-Time: Customers typically receive their orders within 24 hours. • Developing and testing Real Drive concept: online ordering and pick-up at warehouse location; • Professional customers can quickly place their individual orders by e-mail, by fax or by telephone. In selected countries, sales line also offers the option of ordering goods from an online catalogue on an experimental basis • To further improve its service for customers, METRO Cash & Carry offers customers in a number of countries such as China the opportunity to order office supplies directly over the Internet and have the requested articles delivered.

Exhibit 13 - Omni-Channel: top retailers' assessment

5) Internationalization

WALMART
<ul style="list-style-type: none"> • Home Market: USA • International sales weight: 28.4% • International sales: \$125,873 millions • Net sales for the Walmart International segment increased 15.2% and 12.1% for fiscal 2012 and 2011, respectively, compared to the previous fiscal year. • Started internationalization process in Mexico with JV but its preferred entry method is through acquisitions. In China it opted by JV; the same in India but for legal demand. • International Approach: Hypers. Mainly big box stores, but, when the entrance is via acquisition, it usually maintains the formats and brands acquired: >90% of international stores operate under a different banner than Walmart. • Walmart operates stores in 27 countries under 69 different banners. • Walmart International segment is focused on a key objective – driving aggressive growth, while improving return on investment.
TESCO
<ul style="list-style-type: none"> • Home Market: UK • International sales weight: 34.3% (2013) • International sales growth: 3.4% • International Sales: 24 699m€ • International Approach: Hypers and Supers. Their first experiences were with the hypermarket format but, given the little success, it started converting stores to the Extra^{viii} format in Eastern Europe. In the USA, it explores small stand-alone supermarkets. In Asia, hypermarkets or convenience stores in the case of Japan.
CARREFOUR
<ul style="list-style-type: none"> • Home Market: France • International Approach: ^{ix}, multi-format with hypermarket, supermarket and hard discount store as core. Neighbourhood stores in some markets. • International sales weight: 56% (2011) • International sales: 46092m€ • International sales growth: 1%
METRO CASH & CARRY
<ul style="list-style-type: none"> • Home Market: Germany • International Approach: C&C, Hypers. Generally, the first entrance is made with the Cash & Carry Metro/Makro format following, in some countries with consumer electronics Media Markt. Real hypermarkets are only present, besides Germany, in Poland, Turkey, Russia, Romania and Ukraine. • International sales weight (2012): 84.3% of Metro Cash&Carry sales (Asia/Africa 10.8%, Western Europe (excl. Germany) 35.2%, Eastern Europe 38.3%); 40% of total group sales • International sales: 26 681m€ (2012) • International sales growth: The international share of sales of METRO Cash & Carry rose from 83.5 percent to 84.3 percent. • Sales growth in Western Europe (excluding Germany) was dampened by the sale of the wholesale business of MAKRO Cash & Carry in the United Kingdom, as well as the difficult economic environment in Southern Europe, which had a negative effect on nonfood sales, in particular. • In the financial year of 2012, sales at METRO Cash & Carry grew by 1.6% to €31.6 billion (in local currency: +0.7%). However, the exit from the UK market had a significantly negative impact on sales growth compared to the previous year's period.

Exhibit 14 - Internationalization: top retailers' assessment

^{viii} Tesco Extra format: large Tesco stores, mainly out-of-town hypermarkets

^{ix} Promodès: former group of French retailers

6) Capital Light

WALMART
<ul style="list-style-type: none"> • Its preferred entry method is through acquisitions. In China it opted by JV and the same in India but for legal demand. • Capital employed/m2 (2010): €0.9k • In fiscal 2012, Walmart opened a record 612 new stores through organic growth. Including acquisitions, Walmart added 1,094 stores and 42.2 million square feet around the world. More than half of the new stores are organically developed. • Walmart International is focused on a key objective – driving aggressive growth, while improving return on investment.
TESCO
<ul style="list-style-type: none"> • Investments in JV and associates (2012): £423m (134 m in UK, 217m in Asia) • Dividends received from joint ventures and associates (2012): £40m • Capital employed/m2 (2010): €3.2k • Tesco usually expands through the acquisition of small chains with growth potential and / or creation of JV with a local partner (developing an appropriate format, typically a hyper). • CAPEX/Sales: “This year we reduced our rate of capital investment to reflect the challenging trading environment and increased our focus on lower capital-intensive investments with high returns, such as online and convenience. Last year we set a target of 5% to 5.5% of sales. We will reduce CAPEX to £3.3 billion in 12/13 and, beyond that, comfortably less than 5.0% of sales.” (Annual Report 2012) • In India, we have an exclusive franchise agreement with Trent, the retail arm of the Tata Group. In South Korea and the Czech Republic, we operate franchise chains alongside our own stores.
CARREFOUR
<ul style="list-style-type: none"> • Capital employed/m2 (2010): €1K • CAPEX represents 2% of sales in 2011 • In Middle East and North African countries, Carrefour always advances with partners • Usually Carrefour advances to new markets with joint ventures, evolving to major ownerships • Carrefour is continually recruiting and training franchise candidates with convincing arguments: strong banners and more than fifty years of retail experience. • Another way to run a convenience store is through the rental management scheme. Internal or external candidates can sign up without any financial contribution: they follow a development programme, then manage a store before eventually taking ownership.
METRO CASH & CARRY
<ul style="list-style-type: none"> • Mainly organic entrances in foreign markets and sometimes, controlling JV’s in some markets like China. • Capital employed/m2 (2010): €0.9K • Investment Metro Cash & Carry: 407m (2012), 799m (2011) (The sales line opened 42 new stores around the world, including 4 so-called satellite locations. In addition, METRO Cash & Carry’s store network was expanded by 4 stores from a joint venture in Pakistan. The focus of the expansion remained on Eastern Europe and Asia/Africa with 36 new stores. Expansion in the focus countries of China and Russia was continued with 12 and 6 new METRO Cash & Carry stores, respectively. 5 new METRO Cash & Carry stores were opened in India.) • Number of Metro Group Joint Ventures and Associates: 13 in 2011, 11 in 2012 • Metro Cash and Carry Investment/Sales (2012): 407/31636 = 1.3% • Metro Cash and Carry Investment/Sales (2011): 799/31121 = 2.6% • – that’s the name of the franchise programme that METRO Cash & Carry Romania introduced in March 2012. METRO Cash & Carry has also introduced similar programmes under different names in Bulgaria, Croatia, Poland and Serbia. Roughly 4,000 franchisees are involved. Customers purchase the majority of merchandise, in particular own-brand articles, through the sales line.

[Exhibit 15 - Capital Light: top retailers' assessment](#)

Data Analysis Conclusion

Having analyzed the characteristics of retailers in the scope of each Key Value Driver and based on the Coding Scheme produced (Annex 1), it is possible to position them, accordingly to their maturity level. In the following table, being 1 to 5 the maturity level, where 5 represents the highest level, it is disclosed a picture of the relative positioning of each of the 5 (Retailer X included) analyzed retailers:

	1	2	3	4	5
CCR		Walmart		Metro C&C Retailer X	Carrefour Tesco
Store Concept		Metroa C&C		Tesco Walmart Retailer X	Carrefour
Promotions			Walmart Metro C&C	Carrefour	Tesco Retailer X
Omni-Channel			Retailer X	Walmart	Tesco
Internationalization	Retailer X		Walmart	Tesco Metro C&C	Carrefour
Capital Light		Retailer X	Tesco	Metro C&C	Carrefour

Exhibit 16 - Coding Scheme Results^x

Taking a picture of this overall positioning, Retailer X can now define who are the references in the industry, in the scope of each Key Value Driver. Therefore, it is able to establish growth objectives to achieve similar results.

^x Some companies do not disclose official information about specific metrics of the coding scheme, and other could not be found. In these cases, the maturity level of the company is not shown in Exhibit 15 – Coding Scheme Results.

Chapter 5 – MAIN CONCLUSIONS AND FUTURE RESEARCH

As it was previously explored in the literature review, organizations need to keep a constant pace of innovation, improving their performances, constructing more flexible and agile projects to become more capable of overcoming crisis or any discontinuities. Having the brightest people within the organization is not enough anymore, and believing in that is not the correct mindset either. With the increasing use of Internet and search engines and the increasing mobility of human resources (thus mobility of knowledge), it is very difficult to keep innovations “secret” for a long period of time. Therefore, the ability to exclude others from copying products or techniques developed is not a key success factor in the retail industry anymore. It is rather being able to use innovative products and techniques while being involved with all stakeholders in an almost “symmetric information” economic world.

Increasing the ROInn (Return on Innovation) is achievable through a combination of factors, one of them being a growing number of ideas in the innovation pipeline. And for that, it is crucial that ideas developed by other retailers are also internally exploited. Likewise, assessing best practices of the top worldwide retailers studied in the scope of each Key Value Driver is, on its own, a valuable tool to drive “low-cost” innovation.

Recommendations

A large percentage of firms use diverse external knowledge sources in order to boost internal innovation activities. The figure below displays different external sources for innovation and shows the percentage of firms that use these sources extensively (Ridder and Hagedoorn, 2011).

The common procedure is for companies to engage in partnerships of Open Innovation with “Universities/Research Institutes”, “other firms”, “suppliers” and “customers”.

However a challenge arises: **Would Retailer X extract value from an Open Innovation relationship with a similar company in the same industry (not being a direct competitor)?**

Based on the fact that both companies would be in similar knowledge situations, they would have the following advantages:

- Both being aware of the constraints of the business;
- Both knowing the problems and challenges that the industry is going through or might face, as well as market trends;
- They can join resources and develop solutions that create mutual value, without overlapping each one's different market frontiers;
- Both know what are the customer needs.

Therefore, Retailer X would have the following options:

- 1) Engage in an Open Innovation relationship with the top performers in each KVD
- 2) Engage in an Open Innovation relationship with retailers similarly positioned in terms of maturity level in each KVD

Option 1)

Being the first retailer to engage in innovative services might be too risky sometimes. For example, it took Tesco a good deal of time to understand the idea of customer centric retailing and to get closer to the customer. However, once understood, the company re-aligned its business, value proposition, resources, processes and systems, and finally changed its mindset, being able to adapt to customers' needs.

To avoid the mistakes that Tesco and other retailers went through, Retailer X should focus on these benchmarks and try to learn lessons from them.

I believe that creating a closer relationship with Carrefour and Tesco (retailers with maturity level 5 in several KVD) might be held as an extremely strong competitive advantage. It might just be a simple relationship, where there is exchange of information through mutual visits and conferences.

Such strategy allows exchange of expertise in different fields/departments. One company shares best practices to the other, and "the payback is in the same coin".

Such a Joint Project might also evolve to something more tangible and solid, but to start an Open Innovation methodology, it is crucial that both expectations and strategies are aligned. Moreover, new ideas will be on the pipeline, and for sure, with such expertise from both retailers, the time to market of those ideas will be much shorter.

Thus, it is important that Retailer X continues studying Carrefour and Tesco and trying to design a partnership model that can help both improving in different business areas.

Even if, after a thoughtful study about the possibility of developing an Open Innovation relationship with another retailer, Retailer X decides not to go through with it, the firm might learn with their best practices and do benchmarking on techniques that can be adapted to its reality.

Option 2)

On the other side, partnering with retailers that have similar maturity level to Retailer X might be the solution. This way, they can share resources in order to achieve a common solution to the challenges and difficulties that both might face. Therefore, it is also recommendable that the retailer keeps extending the study to a larger number of retailers.

Concluding, this option allows both partners to increase the number of ideas in the innovation pipeline, to share risks, and, by using each others' expertise, decrease the time to market of the ideas, as well as the Capital Expenditure.

Coding Scheme

The matrix constructed based on the six Key Value Drivers is an evaluation tool that requires future governance, so that the KVDs and criteria do not get outdated.

It is a flexible tool that can be tuned according to macro-economic changes as well as adapted to other industries. With the passage of time, it is crucial that the criteria follow the evolution of the industry and markets.

Moreover, it is important that Retailer X continues studying more retailers with whom it can possibly innovate. Therefore, I recommend that an Open Business Model is created between Retailer X and a management school/university, where students/investigators are responsible for keeping the criteria actualized and for studying specific retailers each semester. It is an inside-out type of Open Innovation where Universities are developing an inside produced idea/project.

Chapter 6 - Conclusion

The final considerations synthesize the work and results of a literature review and the study of a methodology that facilitates the identification of retailers that might be possible partners to engage in an Open Innovation Relationship that took 4 months of investigation. I decided to choose this topic – Food Retailers’ Evaluation: Guidelines for Open Innovation partnerships - because of the interest it arouses in me, its increasing relevance in modern organizations “daily life”, and , lastly, the increasingly importance it has for the company I work in (Retailer X).

Open Innovation, known as a flux of knowledge and technology (Chesbrough, 2006), allows the rapid innovation process in almost all companies. Additionally, companies that have an open attitude to external stakeholders and to change, show a strong and solid competitive positioning in the market than the ones that are internally focused on their resources (Goffin and Mitchel, 2005). This way, it is necessary that an open attitude arises and consequently a flexible adaptation and rapid evolution in every business.

From the discussion in the previous sections, it can be concluded that Retailer X is a company that tries to take advantage of the external knowledge and is still making a huge effort to develop and achieve new objectives with the top worldwide retailers.

This thesis can be synthesized in three main pillars. Firstly, from this dissertation resulted a tool that permits the evaluation of food retailers and that might be used for many other situations rather than searching for Open Innovation partners. It is flexible, timely adaptable and with room to study an infinite number of retailers. Also for future researches on Open Innovation methodologies or even benchmarking practices in the retail business, this tool might be of extreme importance and helpful.

Secondly, from this thesis resulted the positioning of the 4 top worldwide retailers in the scope of the Key Value Drivers studied – CCR, Store Concept, Promotions, Omni-Channel, Internationalization and Capital Light. From here, Retailer X is now able to decide which ones perform distinctively on each KVDs.

Finally, it was demonstrated that Retailer X is a company that always “looks up”, trying to follow best practices and partnering with the best retailers in the industry. It is looking for increasing its openness and to establish more Open Innovation relationships, trying to adapt to the demands of the industry.

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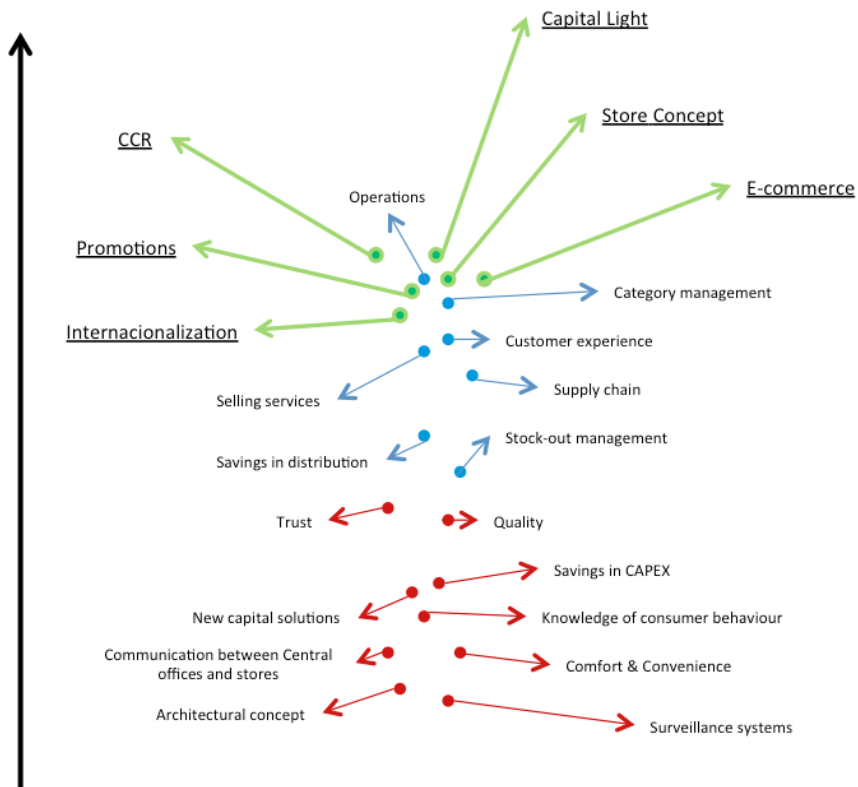
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- Retailer X innovation book 2010, 2011 and 2012
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- Strategos Open Innovation Blue Book 2011

Appendices

ANNEX 1 - CHOOSING THE KEY VALUE DRIVERS

Relative Impact on the objectives of Sonae



Long list:

- Category management
- Supply chain
- Operations
- Promotions
- Loyalty programs
- Knowledge of consumer behaviour
- Trust
- In-store innovation
- E-commerce
- Quality
- Co-creation
- Sustainability & green
- Customer experience
- Emerging markets
- Localization
- Architectural concept
- Communication between central offices and stores
- Comfort & convenience
- Surveillance systems
- Savings in distribution
- Stock-out management
- New capital solutions
- Savings in CAPEX
- Cost control & optimization
- Development speed, focus and flexibility
- Selling services

ANNEX 2 - CODING SCHEME

	1	2	3	4	5
Customer Centric Retailing	<ul style="list-style-type: none"> •No customer data 	<ul style="list-style-type: none"> •Customer segmentation according to the value that each customer represent to the company 	<ul style="list-style-type: none"> •Customer segmentation according to the value that each customer represent to the company •Loyalty Card •Customer segmentation is used in Promotion Strategy 	<ul style="list-style-type: none"> •Customer segmentation according to the value that each customer represent to the company and the life-style of the customer •Loyalty Card •Customer segmentation is used in Promotion Strategy and Product selection 	<ul style="list-style-type: none"> •Customer segmentation according to the value that each customer represent to the company and the life-style of the customer •Loyalty Card •Customer segmentation is used in Promotion Strategy and Product selection •Partnership or acquisition of external company to deal with customer information •Customer Centric Retailing is part of the Company's strategy and organization
Store Concept	<ul style="list-style-type: none"> •Store in its basic concept •No emotion in the purchasing act •Almost no technological Innovation 	<ul style="list-style-type: none"> •The store concept goes beyond purchasing and paying •Design, layout and image of the store are aligned with the "strategy of the Store" 	<ul style="list-style-type: none"> •Company offers complementary services, rather than just doing the core business •Micro-space is organized (products are organized in the shelves) •Efficient communication of the product categories 	<ul style="list-style-type: none"> •Company offers complementary services, rather than just doing the core business •Existence of specialized employee in each section •Efficient communication of product categories, price, and characteristics 	<ul style="list-style-type: none"> •Each section of the store provides an experience to the customer that goes beyond purchasing •Updated equipment with technological innovations •Macro and Micro layout aligned with strategy defined by the firm, providing a very good and efficient space communication •Innovative architecture with good functionality, from the parking lot to the payment cashiers
Promotions	<ul style="list-style-type: none"> •No sales promotion •In-store product promotion almost inexistent 	<ul style="list-style-type: none"> •Existence of sales promotion •Only in-store product promotion 	<ul style="list-style-type: none"> •Existence of sales promotion •In-store product promotion •Promotion outside the stores with the objective of bringing customers inside 	<ul style="list-style-type: none"> •Aggressive promotional activity •Minimum of three different promotion mechanics •Large number of categories that are object of promotion 	<ul style="list-style-type: none"> •Existence of at least 4 different promotion techniques •Large number of categories that are object of promotion •Different promotion vehicles used •Efficient micro-layout communication of promotions: clear communication of products' characteristics
Omni-Channel	<ul style="list-style-type: none"> •Only Bricks-and-mortar operations 	<ul style="list-style-type: none"> •Existence of offline and online operations with search and purchase options 	<ul style="list-style-type: none"> •Online sales \geq 1% of total sales 	<ul style="list-style-type: none"> •Physic, mobile and web channels •Functional website with a good purchase experience •Online sales \geq 1% of total sales •Possibility of mobile purchasing (m-Commerce) 	<ul style="list-style-type: none"> •The company is able to deal with customer needs simultaneously through the following channels: Store, Web and Mobile App •Innovative services in ecommerce and a disruptive purchase experience. •Ecommerce complements the bricks-and-mortar offer in terms of product offering •Online sales \geq 3% of total sales •m-Commerce \geq 1% of online sales •Lead-time \leq 2 days
Internationalization	<ul style="list-style-type: none"> •No foreign operations 	<ul style="list-style-type: none"> •Foreign operations with sales representing less than 10% of total sales 	<ul style="list-style-type: none"> •Foreign operations with sales representing less than 10% of total sales 	<ul style="list-style-type: none"> •Foreign sales represent more than 30% of total sales •The company has used at least two entry-modes, when entering new markets •International sales growth \geq 0.5% •Operations in more than 8 countries 	<ul style="list-style-type: none"> •Foreign sales represent more than 40% of total sales •The company has used at least two entry-modes, when entering new markets •International sales growth \geq 1% •Operations in more than 10 countries
Capital Light	<ul style="list-style-type: none"> •Capital Light Investment is not a current key strategic "vector" •Expansion is always made through organic growth 	<ul style="list-style-type: none"> •At least two different expansion methods (Wholesales, franchise, organic, joint-venture) 	<ul style="list-style-type: none"> •Wholesale or franchising represent at least 10% of the total operation •Investment per m² \leq €4K 	<ul style="list-style-type: none"> •Wholesale or franchising represent more than 30% of total operation •Investment per m² \leq €2K •CAPEX/EBITDA \leq 5% 	<ul style="list-style-type: none"> •Existence of local partnerships when expanding to foreign •Wholesale or franchising represent more than 50% of total operation •Investment per m² \leq €1K •CAPEX/EBITDA \leq 3%

ANNEX 3 - TOP PERFORMANCES IN THE SCOPE OF EACH KVD

Customer Centric Retailing

Carrefour

Carrefour has revealed itself to be a reference in Customer Centric Retailing. The Group teamed with Maxxing to implement the Maxxing Intelligent Promotions Suit, which enables them to control the planning, creation, execution and analysis of all **targeted** promotions campaigns across its store formats. Carrefour gained control over and dramatically improved the effectiveness of its marketing capabilities. Operational efficiency is another result, evidenced by the significant reduction in time required from campaign to execution, which in turn enables Carrefour to undertake more frequent targeted marketing campaigns. It also helps creating a common experience across all of its stores, which strengthens the company's brand and the loyalty around its customers. This partnership led the company to a very high accuracy level in terms of predicting the consumer behavior of its clients and to match the offer with what they want. For each segment, they can track exactly how footfall, average receipts and purchasing behavior have developed in each of the various product categories.

As a consequence, the product assortment, layout, price or promotion strategies are tactically decided according to the target customer segments.

Having 13.5 million active loyalty cardholders in France, its national market, allows the group to have a deep insight of the customers' purchasing habits, which in turn is an important milestone for achieving loyalty by the customers through a increasing personalized service offer.

Tesco

On one hand, Tesco's Clubcard (loyalty card) membership allows customers to save money on shopping by giving price-off vouchers. On the other hand, the Clubcard gives the company an enormous power of aligning customer purchasing data with strategic decisions like **product range allocation, pricing, store layout, design, branding and local marketing**. Once a customer is registered on Tesco's main website and starts shopping, the retailer keeps on interacting with that customer via phone, emails and text messages from time to time. In 1994, as Carrefour did, Tesco's hired an external

company to help them analysis their database and find the patterns in the data they would help them devise successful marketing programs.

Aiming to have elements that can appeal to people of all age groups, by “offering something for every member of a family”, Tesco has introduced different clubs such as Tesco Kids Club, Tesco Baby and Toddler Club, Tesco Healthy living Club, World of Wine Club etc. Membership to these clubs is free to all Clubcard holders and customers can register for the membership online.

Additionally, there was, and still is, a clear effort of evolving the best customers in the decision making of the organization. The main 150 clients of Tesco UK hold a Night Clubcard that allows them to be aware of the new products that are not yet on the market (e.g. Christmas campaign) and to discuss with the store managers what would they like to be developed or improved, during a dinner offered by Tesco. Tesco also holds yearly Customer Question Time sessions, which provides the opportunity of 12000 customers to share their views on products, price, quality, service and role in the community.

Another reason for the success of Tesco's Clubcard are the established partnerships with companies from other businesses: gas, car hire, hotels, etc.

Store Concept

Carrefour:

In 1963, Carrefour invented a new store concept – the hypermarket. As for 2011, the company around 1400 hypermarkets, 2950 supermarkets, convenience stores, cash and carry, e-commerce operations and also hard discount stores. The hypermarket format started to face some problems: The consumers preferred to shop in city center stores; some legislative factors that hampered the business, the easiness of concept copy, the increasing number of competitors, etc. The sales started decreasing and a revitalization of the concept was needed. Therefore, Carrefour changed its format to a more departmentalized one. The concept of Carrefour Planet was born. A larger and multi-specialty format was created, closer to the consumer with extra services to increase the time spent by the customer on the. The layout was updated, and a clear focus on each category enabled Carrefour to maximize the sales potential of each department. A set of complementary services is offered in its “Planet stores”, such as hairdresser, pharmacy or make-up advisory service. It also created a strategy of large signage and banners to promote pricing and make products visible throughout the store.



Exhibit 17 - Carrefour Planet

Promotions

Tesco:

Best practice retailers “rotate” promotion mechanics and constantly strive for improving their catchiness on shoppers.

Tesco has developed a promotional strategy that focus on segmented campaigns. It is an intelligent promotional mix strategy that reflects a prudent thought process behind its campaigning.

With the aim of ensuring that the customer never misses out anything offered by the company, it makes an effort to gain a place in the customers’ everyday life, through text messaging. Tesco also sends promotional offers, necessary information, new products and special deals via **personalized** email addresses to the customers. Moreover, Tesco

also sends out feedback forms and surveys via emails to keep updated with the continuously evolving customer's needs and choices.

Omni-Channel

Tesco:

Using a combination of special distribution centers for picking and packing shoppers' orders ("dark stores") and in-store picking, Tesco was the first grocer to generate profit from its e-commerce operations.

Accordingly to Frans Falize, ecommerce director of Tesco, by 2014, Internet shopping will be available in every Tesco's international market.

It developed a native Smartphone Application that, allied with the Web Mobile option, gives Tesco the capability of offering, simultaneously, an advanced and complete service, providing an evolving shopping experience and a service with only the basic and quick features necessary for the mobile shopping process.

The popularity of ecommerce at Tesco comes mainly from the variety of services that the company offers through the different channels. For example:

- 1) In June 2011, Tesco launched "Homeplus Virtual Store" in a subway station of Seoul, South Korea. The first ever "fully QR enabled virtual shop"
- 2) Tesco has set up a service for online customers which suggests 'cheaper alternatives' when a customer adds items to their basket, usually highlighting its higher margin private label ranges.
- 3) "Slot Reservation" allied with mobility option are the materialization of a new format of impulse buying: some days in advance, customers reserve a slot to receive the basket at home or to pick-up in-store. During the week they add new products to the basket via mobile. In the end, they just close the order. One interesting point is that, during this process, they were subject of temptation to buy more goods, more times than they would be if they would just go once to the store.

Internationalization

Carrefour:

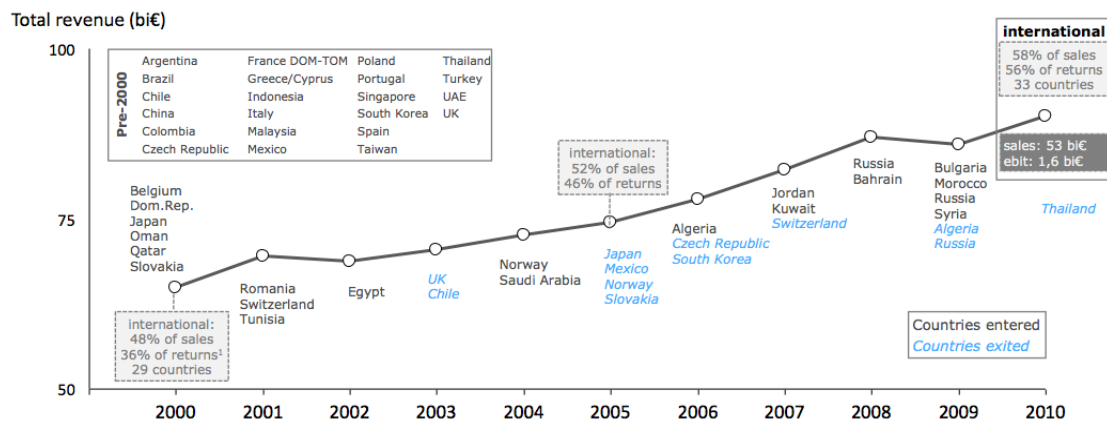


Exhibit 18 - Carrefour's Internationalization Path

Carrefour began to expand to external markets very early. In 2001, its international sales were already higher than sales in France. In the 1990s, Carrefour was renowned for its willingness to enter new markets but under CEO Lars Olofsson it continues to pull back from many unprofitable markets or operations where it sees returns as being too low. "If you cannot become leader sooner or later you will have a competitive problem. If ever I have an offer in markets where I don't believe we can become leader, I am prepared to have a look at it," Olofsson has said.

Currently, Carrefour says it is focused on "major growth markets" but the turmoil it faces in its domestic market (failure of the hyper Planet format; constant rumors of disagreements in the high hierarchy of the Company) has left little room for Carrefour to focus on international markets where it has been widely underperforming. As for 2011, Carrefour was present in 26 countries with France representing 46% of sales. Main markets are Spain (11%), Brazil (9%), Italy (9%), Belgium (7%).

One of its key success factors is the emphasis of the competitiveness of sourcing. Although they started centralizing the sourcing operations, local suppliers often deal directly with local stores. For example, in china, market where Carrefour entered since 1995, around 95% of total products is sourced locally.

Having the products supplied locally enables the company to take advantage of economies of scale, using already established distribution channels, thus, reducing transport expenses.

Carrefour’s expansion strategy is about establishing as many stores as possible in the big cities of the new markets. Only then, after testing them and adapting to the local consumer demand, they would go to other places, with a delineated and steady strategy. The French retailer uses a multi-format expansion format: hypermarkets, supermarket and hard discount stores as core. In some markets, neighborhood convenience stores were and are also a solution for the local demand.

For the years coming, Carrefour plans to divest from markets where it has a weak position and focus on G4 (Brazil, Germany, India and Japan) and “major growth markets”.

Capital Light

Carrefour:

Retailers are increasingly selecting capital light strategies such as franchising in order to keep up with their international expansion. Franchising allows retailers to quickly expand into new territories by sharing the cost of business setup with the franchisee and to benefit from the franchisee’s knowledge of the local market.

Carrefour already has an expressive number of stores under franchise agreements. In the financial year of 2010, approximately 57% of the stores were opened through partnerships or franchising.

Type of Investment \ Retail Format	Convenience	Hyper/Super	Cash & Carry	Hard Discount
Company Owned	218 stores	2275 stores	14 stores	4140 stores
Partnerships		228 stores		
Franchising	1256 stores	623 stores	1 store	1656 stores

Exhibit 19 - Carrefour's number of stores per entry mode

In the same financial year, Carrefour had an average of €1000 per m². When expanding to new markets, the French retailer initially moves with a joint-venture approach, switching to ownership when the business is stable. In the Middle East and Northern African countries, Carrefour always advance with partnerships, as the presence of a local partner who perfectly knows the consumer demand is crucial for the success of each store.

ANNEX 4 - INTERVIEWS' GUIDES

CCR

1. In your opinion, what are the criteria that you use when you are analysing a retailer in terms of performance at doing Customer Centric Retailing?
2. How do you know if a retailer has a high level of customer loyalty?
3. Is the quantity of information about customers an important criterion? Or just the way it uses that information?
4. How do I measure the quantity of information or how the retailer uses it?
5. What kinds of loyalty tools are there in Retailer X?
6. Is Social Media Marketing crucial to know the customers segment better?
7. What would be a perfect customer in terms of Customer Centric Retailing?
8. Which ones are the reference players in the industry doing Customer Centric Retailing?

Store Concept

1. In your opinion, what are the criteria that you use when you are analysing a retailer in terms of Store Concept performance?
2. Are the payment waiting time and the number of clients in the queue important criteria?
3. Is the existence of complementary business a differentiate factor in providing a good shopping experience to the customer?
4. In your opinion, what would be a perfect retailer store? What would it have to provide the customer with?
5. How do you evaluate the communication efficiency of a store?
6. Which ones are the reference players in terms of having most desirable stores?

Promotions

- 1) In your opinion, what are the criteria that you use when you are assessing a retailer in terms of promotion execution?
- 2) Is the number of promotional mechanics important?
- 3) Is the number of categories that are object of promotion important?

- a. Loyalty card discount
 - b. Samples
 - c. Coupons
 - d. Cash refunds (rebates)
 - e. Price packs
 - f. Point-of-sale promotions
 - g. Contests
 - h. Events
 - i. Etc.
- 4) What does it mean to have an efficient communication of the characteristics of the products sold? Is that measurable?
 - 5) What would be the characteristics of the perfect retailer doing promotions?
 - 6) How can the efficiency of a promotion event be measured?
 - 7) Which ones are the reference retailers doing promotions?

Omni-Channel

1. When the customer “experiences a brand”, what are the vital services that connect the physic and digital world?
2. What are the most disruptive services that can be offered in the digital retail?
3. Is the functionality of the website of the retailers critical?
4. Is the number of channels through which the retailer sells its product a possible measure to assess its performance in Omni-Channel?
5. Is Omni-Channel an advanced stage of online selling?
6. What is the difference between E-commerce, multi-channel and Omni-channel?
7. What would be the features and the operations of a perfect Omni-Channel retailer?
8. Who is the reference in the worldwide retail industry?

Internationalization

1. Is it reasonable to consider that a retailer that has high levels of profitability in foreign markets has a high maturity level in Internationalization?
2. Is it reasonable to consider that a retailer that operates in a big number of foreign markets has a high maturity level in Internationalization?
3. Which ones are the big international players?
4. Is the format of the shops important in the process of internationalization?

5. In your opinion, what are the criteria that you use when you are analysing a retailer in terms of Internationalization performance?

Capital Light

1. In your opinion, what are the criteria that you use when you are analysing the “Capital Light performance” of a retailer?
2. In your opinion, what would be a perfect Capital Light retailer?
3. Should all cost saving measures be perceived as capital light?
4. What is the difference between cost saving and capital light?
5. Is Capital Light always related to international expansion?
6. Which ones are the reference Capital Light players in the worldwide market?