



# LEAN RETAIL

## BACKGROUND

Traditionally, the retail industry has been focusing on early technology adoption as a major driver to improve its bottom line. In the 1980s, unique packaging codes/barcodes together with point-of-sale systems were implemented to boost efficiency and accuracy. In the 1990s more complex planning tools for forecasting, merchandising, smart warehousing/distribution and pricing were introduced to retail operations. And finally, in the 2000s, cross channel integration, ERP platforms, online stores, and pricing/markdown tools were implemented.

Still missing, until now, are major improvements/investments in inventory management processes between central warehouse/depots to retail stores/outlets and within retail stores (in-house logistics) themselves. While RFID technology and item-level inventory management systems are considered to be technologies to once again drive retailers' bottom line, we at Four Principles believe that these technologies, as with any other technology, deliver their full potential only when implemented in combination with a continuous improvement process following and adopting Lean principles (technology follows process - and not the other way round).

Process and organisational improvement through Lean is capable of addressing most challenges in the retail merchandise life cycle while creating significant and tangible value for retailers through continuous satisfaction and overachievement of customer needs.

# CHALLENGES

THERE ARE SEVERAL TRENDS OCCURRING IN THE WORLD OF RETAIL THAT POSE CHALLENGES AS WELL AS OPPORTUNITIES FOR CHANGE, SUCH AS:

## STRUCTURAL CRISIS

Revenues of bricks and mortar retail have been stagnating, whereas the share of private consumption in this retail channel has been decreasing steadily since the 1990s from 40% share to below 30% today. Another structural crisis has been the eroding margins in that return on sales has been reduced by half in recent years as well.

## SUB-OPTIMAL PRICE AND PRODUCT RANGE STRUCTURE

Inefficient price and product range decisions, due to missing/incomplete customer shopping insights.

## PRODUCT OFFERING THAT DOES NOT REFLECT CUSTOMER NEEDS

Historically grown/mushroomed product structure, interchangeable products, no customer-centric, pro-active, consumption oriented product range management, and increasing complexity costs through unnecessary product range extension.

## PREDOMINANCE OF CENTRAL PROCUREMENT

Local market requirements not reflected adequately and customer requirements not reflected sufficiently in prices and product range.

## SHIFTING CUSTOMER NEEDS

Revenue potential shifting from bricks and mortar to online retail stores, customers expecting 24/7 availability of information and shopping opportunities, continuously increasing price competency and sensitivity, and soaring diversity in customer segments/segmentation.

## PRIVATE LABELS

Declining brand loyalty and increasing revenue share of private label brands.

## INCREASED DEMAND FOR LIFESTYLE PRODUCTS

Increasing degree of customer segment individual products (convenience, organic, etc ...).

## LIFE CYCLE ACCELERATION

Product innovations since 1997 increased by 11% annually and flop rate increased in same time from 60% to 69%.

## INTERNATIONALISATION

Only fast-growing retailers with strong home base (customers, processes and organisation) achieve decent sales return, and most successful concepts in general are discounters and convenience stores.

## FOCUS AREAS

FOUR PRINCIPLES' LEAN RETAIL APPROACH FOCUSES ON INCREASING EFFICIENCY IN CORE PROCESSES BY TAKING ON A FULL SUPPLY CHAIN VIEW FROM AS EARLY AS PLANNING THE SEASON TRENDS ALL THE WAY TO SELLING THE MERCHANDISE TO THE SHOPPER:

### SALES PLANNING

Target process setting (KPI's), roles & responsibilities alignment between procurement and disposition, reduction of variants and definition of optimum merchandise density on shelf.

### SALES CONTROLLING/SCHEDULING

Controlling of merchandise (life-cycle management), price reduction/discounting process, and introduction of fire-sales through "clearing zones".

### LOGISTICS

Lead time optimisation (factory/supplier to central warehouse and then to depots and outlets), reduction of required warehousing/storage capacity, continuous/just-in-time replenishment and elimination/reduction of stock-outs.

### SALES

Freeing up sales clerks' time to serve more customers in better ways.

## AREAS OF WASTE OFTEN IDENTIFIED IN A RETAIL ENVIRONMENT:

### TRANSPORTATION & HANDLING

Unnecessary movement of merchandise, e.g. movement of inventory between one outlet and the other or between outlets and the central warehouse and vice versa, due to customer quality claims (exchanging/returning merchandise) or unforeseen different local market demands for individual articles (red article is fast mover in region north, but dead stock in region south).

### INVENTORY

Retailers carry more merchandise than necessary. This includes merchandise in transit (e.g. shipment from China) and out of season products that are kept on shelves or in back door storage for several months or even years (though everybody knows that this merchandise is unsellable, even at the highest discount rates).

### OVER SUPPLY

Supplying merchandise faster than customers' needs, basically supplying it in batches and ahead of demand. Bringing in large quantities of merchandise without matching demand creates excess inventory which results in markdowns and fire sales, which in turn diminishes inventory levels with a negative impact on revenues and profits.

### OVER-PROCESSING

Merchandisers inventing the wheel over and over again when setting-up promotional displays and tables rather than sticking to the agreed/pre-defined planogram.

### MOVEMENT

Unnecessary movement of employees during their work, e.g. customer asking for different size of merchandise and sales clerk having to go to storage room to check and find right size, or a warehouse services employee walking several hundred metres between racks to pick and kit ordered items for an outlet delivery.

### WAITING

Delays in previous supply chain steps cause unnecessary waiting for customers, employees or merchandise, e.g. being out-of-stock reflects waiting time for customers, delayed delivery from central warehouse in the morning causes waiting time for employees waiting at back door to offload merchandise, inventory at warehouses causes waiting time for merchandise.

### DEFECTS

Merchandise in bad quality, merchandise to be re-worked, and merchandise that has to be scrapped or sold-off below cost price due to mismatch with customer tastes and requirements.

### UNUSED SKILLS

60% of sales clerks' working time is tied up with internal house logistics and merchandising tasks, while at the same time customers are wandering around in the store looking unsuccessfully for assistance. Sales clerks' should be focusing on assisting and selling to customers; using their time for anything else is waste.

# LEAN SOLUTIONS

## SALES PLANNING

Derive concrete (quantitative and qualitative) goals/targets from company strategy, operationalise goals/targets by cascading them down to operational work levels, “Frontloading” of planning process i.e. goals/targets to be sufficiently set early for each season, planning based on real sales floor capacities and turnover rates, definition of capacity figures per shelf and type of merchandise, establishing of business processes and tools for continuous update of sales floor capacities, reduction of merchandise mix and depth to be able to introduce new ranges/lines fast and continuously, and improving “legibility” of range/line through reduction of merchandise mix and depth.

## SALES CONTROLLING/SCHEDULING

Introduction of standardised lifecycle management, implementation of a controlling tool (first non-IT and if proven to deliver results then translate into IT) to enable early decision making based on real sales figures, incentivising customers continuously (write-downs) to optimise actual sales vs. budget, automated daily re-ordering of daily sold merchandise (just-in-time), overnight delivery/replenishment of orders, adaption of target stocks only if long-term sales figures have changed or clearance sales planned (to be done by central dispatching), and introduction of a simple and transparent KPI-cockpit, enabling efficient discussions and effective decisions.

## LOGISTICS

Re-engineering of material flow to give employees transparency over stocks and order status at any given moment in time, resulting in reduced and reliable lead times, inbound logistics of seasonal merchandise taking place in specially dedicated inbound corridors and outbound logistics taking place only in specially

dedicated outbound corridors, merchandise is delivered on moveable transport devices (on wheels), optimised storage (adjustable altitude of shelves) with no need for additional devices (e.g. forklifts), break silo mentality between procurement and dispatching department, and mid-term reduction of stocks and confirmed pick availability.

## SALES

New definition of roles and responsibilities to reduce and eliminate redundancies. All in-house logistical activities are focused in one “goods service” department to increase efficiency by introduction of the “nurse-surgeon” principle, meaning the separation of sales and in-house logistics jobs (separation of value and non-value adding activities). Clear definition of processes, roles and responsibilities for each of the stocking areas resulting in more efficient work (defining what a sales clerk is allowed and not allowed to do in a stocking area), qualitative (“what”) and quantitative (“how much”) definition of all stocking areas. Introduction of binding rules, structures and standards to the labelling process of merchandise, also introduction of an adaptive staffing process (in-house logistics and sales) based on the average sales per weekday of the season in order to increase sales quality to customers and reduce cost, and creating “info-points” as reference for customers: less staff necessary on sales floor with better customer service.



# TANGIBLE IMPROVEMENTS

## LEAD TIME

- Reduction of lead times by 60% (-72 hours) through automated re-ordering of daily sales and overnight replenishment
- Reduction of lead times by 22% through streamlined logistics process in central warehouse management/ services (optimised picking, kitting and packing)

## QUALITY

- Efficient structures and use of small stocking areas on sales floor leading to increased availability of sales staff by 8% when needed by customers
- Increased availability of sales personnel for the customers by 16% through introduction of separation of in-house logistics and sales personnel, and implementation of flexible staffing process

## COSTS

- Prevention of new/additional dead stock (slow movers) by USD 750,000 p.a. through implementation of planning based on real sales floor capacities and turnover-rates
- 20% reduction of product mix depth to increase legibility of range resulting in generation of 1.5% additional sales p.a.
- Reduction of stock (slow movers) and depreciation budget by USD 6.5 million p.a. through introduction of merchandise lifecycle management

Should you be interested to know more about our Lean services regarding this topic, then please contact us:

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