

European School of Business

Simon G. Fauser

Lean Retail

Can lean production help retailers
to address global challenges?

Schriftenreihe des ESB Research Institute

Herausgegeben von Prof. Dr. Jörn Altmann und Prof. Dr. Ottmar Schneck

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ISSN 1614-7618

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ibidem-Verlag
Stuttgart

Bibliografische Information der Deutschen Nationalbibliothek

Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über <http://dnb.d-nb.de> abrufbar.

Bibliographic information published by the Deutsche Nationalbibliothek

Die Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data are available in the Internet at <http://dnb.d-nb.de>.

A CIP catalogue record for this book is available from:

Die Deutsche Bibliothek

<http://dnb.ddb.de>

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Dieser Titel ist als Printversion im Buchhandel
oder direkt bei *ibidem* (www.ibidem-verlag.de) zu beziehen unter der

ISBN 978-3-89821-810-8.

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ISSN: 1614-7618

ISBN-13: 978-3-8382-5810-2

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Stuttgart 2012

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Preface

The famous MIT study of the 1990s about the competitiveness of the Japanese automotive industry came as a shock for the European and American automotive industry. There was little doubt that increasing openness of global markets would give rise to two predominant factors deciding about success or failure of a company. The two factors were and still are innovation and process excellence. In response of the challenge the German automotive industry launched an innovation initiative and programs to increase process efficiency mainly based on the application of lean principles. Other industries followed this example. Hence, the applications of lean production philosophy lead to increased efficiency throughout a big part of total industry.

Today we see many successful industrial companies whose organizations are based on lean principles. As the lean development gained momentum in the industrial sector, some companies in the trade and whole sale sector also started to be influenced by lean principles. Surprisingly even though trade and wholesale do not have production operations, some companies emerged to become beacon companies in wholesale and trade.

This book tries to analyze lean production philosophy in the search of lean principles. Until now a lot of research has focused on lean production philosophy and how industrial firms can benefit from lean principles. However, only recently research has expanded its scope beyond industrial companies. Mr. Fauser adds to this recent development by extracting lean principles from production and asking how these principles might help to address challenges global retailers are facing today. He shows that lean principles can contribute to cope

with global retail challenges. His findings imply that similar to the revolution European and American automotive industry experienced in the 1990s wholesale and trade could experience a likewise development today.

The book is a result of research conducted at the ESB research institute (ESB-RI) and is part of a project pursued by Porsche Consulting, Bietigheim Bissingen. It provides first qualitative insights of how far lean principles can address global challenges retailers are facing. While taking Tesco and Inditex (Zara) as reference cases it can be shown that lean principles have the potential to increase competitive performance also in the field of wholesale and trade.

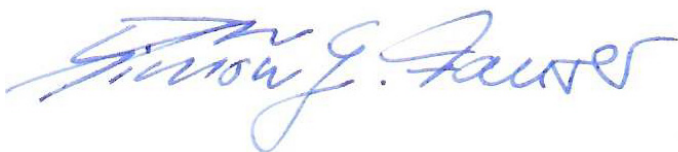
Further research could address questions in how far lean principles are already spread out in retail and whether retailers consider lean principles as important for success in retail. The increasing scope of action for retailers – addressed by the movement of lean consumption – could further leverage ambitions of retailers to benefit from implementation of lean principles.

Mr. Fauser shows that lean principles are definitively worth to be looked at for retail companies on their strive for efficiency.

Prof. Dr. Peter S. Niess,
(Director ESB Research Institute, Dean ESB Reutlingen)

Dr. Hans-Peter Baumeister,
(Director ESB-Research Institute)

My utmost thanks goes to all people who contributed to this book with their valuable comments and suggestions. Among these, Prof. Dr. Peter S. Niess, Prof. Dr. Jürgen Roth, Dr. Hans-Peter Baumeister from Reutlingen University and Dipl.-Ing. Sven Seidel, division manager at Porsche Consulting. Furthermore I am grateful to Dipl.-Kulturwirt Oliver Zürn and my wife Carolin for their manifold support.



May 2007, Simon G. Fauser

Remark: For the ease of reading the male form of expressions is used.

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1. Introduction

Global retailers today face manifold challenges. Among these according to New York Times the following are important to address - “Speed, flexibility, adaptability both to changing consumer lifestyles and expectations are critical not just to the retailer's merchandise mix, but to the fulfillment process as well.” (Vargas, 2005, p.1)

The necessity to reduce time to market, to increase flexibility that is to produce the exact quantity which is demanded by the consumer just days or better hours before it is consumed, to adapt to changing consumer lifestyles which means a change in what consumers value are just the core issues global retailers are facing today.

Even though global retailing has seen growth in the recent past, competition in retail remains intense (Deloitte, 2006, p.1) especially as the white spots on the globe are more and more disappearing. It is not only a war about the best spots but increasingly a war about the retail format that best suits the individual consumer. Especially the aggressive and fast expanding discounters challenge the bigger store formats of traditional retailers.

Yes, competition and speed have always been important in retail one could argue, however with globalisation and the emancipation of the consumer the factors determining success or failure leave less and less time for retailers to adapt to the ever-changing environment. Thus, retailers are constantly looking for means to successfully address these challenges.

As we experienced in the past other sectors of the economy face similar challenges. An example is the automobile industry where customer emancipation took already place years ago. Today it is Toyota which is at the edge of becoming the biggest car manufacturer in the world (Handelsblatt, 2006a, p.17). The backbone of Toyota’s

success is the so called Toyota Production System (TPS). TPS itself is built upon lean principles.

The **challenge** I address is to investigate these principles utilized by Toyota (and other industrial companies) and to find out in how far they determine lean thinking and therefore are also applicable to retail companies. Finally, I try to link lean principles to the current challenges global retail companies are facing.

In detail: Lean Management (LM) with its core at Lean Production is the starting point. Over abstracting lean principles from LM via lean thinking the meaning of lean principles for the core processes of retail is approached. The cases of Tesco and Inditex (Zara) – both leading European retail companies – are investigated as reference cases of lean companies in retail.

The **pursued systematic** of this book in order to achieve the abovementioned goal is in detail:

(1) *Analyse Lean Management theory*

(2) *Identify major lean principles*

(3) *Theoretically apply lean principles to (European) retail- while referring to Inditex (Zara) and Tesco*

(4) *Describe the impact lean principles have on challenges retailers are facing today*

The **structure** of the book encompasses five chapters. The introduction is build upon the retail challenge, issues the book is addressing, the goal and the structure. The second chapter provides an overview of the historic development of LM, names its elements and principles and via lean thinking unveils the bridge to lean retail. The third chapter introduces the reader to the global and European retail market. Then the core processes of retail are described using the examples of the grocery (Tesco) and textile markets Inditex (Zara)). And finally at the end of chapter three the success factors of Lean Retail (LR) are summarized. Finally, chapter four deals with success