

Lean Retailing

ACHIEVING BREAKTHROUGHS IN STORE PROFITABILITY

Retailers across North America are facing clear challenges to simultaneously reduce costs and increase sales, but making it happen across hundreds or even thousands of stores is difficult. For the customers of a global specialty retailer, the long checkout lines were frustrating. For the retailer itself, these checkout lines were a very public sign that the company could not operate its stores well while providing distinctive service to customers. To solve its frontline problems, the retailer chose to work with McKinsey to apply the lean manufacturing techniques first invoked by Japanese automakers and since adopted by manufacturing organizations worldwide. Our client work and research have shown how the techniques – such as simplifying work design, using “pull” to drive replenishment, removing bottlenecks throughout the supply chain, and eliminating wasted effort, wasted time, wasted materials, and wasted motion – apply directly to the retail environment. For the retailer, the work focused on generating significant improvements in store profitability and customer satisfaction.

USING LEAN RETAILING

Lean Retailing is McKinsey's unique approach. By using Lean Retailing, which combines the principles of lean manufacturing with the best practices of retail operations, this global retailer developed a series of activities that would directly and indirectly improve its customers' experience:

- Rebuilt every work process from the customers' perspective to save labor costs and fund improvements in customer service
- Made “upstream” improvements at the distribution center, improved merchandising, and eliminated or simplified tasks that were invisible to customers
- Piloted process changes in a handful of stores and tested the implementation program more broadly, giving district managers intensive training, added support, easy-to-use frontline tools, and greater accountability for success
- Strengthened standard benchmarking approaches with rigorous performance management tools to compare operating and financial metrics, and achieve real store-level performance improvements.

The Lean Retailing journey was certainly beneficial to customers and rewarding to those operators involved. This retailer was able to cut store-level labor costs by 12 to 15 percent while increasing service to customers. Managers found ways for sales associates to spend more time with customers during critical times of the day and week. These

investments in customer service drove additional increases of 2 to 5 percent in comp store sales and, importantly, provided the retailer with a solid financial foundation to fund other strategic initiatives. Overall, we helped this retailer build strong employee enthusiasm and motivation, while creating very satisfying in-store experiences for customers.

DELIVERING SUBSTANTIAL IMPACT IN MANY RETAIL FORMATS

This Lean Retailing approach developed by McKinsey has driven rapid network-wide impact in many retail formats – grocery, specialty, apparel, convenience stores, discount, entertainment, and quick-service restaurants. It requires little capital investment and consistently delivers substantial impact through sales increases and cost reductions. In our client experiences, retailers have typically increased comparable sales by up to 10 percent while reducing store labor costs by 10 to 20 percent, inventory by 10 to 30 percent, and stockouts by 20 to 75 percent.

Programs can often be developed, tested, and implemented across more than 1,000 stores in less than 9 months, and can deliver material financial benefits within 6 to 9 months. To ensure the sustainability of these programs, impact is achieved by shifting the attitudes, behaviors, and mind-sets of the frontline staff.

We believe Lean Retailing is the key to managing the many pressures and challenges in today's tough retail environment. We've worked with retailers across the world to test and apply this proprietary approach. By using lean manufacturing techniques to redesign in-store processes, frontline behaviors, brand standards, performance management, and store systems, Lean Retailing unlocks opportunities within retail operations that traditional store operations approaches cannot capture (see Exhibit). The precise applica-

tion of Lean Retailing will vary by format and match a retailer's unique combination of needs, resources, and capabilities, but our store-specific solutions will invariably create a competitive advantage and a virtuous cycle of continuous performance improvement.

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Built on industries' collective lessons about lean manufacturing and on our own extensive process expertise, McKinsey's Lean Retailing approach allows executives to redesign their operations and make step-change improvements to priority items on their agenda. It is the combination of tools, insights, process redesign, and change management approaches that drives impact in the near and long term. In the near term, lean principles help retailers increase the capacity for future growth initiatives, improve the quality and consistency of frontline execution, enhance the enthusiasm and motivation of the frontline staff, and create distinctive shopping experiences for customers – all while improving margins. In the long term, lean principles help build organizational skills and capabilities throughout the organization.

Exhibit

Lean Retailing helps transform retail operations

Myths about retail operations

It is impossible to provide better customer service without increasing labor costs

We cannot predict customer demand, so we must be ready for anything

Product availability can only be improved through increased amounts of inventory on hand

We would need a lot of capital to invest because this program may not pay back for years

By giving stores more control, I lose network-wide consistency and standardization

Lean Retailing perspectives

"We can improve customer service and frontline employee satisfaction without increasing labor costs"

"Overall demand may be highly variable, but many parts of it are quite predictable"

"We can simultaneously reduce inventory levels and out-of-stocks"

"We can develop an integrated performance improvement program that delivers results in the same year and is self funding"

"We can increase consistency and standardization while empowering local management"