



## THE POWER OF A CUSTOMER-FIRST MENTALITY: LEAN MANAGEMENT IN E-COMMERCE

THE BREAKNECK PACE OF DIGITAL ADVANCEMENT IS UPENDING INDUSTRIES WORLDWIDE, INCLUDING RETAIL, WHERE E-COMMERCE IS EXPERIENCING STRONG DOUBLE-DIGIT GROWTH AND NOW REPRESENTS ABOUT ONE-TENTH OF TOTAL SALES. IN AN ENVIRONMENT WHERE EVERY CLICK MATTERS AND CUSTOMER EXPECTATIONS ARE RAPIDLY EVOLVING, LEAN MANAGEMENT PRINCIPLES ARE A PROMISING PATH TO E-COMMERCE SUCCESS.

## KEY LEAN CONCEPTS PROPEL SUCCESS IN E-COMMERCE

*“Lean thinking—built upon a ‘customer first’ mentality—is a natural fit for the e-commerce sector,”* notes James Ryan, Principal Consultant at Four Principles. *“The spirit of Lean requires the business to identify the customer’s perception of value and gear everything toward optimizing that value; it requires retailers to think beyond standard sales and marketing tactics. The bedrock principles of Lean are designed to develop a comprehensive e-commerce business model and maximize the chances of success.”*

Here are several key ways Lean thinking can help e-commerce companies deliver more value to customers while also achieving fundamental, sustainable improvements in profitability:

**Customer value perception:** *Competitive price offer and fast, accurate delivery* – Today’s online shoppers are more price-aware than ever before. Thanks to easy access to an unlimited number of e-commerce sites and price comparison tools, customers can track down the best deal in a matter of minutes.

Online shoppers also care about delivery options: 31% of online shoppers expect to see expedited shipping options at checkout, and 46% will abandon their cart when a shipping timeframe is too long or not provided. Inventory transparency is similarly important: Customers want to know if an item is available. 58% of online shoppers find it important to have the ability to view inventory status and 41% will abandon a cart when products are out of stock.

**Lean management solutions:** *Minimal waste plus optimal efficiency in supply chain and logistics operations* – To successfully deliver value to e-commerce customers, retailers must balance three core goals: Completely meet demand, fulfill orders at minimal cost and deliver at the promised time.

How can Lean principles help? By optimizing the utilization of resources, particularly in the major functions of the supply chain, including demand planning, procurement, warehousing and logistics. Additionally, Lean strategies identify and reduce wastes, such as unnecessary waiting in the warehouse, over-processing of information and data, and unnecessary movement of cargo and products. Implementation of Lean also entails mapping the flow of materials from vendors to customers, identifying challenges and opportunities for optimization at each phase.

Successful application of Lean principles can ensure e-commerce businesses choose the right supply chain model, shorten lead times, and rely on real-time data instead of forecasts. Together, these improvements can deliver tangible value to the customer and meaningfully improve the company’s top and bottom lines in the form of lower operating costs, reduced inventory and improved delivery performance.

To see the benefits of Lean in action, consider a leading UK online retailer who employed customer-focused Lean methodology to generate business improvements after a significant merger. At the start of the project, nearly 9% of packages were held for repacking, leading to delivery delays and customer complaints. After a detailed mapping of the packing process and optimization of the balance between packing equipment and employee packers, the company reduced the number of parcels held for repacking by 32%.

Consider also the adoption of RFID (radio frequency identification) technology as an illustration of Lean implementation in e-commerce. RFID technology achieves key Lean objectives by tracking merchandise throughout the supply chain, helping to eliminate errors and optimize processes. Retailers can use near-perfect inventory accuracy to maintain more efficient distribution centers and generate substantial benefits. A quantitative study, for example, concluded that retailers with annual revenues greater than €200,000 can save 17 – 92 working days per year with RFID technology.

E-commerce companies must also focus on reverse logistics: Returns are three times more prevalent for online retailers, versus brick-and-mortar stores. Overlooking this important component is a common pitfall in process improvement initiatives. The best e-commerce retailers harness the waste-reducing power of Lean to ensure the returns process is flawless at all points by establishing a hassle-free policy, easy-to-manage return labels and timely refunds.

**Customer value perception:** *Top-notch service and quality* – The online retail landscape is extremely competitive. Customers have an abundance of choices, empowering them to place elevated expectations on every interaction they have with a retailer. As such, top-notch quality and service is increasingly important: 70% of consumers report that technology has made it easier than ever to take their business elsewhere, switching brands to find an experience that matches their expectations.

**Lean management solutions:** *Empower the front lines* – Respect for people, including customers and employees, is a central belief in Lean thinking, and engagement of the front lines is a critical part of the Lean continuous improvement process.

Consider eBay, one of the world's most successful e-commerce companies. The company introduced continuous improvement methods through Lean and Six Sigma several years ago with a focus on improving the customer experience. The company concentrated on process improvement and long-term organizational learning on the front lines of its customer service department. eBay set out to make sure its customer service agents were empowered to apply improvement tools and implement workflows to advance their problem-finding and problem-solving capabilities. Within the first year, one front-line service agent improved the contract subscription process by eliminating a redundant workflow and clearly defining service requirements. His initiative reduced the processing time from seven days to two days, and the single employee was responsible for a revenue gain of \$114,000.

Footwear e-commerce company Zappos is also renowned for its hyper-focused customer service methodology, which many experts attribute as crucial to the company's overall success. The CEO of Zappos, Tony Hsieh, believes personalized customer service is a key differentiator between Zappos and other e-commerce giants:

*"I don't think the difference [between the appeal of Zappos and the Amazon brand] is in the UI [the website user interface]. It's in how we build a personal connection, primarily on the phone. We're actually experimenting with ways to get more people to call because it's such a valuable marketing and brand builder for us."* Tony Hsieh, CEO of Zappos, as told to Micah Solomon at Forbes, June 2017

The concept of an “andon cord” is another key way in which Lean can deliver top-notch quality. The andon cord is pulled when a problem is observed. Once pulled, production stops and the team gathers quickly to remedy the issue. At Amazon, the process starts when a service agent takes a phone call from a customer who has a problem with a product:

*“If it’s a repetitive defect, we empower the customer-service agent to “stop the line,” which means taking the product off the website until we fix the defect ... The andon cord has had an amazing impact; it eliminates tens of thousands of defects per year. The other wonderful thing is that the andon cord has empowered frontline workers ... Customers can see products pulled for quality issues on the website in real time. This has created incredible energy and motivated our frontline people to do great work for our customers. Our frontline people’s assessments are almost always correct: 98 percent of the time, the andon cord is pulled for a real defect—proof, if it were needed, that when you set up a good process, you can trust people on the front line to use it well.”* Marc Onetto, senior consultant at Amazon.com, as told to McKinsey Quarterly, February 2014

## THE ROLE OF AUTOMATED PROCESSES IN E-COMMERCE

As retailers embrace digital transformation and e-commerce, automated processes frequently take on a critical role. Companies striving to meet customer needs quickly and efficiently are increasingly turning to automated services for payments, invoicing, refunds, returns, inventory management and customer service. Taking it a step further, artificial intelligence can be used to predict demand, robots can take over warehouse activities and drones can manage deliveries—all forms of e-commerce automation.

This emphasis on automation as fuel for high-growth e-commerce companies places information technology (IT) squarely in the center of critical developmental plans. In fact, a recent survey showed 89% of respondents in the US cited the need for an upgrade to IT infrastructure as a top e-commerce challenge. E-commerce firms are often saddled with disconnected legacy systems, which, for example, can require multiple re-entries across several platforms to support each new product offering. As such, IT upgrades and integration are leading priorities for growing e-commerce firms. The alternative to cobbling together multiple platforms is custom software development—which can come at a great cost.

While automated processes and the IT systems they inhabit are designed to provide more value to the customer and enable the business to scale, they can result in unintended waste and inefficiencies if not implemented properly. E-commerce is a complex industry, and automation makes it even more so. Lean principles can help. A well-executed Lean strategy starts at the beginning by working to identify which processes are ripe for automation. Lean-driven value-stream mapping zeroes in on the processes that drain the most time and money from the business, distinguishes the most frequent and repetitive tasks, and highlights activities which aren’t scalable when handled manually.

Lean thinking can help e-commerce businesses embrace automation without incurring additional steps and generating waste. Lean is designed to empower e-commerce companies to fully harness the benefits automation to do more with less: Cut redundancies, consolidate workflows and optimize resources—all in the name of delighting customers.



Consider the example of e-commerce retailer Nanoleaf, a LED light producer that set out to provide a better experience for its international customers, who were being confronted with heavy taxes, tariffs and additional unforeseen fees.

*“Our motivation was simple: be better for the customer every single day. We need to offer customers a better experience and get them their orders in a timely manner, and that’s what our international storefronts and warehouses allow us to do.”* Paul Austin-Menear, Nanoleaf’s Director of Digital Strategy

The company dug deep into its inventory, supply chain, logistics and fulfillment strategies – implementing key Lean tactics – and ultimately chose to upgrade a central IT solution. The new automated solution utilized global storefronts fed by local warehouses to eliminate shipping and tariff difficulties. Furthermore, the integrated solution enabled customers to shop in their home currency and native language.

## APPLYING LEAN THINKING TO E-COMMERCE IN THE MIDDLE EAST AND SAUDI ARABIA

*“From their Japanese roots, Lean principles have spread successfully across the US and Europe. In recent years, forward-thinking businesses in the Middle East and Saudi Arabia are beginning to embrace Lean on their path to transformational success,”* says Patrick Wiebusch, Co-Founder and Managing Partner of Four Principles. *“Given the current developments in our region—including market reforms and efforts to bolster economic diversification—many e-commerce companies are realizing they need to adopt a new mindset if they want to achieve long-term success.”*

When your e-commerce business is ready to embark on a transformational journey, Four Principles is here to deliver tangible Lean Management Expertise, not idle talk. We develop sustainable Lean Solutions across various industries throughout the world, including online retail. We implement. We are passionate about what we do. We are Lean experts. Learn more at <https://fourprinciples.com/>

## GET IN TOUCH

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