

Competitive advantage through efficiency

Summary



Introduction

Aldi is an established retailer with over 7,000 stores worldwide. Aldi sells quality products at competitive prices with Aldi's products, in some cases, being 30% cheaper than those of competitors. Aldi can do this because it operates efficiently. This means reducing costs in all areas of the business - saving time, space, effort and energy. Everything Aldi does is focused around giving its customers value for money. Aldi's approach is to use lean methods.



Lean production

The aim of lean production is to reduce both waste and the quantity of resources used, which in turn reduces costs. Aldi passes these savings on to its customers to offer value for money. Lean production is based on:

- Continuous improvement - all employees are involved in quality improvements
- Just-in-time (JIT) - materials are received just as they are needed, so little stock is held
- Time-based management - reduces time wasted
- Total quality management (TQM) - all workers have a responsibility for getting it 'right first time'.

The principles of lean production are vital to Aldi's competitive edge. The three core values of Aldi are simplicity, consistency and responsibility. Lean production ties in closely with these values. This starts within its supply chain. For example, up to 60% of Aldi's fruit and vegetables are sourced locally, reducing journey times. Training staff to do a variety of tasks so fewer staff are then needed reduces staff costs. Aldi applies time-based management to its product range. For example, Aldi sells fewer variations of each product so uses less space for display. Stores can then be smaller.

Reducing costs and eliminating waste

Lean principles involve lowering waste to reduce costs. For example, Aldi's shopping trolleys have a £1 deposit system that ensures customers return them. Aldi also reduces costs through its opening hours, opening from 8 till 8 most days, in contrast to



some 24-hour competitors. Aldi's sales are therefore contained within a shorter period. This also reduces energy use and staff salary costs. Aldi's staff undertake a comprehensive training programme that enables them to become multi-skilled to undertake different roles within each Aldi store, allowing staff and rotas to be flexible. Operating the tills is also carefully planned so that the process is more efficient. For example, items have barcodes in a number of places to save time finding them.

JIT

Aldi uses a JIT approach by holding only the stock that it needs for a given period of time and therefore not tying up cash and space in holding stock. From the moment stock arrives the focus is on reducing the cost of holding and managing it. For example, products are delivered in display-ready cases. Some products are sold in store from a pallet or platform. This is an efficient way of getting a large volume into the shop very quickly.

Benefits of lean production

Cost savings are passed on to customers in the form of lower prices. Also, as the business is careful that money is not wasted, Aldi can spend on charities as part of its corporate social responsibility (CSR) programme. TQM creates strong business relationships with suppliers. These help Aldi to continuously improve its product offering.

Conclusion

Aldi provides customers with quality products that are value for money. It achieves this by ensuring that its operations are efficient. Lean approaches help Aldi offer customers the highest quality at the lowest price.

