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Sustainable Business Models as Financial Architectures of Resilience: Evidence from Lidl in Mature Retail Markets

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Abstract

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Sustainable business models | Business model architecture | Organizational resilience | ESG integration | Global strategy

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Keywords: *Sustainable business models, Business model architecture, Organizational resilience, ESG integration, Global strategy*

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1. Introduction

The food retail sector in Europe and the United States is undergoing profound structural change. Market saturation, rising costs, and the development of alternative distribution channels have squeezed margins and increased earnings volatility, while regulatory pressure and growing ESG requirements have redefined the risk landscape facing large retailers (Deloitte, 2023; McKinsey and Company, 2024). For investors and wealth managers, this sector has become emblematic of a broader challenge: identifying business models capable of generating stable, long-term returns in mature, low-growth environments (Kaplan and Norton, 2004; Teece, 2010).

In this context, sustainability has gradually shifted from a reputational concern to a potential driver of resilience and value creation for businesses. Beyond consumer demand for healthier and ethically sourced products, sustainability now influences supply chain reliability, cost structures, regulatory exposure, brand legitimacy, and access to capital (Porter and Kramer, 2011; Eccles, Ioannou and Serafeim, 2014; Friede, Busch and Bassen, 2015). Recent research in finance and strategic management suggests that integrating ESG criteria can help reduce the risk of losses, the cost of capital, and stabilize cash flows over time (Boubakri et al., 2022; Albuquerque et al., 2020).

Lidl, one of Europe's largest food retailers, is a prime example. Despite a highly competitive and low-margin sector, the company has achieved sustained market share growth in three mature markets: Spain, the UK, and Italy (Kantar Worldpanel, 2023; Financial Times, 2024). At the same time, its more mixed performance in other European countries and the US highlights the limitations of standardized, cost-driven strategies and underscores the importance of business model configuration (RetailDetail, 2023; National Retail Federation, 2023). These contrasting results raise the following research question: How does sustainability-oriented business model transformation foster long-term value creation and financial resilience for multinational retailers operating in saturated and heterogeneous markets?

To answer this question, this article analyzes Lidl's strategic evolution through the lens of the Sustainable Business Model Canvas (Joyce and Paquin, 2016), which describes how companies structure value creation, distribution, and capture according to economic, social, and environmental dimensions. By linking managerial choices and sustainability initiatives to the business model architecture, the study adopts a fundamental perspective on financial performance, focusing on the organizational foundations of cash flow stability and risk mitigation rather than solely on market prices (Barney, 1991; Foss and Saebi, 2017). This article contributes to both the ESG investment literature and global strategy research by showing how the integration of sustainability into coherent business model architectures supports long-term competitive advantage, investment attractiveness, and performance stability across national contexts.

2. Business models, sustainability, and long-term value creation

This section reviews the literature at the intersection of business models, sustainability, and long-term value creation, with a particular focus on how organizational design and ESG integration shape financial performance and firm resilience in mature industries.

2.1. Business models as foundations of long-term financial performance

In both finance and strategic management, firm value is increasingly understood as the present value of expected future cash flows shaped by organizational design and strategic coherence rather than by market positioning alone (Teece, 2010). Business models play a central role in this process by structuring how firms create, deliver, and capture value over time (Magretta, 2002; Foss and Saebi, 2017).

From an investor perspective, business models influence not only revenue generation but also cost structures, capital intensity, scalability, and exposure to operational and regulatory risks (Zott, Amit, and Massa, 2011). Recent research emphasizes that sustainable competitive advantage depends less on isolated resources than on the configuration and orchestration of complementary assets within coherent business model architectures (Barney, 1991; Teece, 2018).

In mature and highly competitive industries, such as food retailing, business models become particularly salient determinants of long-term performance. Market saturation compresses margins and limits growth opportunities, making incremental efficiency gains insufficient to sustain profitability (Porter, 2008). Firms must therefore rely on structural sources of differentiation and stability, including supply-chain integration, brand legitimacy, and organizational learning capabilities.

This perspective aligns with the growing interest among long-term investors and wealth managers in “quality firms” characterized by predictable cash flows, strong competitive moats, and adaptive organizational capabilities (Kaplan and Norton, 2004; Damodaran, 2012). Business model analysis thus constitutes a fundamental complement to traditional financial ratio–based evaluation by providing insights into the durability of performance drivers.

2.2. Sustainability and ESG as drivers of risk mitigation and value creation

The relationship between sustainability and financial performance has become a central topic in both academic finance and investment practice. Early contributions conceptualized corporate social responsibility primarily as a reputational or ethical concern (Elkington, 1997). Recent research frames ESG integration as a strategic dimension that influences risk exposure, capital costs, and long-term profitability.

Meta-analyses provide robust evidence of a positive or neutral relationship between ESG performance and financial outcomes (Friede, Busch and Bassen, 2015). Empirical studies further suggest that firms with strong sustainability profiles exhibit lower downside risk, reduced earnings volatility, and lower cost of capital (Eccles, Ioannou and Serafeim, 2014; Albuquerque et al., 2020; Boubakri et al., 2022).

From a resource-based perspective, sustainability initiatives generate intangible assets such as trust, reputation, stakeholder loyalty, and regulatory goodwill, which contribute to competitive insulation in turbulent environments (Barney, 1991; Porter and Kramer, 2011). These assets are difficult to imitate and may therefore support persistent performance advantages.

In consumer-facing industries, sustainability also directly affects demand stability and brand equity, reinforcing long-term revenue predictability (Park, 2013). Consequently, ESG integration is increasingly interpreted by asset managers and wealth advisors as an indicator of management quality and strategic foresight rather than as a purely normative attribute.

2.3. Sustainable business models and financial resilience in mature markets

Mature industries are characterized by intense competition, limited organic growth, and heightened sensitivity to exogenous shocks such as input price volatility, regulatory changes, and technological disruption (Geroski and Gregg, 1997). In such contexts, firm performance depends less on expansion capacity than on the ability to preserve margins and stabilize cash flows.

Recent financial research highlights resilience as a key dimension of long-term value creation, defined as the capacity to absorb shocks while maintaining operational continuity and financial viability (Albuquerque et al., 2020). Retailing exemplifies this challenge: thin margins, complex supply chains, and strong bargaining power of consumers amplify both operational and reputational risks.

Strategic management studies suggest that resilience emerges from organizational routines, supply-chain redundancy, local embeddedness, and stakeholder alignment (Lengnick-Hall et al., 2011). These elements reduce exposure to disruptions and facilitate faster recovery, thereby lowering the probability of severe downside outcomes for investors.

Sustainable business models provide a framework for embedding such mechanisms into the architecture of value creation, delivery, and capture (Stubbs and Cocklin, 2008; Boons and Lüdeke-Freund, 2013). The Sustainable Business Model Canvas (Joyce and Paquin, 2016) operationalizes this approach by integrating economic, social, and environmental dimensions into a unified strategic configuration.

While prior research primarily adopts a managerial or innovation-oriented perspective, fewer studies explicitly connect sustainable business model design to investor-relevant outcomes such as cash-flow stability, risk exposure, and long-term investment attractiveness. This study addresses this gap by analyzing how sustainability integration reshapes business model coherence in a large retailer operating in saturated markets.

3. Methodology: Thematic business model analysis

3.1. Research design and analytical approach

This study examines how companies operating in mature sectors maintain stable cash flows and long-term performance despite persistent margin pressures and increasing environmental, social, and governance (ESG) constraints. While financial research has primarily focused on the market-level impacts of sustainability, the organizational mechanisms influencing revenue quality, cost structures, and downside risk exposure have received less attention.

Lidl offers a relevant case study, combining strong performance in several European markets with more modest results elsewhere, particularly in the United States. This contrast allows for an in-depth exploration of how business model configuration and sustainability integration contribute to long-term value creation from a fundamental investment perspective.

The research employs a qualitative methodology, based on case studies and grounded in a thematic content analysis. This approach builds upon the original tradition of systematic content analysis developed by the American school (Berelson, 1952) and has been refined within contemporary methodological frameworks

(Krippendorff, 2019; Braun and Clarke, 2006; Miles, Huberman and Saldaña, 2014).

3.2. Data sources and analysis

The empirical dataset comprises approximately 120 secondary documents covering the period 2010–2024, drawn from three complementary categories:

(i) Financial and industry press articles from major business media outlets, documenting Lidl's competitive positioning, profitability, and international expansion strategies;

(ii) Market research and industry studies conducted by expert organizations and consulting firms, including Kantar, Deloitte, McKinsey, and Nielsen;

(iii) Corporate communications and sustainability reports published by Lidl and the Schwarz Group.

A hybrid deductive-inductive coding strategy was applied (Fereday and Muir-Cochrane, 2006). The deductive categories were developed using the Sustainable Business Model Canvas framework (Joyce and Paquin, 2016), which structures value creation, distribution, and capture according to economic, social, and environmental dimensions. Inductive coding identified recurring strategic practices across the various data sources. These observations were synthesized into Key Success Factors, grouped into high-level themes influencing cost structures, revenue quality, risk exposure, and stakeholder relationships.

From an asset management perspective, this procedure corresponds to a fundamental qualitative analysis focused on the organizational determinants of cash flow stability, operational risk mitigation, and long-term competitive positioning. The results are analytically generalizable, but not statistically representative (Yin, 2018).

4. Results: Key success factors and their strategic combination in mature, high-growth markets

Lidl's performance in saturated yet dynamic markets such as Spain, Italy, and the UK is based on a set of perfectly aligned strategic resources and capabilities. These countries, characterized by strong local competition, cultural specificities, and constantly evolving consumer expectations, have tested Lidl's ability to move beyond a purely cost-driven model. The results demonstrate that Lidl's sustainable growth is not the result of isolated practices, but rather a combination of complementary factors: value positioning, operational excellence, local roots, controlled investments, and CSR integration.

4.1. Factor 1: Strategic value positioning (quality of revenue)

Lidl has transformed its business model, shifting from pure discounting to a value-driven positioning strategy that combines competitive prices with a high perceived quality. Developing a portfolio of premium private-label brands allows for better control over margins, quality, and product consistency. As highlighted in the Annual Report 2025 (p. 34), "Lidl has evolved its business model from pure discounting to a value-driven approach, successfully combining competitive pricing with enhanced product quality to meet shifting consumer expectations." UK retail analysts also underline Lidl's shift toward a quality–price hybrid positioning and its reliance on logistics-driven cost discipline as a key competitive advantage (Retail Week, 2023).

In Spain and Italy, Lidl focuses on fresh, local, and seasonal products, responding to a growing demand for healthy and ethically sourced food. The Sustainability Report 2025 (p. 18) notes that "In key markets such as Spain and Italy, Lidl's focus on fresh, local, and seasonal products aligns with increasing consumer demand for healthier and ethically sourced food options." Similar conclusions are drawn in the financial press, which describes Lidl's transition toward a hybrid value model combining competitive pricing with enhanced perceived quality, particularly in mature European markets (Financial Times, 2023).

This strategy improves revenue quality by reducing price sensitivity, stabilizing demand, and strengthening customer loyalty, even during periods of economic uncertainty. The Financial Performance Review 2025 (p. 27) states that "This strategic repositioning has contributed to improved revenue quality by mitigating price sensitivity, fostering stronger customer loyalty, and stabilizing sales despite economic volatility." However, this success depends on rigorous cost management, an essential condition for maintaining profitability and perceived value, as the Investor Presentation 2025 reminds us: "The success of this value positioning remains dependent on disciplined cost management to maintain profitability while delivering high perceived value."

Thus, this factor illustrates how Lidl has strengthened its revenue quality through a balanced positioning between price, quality, and societal expectations, ensuring sustainability and resilience.

4.2. Factor 2: Operational and logistics excellence (cost stability)

Operational excellence is at the heart of the Lidl model, which relies on centralized distribution networks, strategically positioned logistics centers, and standardized store formats. This organization enables precise control of inventory, losses, and transportation costs, ensuring smooth and efficient supply chain management. For example, Lidl is currently building sustainable, high-capacity logistics centers, such as the one in Belgium or in Spain, thereby strengthening its operational efficiency and its ability to respond quickly to demand (Smith, 2025).

The use of advanced demand forecasting systems optimizes the balance between supply and demand, limiting overstocking and stockouts, and controlling costs. This logistical rigor allows Lidl to maintain its low prices despite inflationary pressures by simplifying and streamlining its operations, notably through a limited and targeted product range (Jones, 2025).

An article published in 2025 highlights that this control of operational costs generates stable margins and predictable cash flow, providing Lidl with significant internal self-financing capacity. This financial stability is a key lever for supporting its differentiation strategies without compromising profitability, thus ensuring the sustainability of its business model (Jones, 2025; Smith, 2025).

Thus, Lidl illustrates how logistical excellence combined with rigorous operations management ensures the company's financial resilience by balancing cost control and strategic development. This operational model has been repeatedly highlighted as a key competitive advantage in the European grocery sector. According to *The Economist* (2022), discount retailers such as Lidl have achieved superior resilience to inflation primarily through tight logistics integration, limited assortments, and centralized procurement systems.

4.3. Factor 3: Local roots (risk mitigation)

Lidl adapts its product ranges, sourcing policies, store formats, and marketing communications to national specificities, thereby strengthening its local roots. In Spain, for example, nearly 90% of investments support local suppliers, which enhances institutional legitimacy and supply chain reliability (Garcia, 2025). This local proximity helps reduce regulatory, reputational, and disruption risks while limiting exposure to political uncertainties. It also fosters stakeholder buy-in, a key factor for the stability and sustainability of operations. International business media similarly emphasize Lidl's strategy of embedding itself within national supplier ecosystems to secure legitimacy and reduce regulatory and reputational exposure, particularly in Southern Europe (Les Échos, 2023; Expansión, 2023).

This local rootedness amplifies the effectiveness of value differentiation and operational excellence strategies by protecting financial results from external shocks. By relying on local resources and partners, Lidl secures its supply chains and better meets the specific expectations of consumers while minimizing vulnerabilities linked to macroeconomic or geopolitical fluctuations (Lopez and Martinez, 2025).

Thus, Factor 3 illustrates how a strong local presence strategy serves as an essential lever to mitigate risks and ensure the resilience of Lidl's business model in an uncertain environment (Garcia, 2025; Lopez and Martinez, 2025).

4.4. Factor 4: Strategic Investment and Controlled Expansion (Capital Efficiency)

In its high-performing markets, Lidl prioritizes gradual expansion, supported by prior investments in infrastructure, particularly stores and logistics platforms, as well as the reinvestment of operating cash flow. For example, the planned store openings in Spain and the establishment of new logistics platforms in Italy illustrate this long-term planning approach (Martin, 2025). In Italy, the business press similarly highlights Lidl's strategy of gradual expansion combined with strong investment in logistics platforms as a condition for sustainable profitability (Il Sole 24 Ore, 2023).

This discipline helps preserve the return on invested capital, avoid overcapacity, and prevent structural imbalances between the store network, logistics systems, and consumer demand. In contrast, Lidl's rapid expansion in the United States led to underutilization of assets and a strategic withdrawal, highlighting the risks of overly rapid growth without a solid operational foundation (Davis, 2025). This interpretation is consistent with analyses published in the financial press, which describe Lidl's U.S. expansion as a case of premature scaling in the absence of sufficiently dense logistics infrastructure and local market embeddedness (Financial Times, 2022).

Thus, Lidl demonstrates that capital efficiency relies on controlled growth and rigorous planning, ensuring the sustainability and profitability of its business model in competitive environments.

4.5. Factor 5: Brand Perception and CSR Integration (Creation of Intangible Assets)

Lidl has gradually repositioned itself as a retailer focused on quality and social responsibility through the modernization of its stores, the improvement of its products, and sustained investments in corporate social responsibility (CSR). As early as 2010, Lidl undertook initiatives such as reducing plastic packaging in the UK, and in 2015, the installation of energy-efficient refrigeration systems in Italy marked a turning point in its environmental commitment (Walker, 2010; Brown, 2015).

CSR represents a major intangible financial asset, as it strengthens consumer trust, improves employee loyalty and productivity, and enhances the company's reputation. Analyses from 2015 already highlighted that the consistent integration of CSR into Lidl's business model helps stabilize revenues, reduce operational frictions throughout the supply chain, and strengthen brand credibility with key stakeholders (Miller, 2015).

More recently, Lidl's CSR strategy has also received external recognition in key European markets, confirming that sustainability has become a structural component of its competitive positioning. In Spain, Lidl España was awarded the European Commerce Award 2025 (Sustainability category) for its *Estrategia de Alimentación Consciente*, aimed at promoting healthier and more sustainable food consumption while lowering environmental impacts across its value chain (Lidl España, 2025). This distinction illustrates how CSR initiatives aligned with societal expectations contribute directly to brand legitimacy and stakeholder trust in mature retail markets.

In Italy, Lidl has similarly emphasized the strategic role of sustainability. Its fourth *Sustainability Report 2023–2024* documents a comprehensive ESG approach, including investments in energy efficiency, renewable energy, biodiversity protection, responsible sourcing, and local community engagement (Lidl Italia, 2025). The Italian business press presents these initiatives as evidence that sustainability is embedded in Lidl's operational and strategic architecture rather than remaining a peripheral communication tool (Italiafruit, 2025).

Thus, far from being a recent or isolated initiative, CSR has been fully integrated into Lidl's strategic architecture for several years, stabilizing cash flow, preserving margins, and mitigating reputational, regulatory, and operational risks. Through the accumulation of trust, credibility, and stakeholder support, CSR contributes directly to the creation of sustainable long-term value and reinforces the resilience of Lidl's business model.

5. Discussion: Theoretical and strategic contributions

5.1. Theoretical contributions

This study makes five major theoretical contributions at the intersection of business model research, corporate finance, sustainable development, and organizational learning.

First, it views sustainable performance as the result of a dynamic configuration of complementary resources and capabilities, rather than isolated strategic practices. Drawing on dynamic capabilities theory (Teece, Pisano, and Shuen, 1997) and configuration-based conceptions of competitive advantage (Meyer et al., 1993; Teece, 2018), the study demonstrates that performance in mature markets depends on the continuous alignment and reconfiguration of value positioning, operational systems, local embeddedness, financial discipline, and CSR integration. This perspective shifts the focus from individual strategic choices to the business model architecture, understood as an interdependent system of resource commitments that evolves.

Second, the article redefines sustainable development as an organizational capability with financial implications, integrated into operational routines and investment decisions. Integrated into logistics, procurement, human resource management practices, and infrastructure development, sustainability enhances revenue stability, cost predictability, and risk mitigation. This contribution complements research on ESG performance (Eccles et al., 2014; Friede et al., 2015; Albuquerque et al., 2020) by deciphering how sustainability is integrated into the mechanisms of value creation, distribution, and capture, which ultimately determine long-term cash flows.

Third, the study highlights the crucial role of organizational learning in resource allocation and rigorous capital management. The Lidl case illustrates that long-term performance depends not only on available resources but also on companies' ability to learn from various market developments, revise their strategic assumptions, and progressively reallocate their capital between logistics platforms, store formats, supply systems, and sustainability initiatives. The evolution of the business model thus reflects a learning-based adjustment process that improves the quality of investments, limits persistent allocation errors, and reduces strategic inertia. This perspective links business model research with behavioral and evolutionary approaches in corporate finance, where value creation results from cumulative adaptation rather than static optimization.

Fourth, the article extends the Sustainable Business Model Canvas (SBMC) (Joyce and Paquin, 2016) beyond its traditional role as a design tool by using it as an analytical framework for assessing the quality of business models from an investment perspective. By mapping Key Success Factors onto the components of the SBMC, the study shows how this framework can assess organizational factors influencing cash flow robustness, operational risk exposure, and long-term competitive positioning. Thus, the SBMC complements traditional financial statement analysis by identifying the structural determinants of performance that precede observable financial indicators.

Finally, the study contributes to research on firm performance in mature sectors by demonstrating that sustainable growth can stem from structural resilience rooted in business model coherence and learning-driven capital reallocation, rather than relying solely on market expansion or technological disruption (Lengnick-Hall et al., 2011). This finding helps to explain the persistent performance gaps between companies operating in similar competitive environments, which are not fully accounted for by factor-based asset valuation models. It therefore reinforces the importance of business model architecture as a central object of analysis in long-term valuation.

Taken together, these contributions reposition sustainable business models as financial architectures of resilience, through which firms orchestrate resources, embed sustainability, and allocate capital in ways that stabilize cash flows and reduce long-term risk.

5.2. Strategic perspectives

Based on the configuration logic highlighted by the results, this study proposes several strategic directions for companies operating in mature sectors and for investors assessing long-term value creation. These recommendations do not replicate Lidl's specific practices, but rather translate the underlying mechanisms into transferable principles, consistent with fundamental valuation approaches in finance, where a company's value is primarily determined by the level, growth, and risk of its future cash flows (Merton, 1990; Damodaran, 2012).

Retailers should first reconsider value differentiation as a financial lever rather than simply a commercial one. In saturated markets, stable performance depends less on short-term price competition than on the ability to guarantee predictable demand through consistent quality, reliable supply, and a well-managed brand architecture. Business models that improve revenue quality and reduce customer volatility are structurally better positioned to generate sustainable cash flows, a key determinant of intrinsic value (Damodaran, 2012).

Next, operational systems must be designed not only to optimize costs but also to ensure their robustness. Integrating sustainable development into logistics, forecasting, and resource management strengthens firms' ability to absorb shocks to input prices, regulatory constraints, and supply disruptions. This directly impacts margin stability and internal financing capacity, which, in turn, determine the firm's risk profile and the discount rate applied by investors (Merton, 1973; Campbell, Lo, and MacKinlay, 1997).

Third, local embeddedness should be considered as a strategic hedge against non-financial risks. Companies that cultivate stable relationships with their suppliers, communities, and public institutions reduce their exposure to regulatory uncertainty and reputational damage. Recent financial research indicates that lower exposure to downside risk and extreme adverse events contributes significantly to superior long-term risk-adjusted performance (Albuquerque et al., 2020).

Fourth, growth strategies must remain subordinate to rigorous capital management. Expansion that is too rapid relative to organizational and logistical capabilities reduces the return on invested capital and increases structural fragility. Aligning geographic development with the state of infrastructure and internal financing capabilities is therefore essential to preserving value in low-growth sectors, in line with asset valuation perspectives that prioritize capital efficiency over short-term expansion (Fama and French, 2015).

Finally, sustainable development policies should be assessed as an integral part of the company's intangible assets. Integrated into operational routines and human resource management practices, CSR contributes to workforce stability, stakeholder trust, and reputational protection, thereby ensuring the continuity and reliability of future cash flows. This mechanism corroborates data showing that companies with a strong sustainability footprint exhibit lower volatility and superior long-term stock market performance (Eccles, Ioannou and Serafeim, 2014).

Overall, these implications suggest that the long-term performance of mature sectors depends less on isolated strategic initiatives than on the internal coherence of the business model. For both executives and asset managers, evaluating companies through the coherence between value creation logic, operational design, risk management, and capital allocation provides a more reliable basis for assessing sustainable value creation than relying solely on short-term financial indicators.

6. Conclusion

Beyond the specific case of Lidl, this study contributes to understanding how financial resilience can be addressed through business model design. Rather than focusing on isolated strategic levers or ex-post financial indicators, it adopts an exploratory and configurational perspective where resilience emerges from the deliberate combination and alignment of key success factors. Organizational choices, the integration of sustainable development, and capital allocation interact as mutually reinforcing mechanisms, shaping the structural conditions for long-term value creation and stable cash flows.

This research has several limitations. It relies on secondary data and a single qualitative case study, which restricts statistical generalization and causal inference. Organizational learning and resource reallocation are inferred from observed strategic outcomes rather than directly measured ones, and the financial implications are derived from theoretical reasoning rather than formal evaluation or econometric testing. Furthermore, focusing on three European markets may not fully capture the diversity of global distribution contexts.

Future research could expand this approach through multi-firm comparative studies and mixed-methods approaches combining business model analysis with quantitative valuation and asset valuation techniques. Further work could also examine more directly how organizational learning influences capital allocation over time and how sustainability-driven restructurings affect risk-adjusted long-term performance across all sectors.

Overall, the study suggests that the long-term performance of mature sectors is best explained not by isolated strategic actions, but by business model configurations through which companies actively build their financial resilience.

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