

IKEA - Growth Through Supply Chain Innovation

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Introduction





Introduction

- **About IKEA**
 - IKEA began operating in 1943 in Sweden.
 - International home furnishing retailer that sells good quality design at low prices.
 - 1,500 suppliers
 - 341 stores in 8 countries
- **IKEA supply chain innovation**
 - Sustainability initiatives
 - Introduced IWAY in 2000
 - Inventory management
 - Minimum & maximum settings
 - “Do it yourself” model
 - In-store logistics
 - Monitor deliveries



Success Stories





IKEA, A success story.

- The history of IKEA started in 1926 when its found, Ingvar Komprad was born in Smaland, Sweden.
- At the age of 17 he began his small business.
- By 1945, the first advertisement of IKEA was launched.
 - IKEA is mainly successful through their advertisements and store layout.
 - The layout of every location involves having to go through the entire store and not just one section, this increases the odds of people purchasing more than they intended.
 - Because of this layout Ikea has a revenue of 41.9 billion euros, people who shop at IKEA typically leave with more than they anticipated.



Psychology behind IKEA'S huge success

- Other retailers have begun to sell furniture that will match IKEA furniture, specially made to work with IKEA products.
- IKEA has the best return policy in comparison to other retailers, their main focus is safety and family friendly furniture by providing anchoring kits, etc.
 - Not only is IKEA affordable, but they are eco-friendly
 - Most of IKEA furniture is made from particleboard (recycled wood chips fused together)
 - IKEA takes advantage of economy to scale by producing more furniture items in fewer finishes
 - IKEA “aesthetic per dollar” is very high compared to other retailers

Digitizing the Supply Chain

- The response to a rise in E-commerce
- Tech-enable programs that rely on digital supply chain
 - Click-and-Collect program
 - Requires up-to-the-minute inventory access
 - Integrated POS system
 - Showroom-only microstores
- Food supply chain
 - Food sales make up 5% of IKEA retail sales (IKEA: Digitizing supply chains to win on customer experience)
 - End-to-end sourcing data for food input
 - Same POS system as the furniture sales floor
 - Collaboration tools





Independent Quality Control

intertek

Total Quality. Assured.

- Intertek is a quality assurance company specialized in testing products
- Performs quality tests in China and other Asian countries
 - Asia manufactures 31% of all Ikea products
- Saves time and money on having a long-distance role in the process

Issues and Challenges





Issues & Challenges

- Size/weight of furniture
 - Air freight near impossible
- COVID-19
 - Competing with second hand purchases
 - During lockdown, many people used this as an opportunity to sell their furniture
 - Delays and cancellations have led to bottlenecks at ports
- Challenge to keep the stores stocked

Issues & Challenges Continued

- Difficulty getting goods out of China
 - IKEA had to lease more ships, buy containers, and re-route their goods between warehouses
- Raw materials shortage
 - Reduce versions of products
 - “To avoid disappointing shoppers, it is temporarily removing unavailable products from its websites and store showrooms, instead suggesting similar items.” (CNBC)



Impact of Recent Supply Chain Events



Inflation

- As of Nov. 10, inflation up to 7.7%
- Overall higher cost of living
- Essentially every industry raising prices
- IKEA has raised prices at least 9% (Ringstrom)
- Sales grew 6.5% (Ringstrom)
 - Prices up, volume down



<https://www.politico.eu/article/inflation-curve-ecb-bank-rate-hike-eurozone-deflation/>



War in Ukraine



<https://www.rochester.edu/newscenter/when-will-the-war-in-ukraine-end-536402/>

- Both IKEA business and customers affected
- IKEA scaled down presence in Russia
 - 17 stores closed in Russia
 - 4 factories closed (Nguyen)
- Issues fulfilling online closeout sale orders in Russia
 - Required orders to be manually processed
- IKEA lost out on 4% of sales (Nguyen)
- Had to relocate manufacturing

Diesel Shortage

- Only 25 days supply left just a month ago (Martin)
- Prices skyrocketing
- Less trucks moving means less stock can be moved
- Shortage has eased as of Nov. 24 (Kemp)
- IKEA trying to move to all EV fleet
- Still relies on around 10,000 vehicles globally (Fehrenbacher)



<https://time.com/6182262/diesel-shortage-imitation/>



Railroad Strike



<https://www.trains.com/trn/news-reviews/news-wire/get-ready-for-the-first-u-s-railroad-strike-in-two-decades-analysis/>

- Four rail unions failed to ratify labor deal
- Strike could happen as soon as Dec. 9
- Rail affects nearly every U.S. industry (LaRocco)
- Could cost U.S. an estimated \$2 billion a day
 - Chemical transport
 - Passenger travel
 - Food shortage (Garza)
- As of 2018, 19% of IKEA's transport through intermodal methods
 - Percentage only increasing to reduce carbon footprint (Hemphill)

Discussion Questions





Question 1

What steps can IKEA take to prevent future disruptions to its supply chain to have more success stories and less challenges?



Question 2

How can IKEA use other innovations to combat current events threatening the supply chain world?



Question 3

What can other companies, furniture suppliers and otherwise, learn from IKEA and their supply chain management?

Conclusion



Conclusion, Why is this relevant/important

- Allows IKEA to maintain a larger inventory, reducing their shipping costs.
- IKEA is the highest valued retail furniture brand.
- IKEA has the highest revenue of 41.9 euros compared to any other furniture brand.
- IKEA produces eco-friendly furniture that majority of people prefer.





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