

More goods per  
shipping to reduce  
time marketing essay



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IKEA is a Swedish retailer that dominates market in 32 countries, and now it's poised to conquer North America. IKEA's brand is associated with simple, low cost, stylish, good quality products. IKEA standardized the product and operations strategy and hence minimized costs and maximized profits. The corporate mantra is "Low price with meaning". The goal is to make things less expensive without ever making customers feel cheap. They offer nearly the same products in its stores all over the world; they can order high volumes and get cheap prices. The company targets the customer who is looking for value and is willing to do a little bit of work serving them, transporting the items home.

There are 5 simple steps in the development of a new product in IKEA. Firstly, the low price begins at the drawing board. The team behind each product consists of designers, product developers, and purchasers who get together to discuss design, materials, and suitable suppliers. Secondly, IKEA will choose the most appropriate manufacturer that is going to provide IKEA with the least costly raw materials and code of conduct governing introduced to choose the best supplier. The third step is to get the maximum functionality at minimum cost and this can be achieved through the design of the product. Fourthly, The next step is to be at the right store at the right time - deliver efficiency. Finally, the last step but not the least is actually the way that the products are displayed in IKEA's shops - providing the most rational choice in combination with unique style.

### **What are IKEA's competitive priorities?**

IKEA's competitive priorities basically fall into two major categories: price and design. It wants to have the greatest number of people afford, at the

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lowest cost possible, its good quality and functional products. They put logic in the design of their products which helps IKEA to price lower than competition while maintaining certain quality standard.

### **Cost Control-Good quality at low prices**

As the case study mentioned, IKEA use a very tight control of its costs which IKEA's items are sold typically 30 to 50% below its competitors. However, the price of other companies' products tends to rise over time. Meanwhile, IKEA strategy is to reduce its retail prices by a total of about 20% during the last four years. For instance, the price of a basic Poang chair had fallen from \$149 in 2000 to \$99 in 2001 and continues to drop until \$79 today. Beside, IKEA always make sure its efficiency in transportation (minimization of waste), warehousing, and store display (flat packages). The flat package is an excellent way to lower shipping costs by maximizing the use of space inside shipping containers. IKEA also sell its products without salespeople to maintain its products at minimum cost.

### **Quality Control-Functionality, unique design, environmentally friendly**

IKEA has sufficient products which are outstanding, good quality and value for money. For example, in the production of Trofe mug in IKEA, IKEA has a team of designers, product developers and purchasers to discuss design, materials, and suitable suppliers. Everyone contributes with their specialist knowledge. The designers will make sure that the products designed to be like Swiss Army knives that is maximum functionality of the product at the lowest cost. The new mug is lighter in color by using less pigment that not

only can cut cost but also more environments friendly with lead and cadmium free.

### **Time Effective-More goods per shipping to reduce time**

IKEA have an excellent corporate culture where they declared waste as a “deadly sin” so they had strived so hard to deliver the right number of goods to the right stores at the right time. They had calculated the goods requirements and make sure that deliveries are efficient to save time. The long-term relationships practice between IKEA and supplier in Romania help IKEA to gain knowledge about the demands and expectations. It is time efficiency because IKEA does not need to spend more time to estimate them. On the other hand, in the case of Trofe, the new size designed (flat package) not only cost efficiency but it is time effectiveness because IKEA will reduce the times of shipping with more mugs per shipping.

### **Flexibility-Unique design and global network of distribution centers**

All the designs of products in IKEA are unique and flexible. For example, the designs of tables and chairs. IKEA pioneered the concept of flat which all the products designed are flexible that can be disassembled for the purpose of shipping. Also, IKEA had created 18 distribution centers worldwide which handling about 70% of IKEA’s total product line and 4 more are under construction. Most of the distribution centers are building near container ports and major truck and rail routes to reduce transportation cost. IKEA is about to provide inspiration for smart interior solutions. Customers contribute to the low prices at IKEA by selecting and collecting the products from the self-serve area, taking them home and using the instructions

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enclosed to assemble them. Many will already choose the products from IKEA catalogue, of which 110 million copies are printed in 34 different language versions. These are very flexible to fit different races in different country.

## **Describe IKEA's process for developing a new product.**

### **Firstly, pick a price.**

IKEA's process for developing a new product is not just about changing the physical attributes of an item, say its Trofé mugs. What is crucial in the design is the cost to be incurred in producing one unit of mug. To determine this cost, a team is organized consisting of designers, product developers, and purchasers who gather to discuss how to make the product at the lowest cost possible. Setting the objectives and limitations of the product is defined here. In theory, this is described as a quality function deployment (QFD).

### **Secondly, choose a manufacturer**

A code of conduct that governing working conditions and environmental awareness among suppliers was introduced to find out the most appropriate manufacturer that is going to provide IKEA with the least costly raw materials. Also, IKEA is looking for a long-term supplier such as the factory in Romania that builds up the knowledge of demands and expectations for both parties. That is cost and time effective.

### **Thirdly, design the product**

The cultural of IKEA is to practice internal competition to find a designer and select a design of production with a maximum functionality at the minimum cost.

### **Fourthly, ship it**

IKEA required their logistics department to deliver the right number of goods to the right stores at the right time to ensure delivery efficiency. IKEA's products have been designed to ship disassembled, flat enough to be slipped into the cargo hatch of a station wagon or safety tied down on an auto's roof rack. This is an excellent way to lower shipping costs by maximizing the use of space inside shipping containers. A global network of distribution centers is created to make sure the efficiency in the distributing process.

### **Finally, sell it**

The last step but not the least is actually the way that the products are displayed in IKEA's shops – providing the most rational choice in combination with unique style. Besides, IKEA offers plenty of facilities that attract customers flow. There is a child-care facility and customers can even find the Sweden meatball and lingonberries while shopping in IKEA. However, the biggest selling point is depends on the product price tag that was generally much lower than its competitor's price.

### **What are additional features of the IKEA's concept that contribute to creating exceptional value to the customers?**

IKEA products broadcast an ethos for living in the modern world: except all the functionality and low prices of their products, they are offering unique experience for the whole family when they enter their shops. They know how to please the people mind through the creation of a separate world inside in its stores – a kind of theme park masquerading as a furniture outlet – where normal rules and expectations do not apply. The subconscious pleasure of shopping there is a feature that adds value more than any of the above.

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Additional features of the IKEA concept that contributes to adding value to the customer also includes its relationship with suppliers, distribution and logistics, and customer service in their stores. To maintain the quality of their products and keeping its costs low, IKEA's relationship with suppliers is very crucial. Aside from rationalizing the production process, IKEA developed a code of conduct for its suppliers that include provisions for forbidding the use of child labor in the factory and heightened environmental awareness. Ethical consideration in manufacturing and operations is an essential element of businesses. Low cost does not mean that it can justify for poor manufacturing processes and abuse of sources of raw materials. With an excellent distribution and logistics system, IKEA is able to provide its customers with low price furniture at good quality.

### **What would be important criteria for selecting a site for an IKEA store?**

IKEA should be placed in areas outside the city that are going to create the feeling of being away from the hectic atmosphere within the city. IKEA could create more amazing shopping experiences for the customers. Besides, the land outside the city is much cheaper, which may help IKEA to reduce costs and reduce the price of the products. A store outside the city also may prevent customers from suffering in a traffic jam. However, at the same time, it should not be that far because the target markets are families with children that are crowded in the city area. People would not choose to go so far only to purchase furniture. Also, the population in the city is much larger compared to rural areas. So, it should be easily reached and a state transport should be provided.