

Supply chain strategies used by ikea marketing essay



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A supply chain involves of all parties involves which work hand in hand in fulfilling the customers request as the final element of SCM. The supply chain includes the following which is transporters, warehouses, retailers, customers, manufacturers and suppliers. In every business, such as manufacturer, the supply chain includes all functions involved in receiving and filling a customer request (Chopra et al, 2004). IKEA the Swedish furniture giant has become a powerful brand because of its innovative supply chain.

The purpose of this report is to bring out how IKEA manages it supply chain and what has made it the company it is today. The study is also going to examine which supply chain strategies they use, and how do they managed to outsource their operations and manage their suppliers which are pretty much around the world.

2. 0 Company Background of IKEA

IKEA is a global furniture supplier and apparently the most successful mass marketing retailer. The company was founded by Ingvar Kamprad in 1943. IKEA stocks Scandinavian-style furniture and other household furniture in about 230 outlets in 33 different countries serving about 410 million shoppers per year (IKEA, 2011).

IKEA has got about 1, 500 suppliers in more than 50 different regions (IKEA, 2011). IKEA strive on offering affordable stylish furniture. IKEA had about 21.5 billion euros in sales in 2009. IKEA Group had 31 trading service offices in 26 different regions, and 11 distribution centers for customers in 16countries (IKEA, 2011).

3. 0 Business Model

IKEA has got about three main elements as part of their business model which are as follows namely offering furniture at affordable prices, designing good and functional furniture and conducting business in a social responsible manner.

3. 1 Function and Good Design

IKEA products basically have got a wide function, the best design and the right quality combination when it comes to furniture, though it is complex to combine all these factors IKEA has managed to do. IKEA works flat out with their manufacturers so that the best product which meets the demands of the customers is put on the market. There also have a wide variety of furniture for the bedroom, kitchen and living room.

3. 2 Corporate Social Responsibility

IKEA makes sure that when they manufacture their products, they make sure that they follow the code of conducts and ethics. IKEA Group believes that it is necessary to take responsibility for man and also the environment when you want to become a powerful brand. IKEA suppliers also follow the same path as IKEA so as to have a long relationship. The Swedish giant use recyclable materials which is not harmful to the environment and the people, there always constantly researching on which ways and materials which have less effects on the environment.

3. 3 Cheap, Affordable Furniture

This has been IKEA's number one business idea since its inception, it has managed to offer furniture for everyone based on your income. IKEA likes to

believe that there addicted to low pricing, as there first design the price tag before making the product. This is how IKEA has managed to have well designed products at an affordable price. The furniture giant pours a lot of billions in research and development so that there do things little better, a little simpler, more efficiently and always cost-effectively (IKEA, 2011)

4. 0 Supply Chain Strategies Used By IKEA

Supply chain management is a set of approaches utilized to efficiently integrate suppliers, manufacturers, warehouses, and stores, so that merchandise is produced and distributed at the right quantities, to the right locations, and at the right time, in order to minimize system wide costs while satisfying service level requirements (Simons, 2011). The following are the strategies which have been used by IKEA to strengthen their supply chain.

4. 1 Innovative Flat Packing

This is one the most important aspect behind IKEA supply chain strategies; this has made IKEA to cut all their transportation costs and storage expenses. This is because flat packing is an innovative way of packaging which makes everything simpler and better. Flat packing has been defined by (William et al, 2010) as an innovative way of packing modern furniture in pieces or disintegrated. The author has gone on to assert that flat packaging is cheaper that is why IKEA has embedded it in their supply chain. So customers buy the flat packed furniture and integrate the pieces by themselves at home. This has made IKEA not to do home deliver their furniture.

4. 2 Stable Relationship with Suppliers

IKEA success lays also in their stable relationship with their suppliers which are about

1 500 in total and are located in America, Europe and Asia. Having a steady relationship has enabled them to negotiate better prices and also buying in bulk. In other words it has been cheaper and there have managed to setup trading in every location where there by supplies. For example in the case of Poland, IKEA by 17% of their supplies from the Polish, IKEA has managed to improve the whole system of distribution centers and stores, and a close relationship with the Polish suppliers has made them to cut most of the costs and also get the best in terms of materials.

4. 3 Distribution Centers and Warehouse Operations

The warehouses of IKEA are monster sized and most of the work there is done by robots, the use of technology there has made the whole operation very efficient. The distribution centers are strategically positioned so as to cut transportation costs and are equipped with automated storage and retrieval systems and also conveyor belts. The distribution centers and warehouses are not only strategically positioned but there located close to the retail shops.

4. 4 Store Design and Transportation

IKEA stores are so big and are located on main highway roads, the stores are designed like warehouses themselves so that there can accommodate everything and it would be easier for the haulage trucks to deliver. The retail shops are not hard to identify as there is painted in yellow and blue with an

IKEA logo. As you enter the store there are customer service people to assist with everything you might need. IKEA also uses the IWAY which is used as the rules and regulation which their drivers have to follow so that there is a faster delivery between DCs and retail shops.

5.0 Strength and Weaknesses

Every global business has got a handful of weakness and strengths, IKEA supply chain been one of the most successful supply chains but it also got its loopholes (William et al, 2010)

1. IKEA has always used the raw materials in a smarter way, the use of recycled improved by 4% in 2007 and also in energy production, reclaimed waste products increased in 2009 to 90%.
2. IKEA has managed to constantly check and improve their relationship with their supplier which has managed them to buy large quantities of raw materials at a cheaper price. The suppliers have also benefited as there have managed to have a greater security when it comes to large orders made by IKEA.
3. IKEA has managed to use technology very well both in manufacturing and production, and this has made them to increase their production. IKEA's OGLA chair is another idea which has been put in place because of technology and has been their product range since 1980.
4. IKEA has managed to get materials close to their supply chain which has made them to reduce transport costs, and handling costs have been reduced

through the delivering of products directly from their suppliers to IKEA stores.

Weaknesses

1. IKEA has one of the biggest supply chains in the world so it is hard for them to keep up with the standards and quality. In some countries their suppliers do not follow the IWAY code which has made some customers to have a different view of IKEA's products.
2. IKEA must also improve their communication with its stakeholders and consumers concerning environmental issues, this has been complex given the fact that IKEA runs a global supply chain. Though it makes booklets to give to customers it might not reach them.
3. Though IKEA says it gives high quality products at low prices, balancing the two might be very tough as a good product always fetch a high price tag. There is also need for IKEA to differentiate their products from competitors.

6. 0 Sourcing Decisions and Vertical Integration

Vertical Integration has been defined by (Roberts, 2009) as a process whereby a firm establishes its business into zones that are at different points on the same production path, such as when a manufacturer owns its supplier and/or distributor. Forward and backward integration are two types of integration which are used by IKEA. When a company vertical integrates it would lead to the reduction of costs and also improve efficiency which is basically done by decreasing transportation expenses. IKEA manages to maintain low price because of their unique type of sourcing their materials

which their source from about 1500 suppliers around Europe, America and Asia. Sourcing their materials from all corners of the world has made it to be one of the best supply chains in the world with a competitive edge.

Swedwood Group ensure that the production capacity is on point as they also manufacture their own products than rely on outsourcing their products.

Unique sourcing:

- Vertical integration that managed IKEA to have 30%-50% lower prices than traditional distributors.
- Production in Poland and other low-priced countries, this has been enabled because of vertical integration.
- (win-win) stable relationship with suppliers which has enabled to negotiate their prices of supplies

IKEA considers its contractors to be key shareholders and provides them with technical assistance. IKEA can even go to the extent of putting high level technology for their suppliers just to improve the processes. The idea is to ensure profit to the supplier through efficiency and long production runs. In exchange, suppliers offer IKEA's quality standards (Christopher, 2005).

7.0 Conclusion and Suggestion

Since IKEA does not buy from any suppliers from Africa, I think it has to do so as it give them for variety and also bargaining power. Though it has many suppliers I think considering Africa would not be a bad idea and also opening

IKEA retail outlets there to increase their influence. Since Asia is considered an emerging market with a total population of about 3 billion and there are potential consumers there, they have to consider opening new outlets in countries such as India and China.

Since IKEA does not assemble any products for their customers there need to come up with videos on how some of the pieces of the furniture are integrated, since some customers have expressed the level of complexity on how to assemble some of the furniture together. IKEA can also come up with another concept of making their customers to customize their own furniture, so that there would be variety.

In conclusion it can be said that IKEA has managed to be one of the most powerful brands in the world, starting from humble beginnings in Sweden. This has been because of their unique sourcing strategies and vertical integration which they practice in their whole supply chain. The business model of IKEA is also quite catchy which has made them to have a lot of customers, as they like to believe that they are addicted to low pricing and quality products. However although they have a very good supply chain it still has its loopholes such as failing to keep up with the IWAY regulations and procedures.